

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

WFC - Q4 2014 Wells Fargo & Co Earnings Call

EVENT DATE/TIME: JANUARY 14, 2015 / 3:00PM GMT

OVERVIEW:

WFC reported 4Q14 earnings of \$5.7b and EPS of \$1.02.



CORPORATE PARTICIPANTS

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

John Stumpf *Wells Fargo & Company - Chairman and CEO*

John Shrewsberry *Wells Fargo & Company - CFO*

CONFERENCE CALL PARTICIPANTS

Joe Morford *RBC Capital Markets - Analyst*

John McDonald *Sanford C. Bernstein & Company, Inc. - Analyst*

Erika Najarian *BofA Merrill Lynch - Analyst*

Ken Usdin *Jefferies & Company - Analyst*

Paul Miller *FBR & Co. - Analyst*

Bill Carcache *Nomura Securities - Analyst*

Mike Mayo *CLSA - Analyst*

Matt O'Connor *Deutsche Bank - Analyst*

Betsy Graseck *Morgan Stanley - Analyst*

John Pancari *Evercore ISI - Analyst*

Eric Wasserstrom *Guggenheim Securities - Analyst*

Chris Mutascio *Keefe, Bruyette & Woods, Inc. - Analyst*

Nancy Bush *NAB Research - Analyst*

Marty Mosby *Vining Sparks - Analyst*

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.

(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 of IR

Thank you, Regina, and good morning, everyone. Thank you for joining our call today where our Chairman and CEO, John Stumpf; and our CFO, John Shrewsberry 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 Stumpf - Wells Fargo & Company - Chairman and CEO

Thank you, Jim. Good morning and Happy New Year to everyone. Thank you for joining us today. We just completed another outstanding year at Wells Fargo. We generated record earnings, produced strong deposit and loan growth, grew the number of customers we serve, improved credit quality, enhanced our strong risk management practices, strengthened our capital and liquidity levels, and rewarded our shareholders by increasing our dividend and buying back more shares.

Our achievements during 2014 demonstrated the benefit of our diversified business model and our continued focus on the real economy. Let me share just some of our accomplishments during the past year. We generated earnings of \$23 billion and earnings per share of \$4.10, both up 5% from the prior year.

We grew both revenue and pretax pre-provision profit. We had strong broad-based loan growth. Our core loan portfolio increased by \$60 billion, or 8%. Our deposit franchise continued to generate strong consumer and balanced growth with total deposits up \$89 billion, or 8%. And we grew the number of primary consumer checking customers by 5.2%.

Our credit performance continued to be very strong with net charge-offs down \$1.6 billion, and our net charge-off ratio declining to just 35 basis points for the year. Our capital levels increased even as we returned more capital to shareholders. We returned \$12.5 billion to our stockholders through dividends and net share repurchases, up 74% from a year ago.

While we serve our customers throughout the world, 97% of our revenue comes from the United States, and there have been many signs of strength in the US economy. GDP growth accelerated during 2014 and may be even stronger in 2015.

Last year was the strongest year of job growth in 15 years and December was the 50th consecutive month of job creation, unprecedented in US history. Consumer confidence is at its highest level since the peak of the last economic expansion. Homeownership remains an aspiration for most Americans and recent developments such as the announced reduction in FHA premiums, GSE clarification on repurchase rules and changes in GSE lending guidelines should provide some benefit to the housing market where affordability remains attractive.

While lower oil prices have created volatility in the financial markets, America as a whole is a net consumer of energy, and American households will benefit from the decline in energy prices, which is positive for the US economy. I believe the improvement in the economy, the strength of our balance sheet, the diversity of our businesses and the continued commitment of our team members to meet our customers' financial needs will provide Wells Fargo with many opportunities in the year ahead. John Shrewsberry, our Chief Financial Officer will now provide more details on our fourth-quarter results. John?

John Shrewsberry - Wells Fargo & Company - CFO

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

Wells Fargo had another strong quarter, earning \$5.7 billion and \$1.02 in EPS in the fourth-quarter. Our results included continued strong loan and deposit growth that was diversified across our businesses, and credit quality continued to reflect the benefit of our ongoing risk discipline.

Our capital levels remain strong, even as we returned \$3.9 billion to shareholders in the fourth-quarter through common stock dividends and net share repurchases. Slide 3 highlights our strong full-year results that John discussed at the beginning of the call, including increased revenue and pre-tax, pre-provision profit, strong loan and deposit growth, higher earnings and increasing our net payout ratio to 57%.

Page 4 highlights our revenue diversification and the balance between spread and fee income in the fourth-quarter. The benefit of our diversified business model is that we have over 90 businesses that performed differently based on interest rates and the economic environment.

While the balance between spread and fee income has remained consistent over time, the drivers of fee income have varied. For example, over the past five years mortgage banking as a share of total fee income has been as high as 28%. But because of the decline in mortgage refinancing activity, mortgage banking fees have declined as expected and represented 15% of fee income in the fourth-quarter.

However other businesses have benefited from current market conditions. Our trust and investment fees have steadily increased over the past five years and were 36% to fee income in the fourth-quarter. These examples demonstrate the benefit of our diversification and how our business mix enables us to focus on meeting our customers' financial needs while retaining our risk discipline.

Let me highlight some key drivers of our fourth-quarter results from a balance sheet and income statement perspective, starting on page 5. I will discuss the drivers of our strong loan and deposit growth later in the call.

Short-term investments in fed funds sold declined \$3.5 billion from third quarter due to the deployment of liquidity into loans and investment securities. This was the first time since the fourth quarter of 2011 that we've had a linked-quarter decline.

Investment securities increased \$24 billion from the third quarter due to \$35 billion of purchases, partially offset by runoff in maturities. The majority of our purchases were US Treasury and federal agency securities.

Turning to the income statement on page 6, revenue grew \$230 million during the quarter, with growth in net interest income in stable non-interest income. Expenses increased in the quarter, reflecting higher personnel costs, continued investments in our businesses and risk related initiatives and some typically higher fourth-quarter expenses. Our results in the quarter also reflected lower income tax expense, which was down \$123 million.

As shown on page 7, we continued to have strong broad-based loan growth in the fourth quarter, our 14th consecutive quarter of year-over-year growth. The core loan portfolio grew by \$60.4 billion or 8% from a year ago, and was up \$26 billion or 13% annualized from the third quarter. Loan growth in the fourth-quarter included \$6.5 billion from financing related to the sale of our government-guaranteed student loans, as well as the Dillard's credit card portfolio acquisition.

Our liquidating portfolio decreased \$20.1 billion from a year ago. It is now only 7% of our total loans, down from 22% at the end of 2008. Total average loan yields remained fairly stable declining just two basis points from the third quarter.

On page 8 we highlight our loan portfolios that had strong year-over-year growth. C&I loans were up \$36.4 billion or 15% from a year ago, with broad-based growth that I will highlight on the next page.

Core 1-4 Family First mortgage loans grew \$14.4 billion or 7% from a year ago, reflecting continued growth in high-quality nonconforming mortgages, primarily jumbo loans. The credit quality of our core mortgage portfolio was outstanding, with only six basis points of annualized credit loss in the fourth quarter.

Auto loans were up \$4.9 billion, or 10% from last year. While we continued to benefit from the strong auto market, new originations were down from a year ago, reflecting our continued risk and pricing discipline in a competitive market. **Credit card balances were up \$4.2 billion or 16% from a year ago, benefiting from a combination of organic account and loan growth**, as well as the benefit of the Dillard's portfolio acquisition.

Slide 9 demonstrates the diversity of businesses that contributed to the growth in C&I loans. Let me highlight just a few. Asset-backed finance increased \$16.7 billion, which included \$6.5 billion from financing related to our government-guaranteed student loan sale.

Corporate banking grew \$5.8 billion, driven by new customer growth and higher utilization rates from existing customers. Capital finance grew \$3.8 billion, reflecting new customer growth.



As you can see on page 10, we had over \$1.1 trillion of average deposits in the fourth quarter, up \$22.7 billion or 8% annualized from the third quarter. Our average deposit costs declined 1 basis point to 9 basis points in the fourth quarter.

Our strong growth in checking customers continued in the fourth quarter, with primary consumer checking customers growing 5.2% from a year ago, and primary small business and business banking customers increasing 5.4%. Our success reflected the advantages Wells Fargo offers, including broad-based and industry-leading distribution channels, enhanced product offerings that make it easier for customers to do more business with us and improved customer retention.

We continued to grow net interest income on a tax-equivalent basis, up \$255 million from the third quarter, reflecting strong growth in average earning assets, up \$43.5 billion or 3%. The net interest margin declined 2 basis points from the third quarter due to strong deposit growth, which resulted in higher average balances of cash and short-term investments and from actions we took in the third quarter which resulted in higher average balances in liquidity-related funding.

The impact of all other balance sheet growth and repricing benefited the margin by 3 basis points due to a larger investment portfolio and stronger loan originations. Increased interest income from variable sources benefited the margin by 1 basis point.

Our balance sheet remains asset-sensitive, so we're well-positioned to benefit from higher rates. But as we've demonstrated by growing net interest income throughout the year, we are not relying on rates to increase to generate growth. Of course the first quarter will be impacted by two fewer days in the quarter.

Total non-interest income was stable from third quarter, as higher trust and investment fees, card fees, commercial real estate brokerage commissions and a \$217 million gain on the sale of government-guaranteed student loans was offset by a \$396 million decline in market-sensitive revenue driven by lower equity gains and lower mortgage banking revenue and deposit service charges. The decline in deposit service charges in the fourth-quarter was primarily due to lower overdraft-related fees, resulting from changes we implemented in early October designed to provide customers with more realtime information to manage their deposit accounts and avoid overdrafts.

Mortgage banking revenue declined \$118 million from the third quarter. As expected, mortgage origination income was down from last quarter, reflecting reduced volume from the seasonally lower purchase market. The decline in mortgage rates during the quarter resulted in refinancing volume increasing to 40% of originations, up from 30% last quarter.

While it's still early, the continued decline in rates could benefit origination volumes in the first quarter. We currently expect volumes to be relatively consistent with fourth-quarter levels, despite the fact that the first quarter usually reflects a slower purchase market.

Our gain on sale margin was consistent with last quarter and is expected to remain within the range we've seen over the past four quarters. Servicing income increased modestly from the third quarter, reflecting lower unreimbursed direct servicing costs, partially offset by lower net head results. Our total trust and investment fees were up \$3.7 billion in the fourth-quarter which was a record high, and increased \$151 million from third quarter driven by higher investment banking activity.

Our expenses continued to reflect our investments in our businesses, including risk related initiatives. As shown on page 13, expenses were up \$399 million from third quarter.

There were a number of factors driving this increase. Personnel expenses increased \$272 million, reflecting higher deferred comp expense, which is offset in revenue, higher revenue-based incentive compensation and higher healthcare costs.

A number of our expenses are typically higher in the fourth-quarter. Equipment expense was up \$124 million, primarily due to annual software license renewals. Outside professional services increased \$116 million, which included higher project-related spending on business investments, as well as risk-related initiatives. Advertising expenses were also elevated, up \$42 million from third quarter.



While these typically higher expenses should be lower next quarter, we will have seasonally higher personnel expenses in the first quarter, reflecting incentive compensation and employee benefits expense. Our expenses will also reflect our continued investment in our infrastructure, our risk infrastructure, including hiring new team members and ongoing project spending.

Our efficiency ratio was 58.1% for full-year 2014. And we expect the efficiency ratio for full-year 2015 to remain within our target range of 55% to 59%. Even at the upper end of our target range, we are operating more efficiently than many of our peers.

Turning to our business segments starting on page 14, **community banking earned \$3.4 billion in the fourth quarter, up 7% from a year ago and down 1% from the third quarter. I've already highlighted the strong growth in primary checking customers.**

We've also been successfully adding retail bank households. Through November, our year-to-date household growth rate was the highest since 2010. Meeting the financial needs of these new households will help drive across our diversified product line.

Our debit and credit card businesses are examples of where we've had success and yet still have opportunities for continued growth. Debit card purchase volume was up 8% from a year ago, driven by primary checking customer growth and increased usage from our existing customers.

Our credit card penetration rate increased to 42%, up from 37% a year ago. Credit card purchase volume grew 17% from a year ago, reflecting account growth and increased usage among our existing customers.

Wholesale banking earned \$2 billion in the fourth quarter, down 7% from a year ago and up 3% from the third quarter. Loan growth continued to be strong, with average loans up \$32.2 billion or 11% from a year ago, with growth across many businesses as I highlighted earlier.

Credit quality remained outstanding, with eight consecutive quarters of net recoveries. Deposit growth was also strong, with average core deposits up \$33.9 billion or 13% from a year ago.

Results also benefited from strong investment banking fees up 10% from a year ago, driven by higher loan syndication fees, high-yield debt origination fees and equity underwriting. Treasury management revenue increased 11% from a year ago, benefiting from record product sales in 2014 and repricing.

Wealth brokerage and retirement earned \$514 million in the fourth quarter, up 5% from a year ago and down 7% from the third quarter. Revenue grew 6% from a year ago, with growth in both net interest income and non-interest income.

The growth in fee income was driven by a 12% increase in asset-based fees as we continued to execute on our strategic initiative of focusing on plan-based relationships, resulting in higher recurring revenue. Our brokerage advisory assets grew to \$423 billion, up \$48 billion or 13% from a year ago, primarily due to positive net flows.

Loan growth for WBR remained strong, up 13% from a year ago, the sixth consecutive quarter of double-digit year-over-year growth. This growth was primarily driven by an increase in high-quality nonconforming mortgage loans.

Turning to page 17, credit quality in the fourth-quarter remained strong, with a net charge-off ratio of 34 basis points of average loans. The \$67 million increase in net charge-offs from third quarter was primarily driven by lower recoveries down \$54 million, which we would expect at this stage of the credit cycle.

Nonperforming assets have declined for nine consecutive quarters and were down \$739 million from third quarter. Nonaccrual loans declined \$517 million, and foreclosed assets declined \$222 million. The reserve release was \$250 million in the fourth-quarter, down \$50 million from third quarter and down \$350 million from a year ago.



Our capital levels remain strong, with our estimated common equity Tier 1 ratio under Basel III, using the advanced approach fully phased in at 10.44% in the fourth-quarter. Our ratio declined slightly from the third quarter, reflecting an increase in risk-weighted assets primarily from strong loan growth in the quarter.

We've stated that our long-term target is 10%, which includes a buffer over required minimums. Since we've achieved our targeted level, our capital ratios may fluctuate from quarter to quarter, reflecting changes in asset levels or composition, or changes in OCI impacted by market volatility. These potential changes are why we maintain a buffer.

As shown on slide 19, we returned \$3.9 billion to shareholders in the fourth quarter. Our common shares outstanding declined by 45 million shares in the fourth quarter, reflecting 62 million shares purchased during the quarter.

In addition, we entered into a \$750 million forward repurchase contract that's expected to settle in the first quarter, for approximately 14 million shares. As a reminder our share issuance is usually higher in the first half of the year, given the timing of certain employee benefit plan issuances.

So in summary, our results in 2014 and for the fourth quarter reflected the benefit of our diversified business model, with strong growth in loans and deposits. Our loan portfolio is well diversified and charge-offs were near historic lows.

We increased the amount of our capital and liquidity and returned \$12.5 billion to shareholders through dividends and share repurchase. Our net payout ratio was 57% for the year within, our targeted range of 55% to 75%.

We believe we are well positioned to benefit from an improving economy, an increased customer base, our diverse product line and our continued risk discipline. Our diversified business model has performed well across a variety of economic and interest rate environments. I'm optimistic that it will continue to produce opportunities for our customers, our team members and our shareholders in the year ahead. We'll now be happy to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Joe Morford, RBC Capital Markets.

Joe Morford - RBC Capital Markets - Analyst

I just wondered if you could speak to how we should think about weighing the positive and negative effects of the sharp drop in energy prices on the bank? While it should help out the consumer businesses, is this enough to offset any potential credit issues, or possibly a slowdown in loan growth and investment banking activity?

John Stumpf - Wells Fargo & Company - Chairman and CEO

Well, as I mentioned in my comments, Joe, since the United States is a net consumer, net importer of oil, we think it's a positive for the US economy. Clearly that's on average, because there's going to be some states that are impacted, some customers who are going to be impacted and some businesses going to be impacted.

But we serve 70 million customers; virtually all of them know how to fill a gas tank and go to a gas pump. And that's a real benefit. So we think, net-net, it's an opportunity. Surely there are offsets, like we said.



But even within the oil and gas business, and John mentioned -- we are a participant there -- it's about 2% of our loans. There is still a lot of opportunity for consolidation there, and we'll participate in that with our customers. We are looking at our portfolio. We analyze that. We've been through that over the past, but, net-net, we think it's a positive.

Joe Morford - RBC Capital Markets - Analyst

Okay, great. Somewhat related to that, it seems recently the expectations now that higher rates are getting pushed out, it could be lower for longer, which theoretically could weigh on margins. Do you expect to be able to offset that with better growth in the Business amidst a stronger economy, as you talked about? Or do you see any need to take a harder look at expenses, and what other levers might you have to pull there?

John Shrewsberry - Wells Fargo & Company - CFO

We are always taking a hard look at expenses. So there's nothing incremental that we would plan on doing there, but continuing to be as vigilant as we have.

We've been operating at a pretty strong level in a zero-interest-rate environment for a very long time. While, because of the way our balance sheet's positioned, it would probably be -- there's upside when short-term rates move. And if that happens later, then that upside might be realized later.

We are continuing to position ourselves to compete and to perform in this interest-rate environment. And so, loan growth, deposit growth, redeploying excess liquidity into earning assets, as I said, being vigilant on expenses, all of those things contribute to the performance that we've had and that we are anticipating continuing to have, until that time that rates begin to move.

Joe Morford - RBC Capital Markets - Analyst

Okay. Thanks so much for the thoughts.

Operator

John McDonald, Sanford Bernstein.

John McDonald - Sanford C. Bernstein & Company, Inc. - Analyst

I was wondering, John, just a question on credit and provision; asset quality clearly remains excellent. And I wasn't sure if you mentioned future reserve releases, John, but with such strong loan growth, and credit metrics now looking stable, should we expect the reserve releases to taper off? And might you need to start adding to reserves at some point, if loan growth continues at this kind of pace?

John Shrewsberry - Wells Fargo & Company - CFO

I think the short answer is yes. If we have robust loan growth going forward, all things being equal even, that would contribute to the need for some amount of incremental provisioning. So it's going to be a function of the amount of loan growth, the mix of loan growth, the quality of the portfolio overall, and general economic conditions.

One thing I'd add to Joe's first question also is there's no specific provisioning action in the fourth quarter for what's going on in the energy world. There's nothing anticipated, nothing necessary at the moment, but there's nothing in that quarter either.

John McDonald - Sanford C. Bernstein & Company, Inc. - Analyst

Okay. Did you make a comment about reserve releases? John, in the past couple quarters you've said reserve releases could continue. I was wondering if that changed a little bit now with credit bottoming, and if I missed it or not?

John Shrewsberry - Wells Fargo & Company - CFO

With the size of the portfolio, the size of the allowance, and the amount of the fourth quarter's release, that \$250 million, it's close to call. We've said in the recent past to expect them to taper; now, for the reasons that you mentioned, and I described, there could be future releases. There could be future net provisioning. So we're at that point in the cycle, I think.

John McDonald - Sanford C. Bernstein & Company, Inc. - Analyst

Okay, got it. And in terms of net interest income, the puts and takes, did you say how big the Dillard's portfolio was, or could you tell us?

John Shrewsberry - Wells Fargo & Company - CFO

We can't because of the nature of the contract we have with our customer. You can see the amount of loan growth in the credit card portfolio from quarter to quarter. That's a combination of the organic growth and the Dillard's portfolio.

John McDonald - Sanford C. Bernstein & Company, Inc. - Analyst

Okay. And then, any color you can offer on what opened up, in terms of opportunity to deploy the liquidity this quarter? Anything driving that in particular?

John Shrewsberry - Wells Fargo & Company - CFO

Well, some clarity around our liquidity framework, clarity around -- further clarity around LCR, further clarity on what kind of cash versus other HQLA we'd need to have. I think that emboldened us a little bit in terms of finding an entry point. But as we've said, these are difficult times for finding attractive entry points into fixed-income markets when we are thinking about making that switch.

John Stumpf - Wells Fargo & Company - Chairman and CEO

And, John, also we had, as you know, continued very strong deposit growth.

John McDonald - Sanford C. Bernstein & Company, Inc. - Analyst

Got it. Okay, great.

And just one last quick thing on TLAC, John: Rules aren't finalized, we do have a proposal. How do you feel on that? And would you have to do some gradual preparing for that as you go forward?

John Shrewsberry - Wells Fargo & Company - CFO

Sure. Depending on where the ultimate rule comes out versus the range that's been published -- at the low end of the range we've got less to do, and at the high end of the range we'd have more to do. There's still a lot to know, and there's some wood to chop in the regulatory realm to get to the final rule.

We are on the record as pointing out that we really don't -- the industry doesn't understand the need for the magnitude of the total buffer that's being -- or loss-absorbing capacity that's being talked about here. We certainly find that it lands a little bit harder on people who seem to have less risky business models; those of us who are deposit-funded with a little bit more straightforward deposit taking and lending type of activity. We'd like some clarity on why that makes sense.

But however it lands, within the range that's been published, the approach for Wells Fargo is going to be to add more term debt at the Holding Company level. That will have a P&L consequence that we have to navigate through. It'll be substantially more manageable at the lower end of the range, and somewhat more expensive at the higher end of the range.

John McDonald - Sanford C. Bernstein & Company, Inc. - Analyst

Okay, thanks.

Operator

Erika Najarian, Bank of America.

Erika Najarian - BofA Merrill Lynch - Analyst

Appreciate the color that you have given us so far on what you expect for mortgage originations in the first quarter. But as we think about the full year, and think about your comments earlier, high consumer confidence, accelerating GDP, in the context of potentially lower, long rates for longer, is it possible that, from an industry level, the origination growth for this year could surpass the current MBA forecast of 6%?

John Stumpf - Wells Fargo & Company - Chairman and CEO

Yes, the last number I've seen from them is \$1.1 trillion to \$1.2 trillion. Yes, it could be higher, based on those things. As I mentioned in my comments, with what was done recently on FHA and some of the things that the GSEs are doing, and if rates stay low or are favorable, surely we could see more activity.

You could see actually more activity on both the refinance side and the purchased-money side. We'll just have to see how that goes. I don't think there's been any reduction -- or any update on those numbers from the MBA, but it could be the higher end of that range.

Erika Najarian - BofA Merrill Lynch - Analyst

Got it. And on the flip side to that, you mentioned that you did get more clarity, [or on alfie] and HQLA with regards to being more aggressive in liquidity deployment. But, John, you've mentioned several times that the absolute level of rates has dictated your cash deployment or liquidity deployment strategy. As we look out into 2015, was the clarity around the rules enough to make you a little bit more aggressive about deploying your liquidity into earning assets? Or is it going to continue to be largely rate dependent?



John Shrewsberry - Wells Fargo & Company - CFO

It's a good question. It's substantially rate dependent at this point, and loan growth dependent as well, because that's the first call on all of our available liquidity, is making loans to customers.

But if we believe that we are in a lower-for-longer, long-term rate scenario -- separate that from policy rates for a moment. But just thinking about the 10-year and mortgage rates, et cetera, at the margin that probably emboldens us a little bit additionally to convert what's cash today into duration over the course of the year.

John Stumpf - Wells Fargo & Company - Chairman and CEO

We still have tens of billions available. So there's just a lot of liquidity on the sheet.

Erika Najarian - BofA Merrill Lynch - Analyst

Understood. And just a quick follow-up: We appreciate the color that you gave in terms of the impact of energy. Has there been a lot of questions from investors in terms of what it would take for banks to adjust its qualitative reserve to reflect lower energy prices? I was just wondering if that's how Wells Fargo does it? Or do you really look at the reserve, at least in terms of your energy commercial exposure, on a name-by-name, loan-by-loan basis?

John Shrewsberry - Wells Fargo & Company - CFO

So, in the case of commercial and corporate loans, it's absolutely the sum of the parts of a name-by-name basis, and the risk rating on each loan. We have hundreds of customers in the energy business, or in the E&P or upstream part of the market. There are midstream companies; there are services companies.

We have the largest team in this area, very long tenured, been through several cycles. And we're working with -- we're going customer by customer, and working through each situation to figure out what this drop means to them, based on their leverage, based on their hedging profile, based on their assets, based on their management capability. And that will lead to risk-rating changes on a loan-by-loan basis, or a name-by-name basis, as time unfolds. And it's that activity that would lead to changes in our reserving posture for the portfolio.

John Stumpf - Wells Fargo & Company - Chairman and CEO

And we don't want to minimize this, but this is a nature of that business. If you go back just six years, we've had \$30-a-barrel oil, and we've had \$140-a-barrel oil. We've seen gas, for example, natural gas, go from \$6, \$7 MCF to \$2 and some change today. And that's just part of that business.

John Shrewsberry - Wells Fargo & Company - CFO

On the E&P side of that portfolio, those tend to be reserve-based loans, asset-based loans with a very interactive approach between the bank and the borrower in terms of determining the value of the collateral and then re-margining the loan down to reflect changes in the value of the collateral. And of course, that's at our discretion. We have our own engineers, and we're very engaged in that process.

All of that ties into what the future reserving needs or requirements are for that portfolio. And as I said, nothing obviously has revealed itself yet, and there's nothing in the fourth quarter specifically for that.



Erika Najarian - *BofA Merrill Lynch - Analyst*

Got it. Thank you for taking my questions.

Operator

Ken Usdin, Jefferies.

Ken Usdin - *Jefferies & Company - Analyst*

A couple questions on the fee side: John, you had mentioned some of the tweaks you made in October on the service charges side. So I'm wondering if you can help us understand what types of changes those were? And then how you're looking at your product set with regards to either payday advance and whatever pending rules we could still get at some point next year on overdrafts? And if that would continue to have an impact on your deposit fees?

John Shrewsberry - *Wells Fargo & Company - CFO*

So what happened in October wasn't a change in the product or what we charge for it. Rather, we unrolled some incremental technology that allows our customers to have more real-time information to manage their own banking affairs. They've been using that information, and successfully reducing the amount of overdrafting that they're doing, which has had an impact on our revenue. We think it's very customer friendly, and it's good for all of us. That's distinct from any pricing approach or product approach that we have.

With respect to --

Ken Usdin - *Jefferies & Company - Analyst*

Okay. Go ahead.

John Shrewsberry - *Wells Fargo & Company - CFO*

You asked about short-term or payday-type lending. I think it's clear that, during 2014, we discontinued a product that we used to offer, that was a direct deposit advance product that allowed people to borrow on a short-term, unsecured basis with their next direct deposit paycheck as security for a source of repayment for the loan. And there was some regulatory urging around that.

I think most of the discussion around those types of products is now, frankly, outside the banking system, because it's private finance companies who are providing that. And that's how it seems to be dealt with, from a regulatory perspective.

I'd also tell you that the discontinued product is out of the run rate at this point. So the impact has been fully realized.

Ken Usdin - *Jefferies & Company - Analyst*

And then overdrafts?

John Shrewsberry - *Wells Fargo & Company - CFO*

Hard to say much more about it, other than we are not in the process of repricing or rethinking the product capability. The results that you'll see in our numbers are a reflection of the activity and behavior of our customers as they manage their own banking affairs.



Ken Usdin - *Jefferies & Company - Analyst*

Okay. Another question I had is just on the market-related revenues. They've been trending a little bit lower, combined trading activities, securities gains, equity investment gains, and that's even with the student loan gain in that [354] number. Should we generically expect that you'll still be able to generate this type of market-related revenue, or is it more likely that you see that trend down over time?

John Shrewsberry - *Wells Fargo & Company - CFO*

There's a lot of moving parts there. And I would look at a multi-quarter average to think about how to model it.

On the trading side, the customer accommodation, customer-facing trading revenue that we make, which is a pretty modest part of Wells Fargo revenue profile, will probably ebb and flow along the lines of what you're seeing in the industry, just at a more modest level. The trading line also includes the impact of our deferred comp hedging program, so it's a little noisy, given the magnitude of that versus the magnitude of our trading businesses. But those will be what they are, based on industry factors. The deferred comp program will be more revenue and more expense in an upmarket, and less revenue and less expense in a down market, generally speaking.

On the other elements, we've got gains from equity securities, gains from debt securities. In the equity space, you've seen some of the businesses that we've been involved in that, frankly, continue to be sources of revenue that we would anticipate seeing if market conditions stay the same as they are today. I wouldn't model that down too heavily.

And on the debt side, given the levels of rates that we are at, and in some markets the levels of spreads that we're at, there are some debt securities which it makes sense for us to sell and monetize from time to time, just because their market value substantially exceeds what we can imagine as their intrinsic, or certainly their carrying values. So there will be pops in there from time to time as well. It's the sum of those things that gets to that collection that you described.

Ken Usdin - *Jefferies & Company - Analyst*

Okay, and last one: Can you talk a little bit about the momentum in the trust business, and what type of outlook you see -- asset gathering and after a really strong year? In that part of the Business, do you see -- how's the pipeline for asset growth looking?

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

We're very happy and pleased with the progress we've made in that area. One of the biggest opportunities we have is the relationship between David Carroll's Wealth Brokerage Retirement Group and Carrie Tolsted's Community Banking Group. We have as many assets away from customers who call us their bank, as we do under management right now. So the relationship and the working data there to bring those assets home, if you will, has been a big opportunity for us.

But I still view this, of all the opportunities we have in the Company, of all of our businesses, probably that is our biggest opportunity to jump a curve or to even do -- to show some incremental growth above what you would see in other, more mature businesses. So, a lot of opportunity there. Pleased with where we are; a lot more to do.

Ken Usdin - *Jefferies & Company - Analyst*

Thanks, guys. Appreciate it.



Operator

Paul Miller, FBR.

Paul Miller - *FBR & Co. - Analyst*

There's been a lot of news flow out today, but on your -- if you mentioned this in the prepared remarks, I apologize -- but your C&I loans jumped up. Is that where the Ginnie Mae financing came through on your balance sheet?

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

No, that's not that at all.

Paul Miller - *FBR & Co. - Analyst*

So, that's just pure --

John Shrewsberry - *Wells Fargo & Company - CFO*

The biggest thing to call out is the student loan financing that we did. We sold a portfolio of student loans, and we provided some financing to the company who bought those loans. And so, if one item stands out in the quarter as outsized, it would be that. But those are all commercial loans.

Paul Miller - *FBR & Co. - Analyst*

Yes. Is any particular industry that are doing well? Is it across the board and across geographic that this line item picked up? This is one of the line items we've been waiting to see pick up in general amongst the bigger banks.

John Shrewsberry - *Wells Fargo & Company - CFO*

Very broad based.

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

Very broad.

Paul Miller - *FBR & Co. - Analyst*

And you're not seeing -- the questions that I get is that everybody's concerned about the energy credits; but you're just not seeing it. I know you made some opening comments about that. But you're just not seeing anything on the negative side on energy credits at this point?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, this drop in crude is very recent, and the companies are taking the appropriate evasive actions to preserve cash, to delever, to reduce their expense base, et cetera. But it hasn't worked its way into loan quality.

Loan demand certainly be down in that area, I assume. But in the fourth quarter, you can see what the change in net outstandings was, which more than makes up for whatever reduced demand there is in the energy space.

Paul Miller - *FBR & Co. - Analyst*

Okay. Hey, guys, thank you very much.

Operator

Bill Carcache, Nomura Securities.

Bill Carcache - *Nomura Securities - Analyst*

I had a question on your credit card growth strategy. I think most would agree that credit card asset yields have held up quite well in this low-rate environment relative to other asset classes. Would you consider competing more aggressively on rates in an effort to grow your share of outstanding balances, particularly since the high-return business, where you arguably have room to give up a bit on pricing while still generating returns that are attractive relative to other lower-return, lower-yielding asset classes?

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

Well, let me say it this way: First of all, we love the card business, especially for our Community Bank customers. And we have grown from the low-to mid-20% penetration to now to 42% of our customers carry our credit card. And we like that business a whole lot. Not only from the balances we get, but to be relevant to our customers as far as handling their payments, providing them services that are even around payments and so forth for them. We want to provide great value; pricing sure is part of that.

You've seen recently where we have partnered with American Express. We do a ton of business with Visa on the higher-end, higher-value cards. So this is really a strategy about getting more cards top of wallet with our customers, and pricing rewards; the whole value proposition is part of that. I wouldn't say it's just any one thing around price, per se, but it's around value.

Bill Carcache - *Nomura Securities - Analyst*

Great, thank you. A separate question, if I may, on municipal deposits: Can you talk about how significant municipal deposits are to Wells? Are you deemphasizing them, given their relatively unfriendly LCR treatment? And to what extent do you see a future revenue opportunity for holding them?

John Shrewsberry - *Wells Fargo & Company - CFO*

We have a very big municipal business, and deposits are certainly part of that. It's a service that we provide to the tax-exempt issuing community. And by municipal, it's all forms of state and local and county government, and other non-profit types of customers.

The unfriendly LCR treatment came from the fact that municipal deposits tend to be collateralized by us, so that the municipal depositor is safer in the event of a problem with their bank. And that wasn't being taken into account in the original approach to LCR. We think we've gotten a favorable outcome there, so that they are now LCR-friendly; still very competitive.

We still like those deposits. We still very much enjoy those relationships because there's a lot of banking service that we provide to those types of clients. But they don't have the LCR problem that they might have seemed to have in pre-clarification that came out in the third or fourth quarter.



Bill Carcache - *Nomura Securities - Analyst*

Okay. So it was my understanding that, for the purposes of the LCR calculation in the numerator, the high-quality liquid assets would not be able to include the collateral associated with the deposits. And it had to outflow in the denominator on day one? Is that not the case anymore?

John Shrewsberry - *Wells Fargo & Company - CFO*

I don't think that you have it right. I think that it works fine. Incidentally, there were two issues that people were trying to address in tweaks to LCR relating to munis.

The other one was whether high-quality muni bonds would be considered HQLA on the asset side. And I don't think that there's been a resolution there. And there are a number of our clients who issue high-quality muni bonds who take exception to that. And we'll see where that goes. But on the deposit side, I think we've cracked the code.

Bill Carcache - *Nomura Securities - Analyst*

Thank you.

Operator

Mike Mayo, CLSA.

Mike Mayo - *CLSA - Analyst*

I had a question about the efficiency ratio. First, what were the drivers in higher revenue-driven compensation and deferred comp, especially with lower originations and softer trading results? And then the follow-on question to that is: You're still at the upper end of your efficiency target. What can you do to get at least back toward the middle end?

John Shrewsberry - *Wells Fargo & Company - CFO*

So, the drivers of the revenue-oriented portion of increased compensation included a handful of businesses. I'd say investment banking was one of them, where we were \$150 million up in the quarter. And so, some portion of the elevated expense is attributable to that, but it comes from a few others as well. And, again, it's those businesses that performed better in the fourth quarter. It can be -- with 90 different businesses, it can be a little here, a little there. That was part of it.

So, we find ourselves in the high-58%, or now 59%, with a lot of emphasis on trying to be as efficient as we can in how we spend our money every day. There are no guarantees that we're moving toward the middle or the lower end of the range in this interest-rate environment. As we go through a full year, while we are tackling the things that we need to tackle, we spend a lot of money on risk management, compliance-related initiatives, other things that have a regulatory origin. And some of that is semi-permanent -- might be around for several quarters. And some of it's going to be around in the run rate for a while.

If rates begin to move up, that probably moves us down in the range. But, frankly, at 59%, which is the high end of our range, we can tolerate that. We think we're performing very well.

John Stumpf - Wells Fargo & Company - Chairman and CEO

Mike, you are hitting one of the important issues for us. As John mentioned, we take this seriously. We are looking for all those opportunities to eliminate expenses where customers don't find value, and it's an ongoing, continuous process for us. Reducing square footage is one of those. Looking hard at the kind of money we spend that is not revenue-producing, if you will.

But also making sure that we take a look at the long term, so we continue to invest in things like, late last year Apple Pay, and other things that we do to provide convenience for customers. So it's always a -- don't waste, but also we take a long-term view. This continues to be a big focus for us.

Mike Mayo - CLSA - Analyst

Correct me if I'm wrong -- you have a 55% to 59% efficiency target range. And what I'm hearing now is: Well, with the rate environment, we might be at 59%. Whereas I wasn't sure if I heard that same message before, saying: Unless rates go up, we won't get to the middle part of the range. And you were a little bit lower before, so am I hearing the message wrong? Or is it simply that you've done what you could for so long with the low-rate environment, and you can't do a whole lot more? Or what is it that leads you to say: Well, 59% is okay?

John Stumpf - Wells Fargo & Company - Chairman and CEO

Well, I think when we had the range, we knew that we would -- sure, we'd love to be at 55%, but we also recognize that that's why we gave a range; think of it as guard rails. And we're spending more in cyber today. We're spending more on all things risk.

On the other hand, we've not yet pulled out all of our expenses around loss mitigation. We continue to make investments in distributions. So, I guess a range is a range. And I can't guarantee we'll be at the low end. But if we are at the high end, that's also acceptable, in our mind, if we are making the right investments in the right things, and eliminating expenses where we think they can be eliminated. So, that's how we feel about it.

Mike Mayo - CLSA - Analyst

And then last follow-up: The cyber expenses or the all-things-risk expenses -- have these ticked up some? Or is this what you had expected?

John Stumpf - Wells Fargo & Company - Chairman and CEO

It ticked up, in the terms of we continue to make more investments there. And we are starting to get the annualization of expenses we made last year. We'll get more efficient in that over time.

But we're spending the money we think we need to spend, and sometimes that's hiring consultants. And then over time you can convert whatever they're doing to team members, which tends to be more efficient. You are not as efficient on every process the minute you adopt it or employ it. But more money is being spent there.

Mike Mayo - CLSA - Analyst

All right, thank you.

Operator

Matt O'Connor, Deutsche Bank.

Matt O'Connor - Deutsche Bank - Analyst

If I could just follow up -- the net interest margin was down just 2 basis points, which I think is very good in this kind of environment. As I look at some of the underlying detail on the yields of the securities and yields from the loan yields, I guess I don't totally understand how they've been so stable. Wondering if there's anything you can add on -- maybe first the securities piece. You've been growing it, and the yields have been remarkably resilient.

John Shrewsberry - Wells Fargo & Company - CFO

It's just math. What we've been growing hasn't been that extraordinary in terms of its incremental contribution to the weighted average, because the denominator's as big as it is. If we continue to deploy -- as I know you know, if we continue deploying in this environment, ultimately it will start to skew down the weighted average returns.

And also, we've been tending to invest in treasury and agency securities. And just from a credit quality point of view, that's going to bring down returns. Setting aside historical book yields versus current book yields in the shape of the curve when the investments were made -- if we've got corporates and munis and some other things in the starting portfolio. If we are just adding US treasuries, it's going to bring things down. But it just hasn't revealed itself yet because the numbers haven't been big enough yet.

Matt O'Connor - Deutsche Bank - Analyst

Okay. And then on the loan yields -- they've been surprisingly resilient as well. Do you feel like -- I know it's a blend of 8 or 10 categories the way you disclose it, but do you feel like, generally speaking, loan yields have stabilized? I'm looking at the C&I that was actually up a couple bps. But really, up and down the portfolio, it feels like there's been pretty good stability the last three, four quarters.

John Shrewsberry - Wells Fargo & Company - CFO

I think that's right. We are in fiercely competitive markets. Not every bit of competition is in the last basis point of spread on a loan. Sometimes it's in the structure of a loan, and of course, we know there are places we'll back away from when that happens. It is competitive, but it hasn't all shown up in price.

Matt O'Connor - Deutsche Bank - Analyst

Okay. And then, putting it all together, as you think about the net interest margin percent going forward, probably largely dependent on loan growth. But how do you think it shakes out? Obviously, the rates where they are doesn't help. Is it just this modest pressure, or is there more material pressure to come?

John Shrewsberry - Wells Fargo & Company - CFO

It depends on the pace of continued deposit inflows, and how that gets redeployed. If deposits remain steady where they are, then the loan growth and the redeployment from cash into investment securities is going to be very supportive of the NIM. If we keep getting high single-digit or even low double-digit deposit growth, and loan growth isn't happening at the same pace, or redeployment into investment securities doesn't make sense at the same pace, then the math is going to put pressure on that calculation.

And as you know, that's not a calculation we are managing to. It's an outcome of the other things that we're doing. But the driver there is the growth in deposits, and how you responsibly deploy that into either loans or securities in the same time frame that the deposits are coming in.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay, that makes sense. Thank you.

Operator

Betsy Graseck, Morgan Stanley.

Betsy Graseck - *Morgan Stanley - Analyst*

I had a question on investment spend, and thoughts around mobile wallet. With Apple Pay, obviously you did a lot of work there. Is there an opportunity to take those investments, and potentially expand them into mobile wallet, real-time banking, other tokenization strategies?

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

Well, we're doing a lot of work in all those things about the so-called paperless store and doing real-time cash letters, and helping customers with real-time information, notwithstanding which channel they are involved in. So, I would say all of the above is important.

What we found, which is interesting, is that our most loyal customers today are the ones who use the channels most often, and the most types of channels. So, even for those customers who are very advanced in technology and the use of technology, the ease of technology, who might be dominant in that channel, still visit stores on an infrequent but regular basis. They go to ATMs. So, there's lots of things.

Some of the investments we're making is to set up an appointment with a banker using your technology. We are testing things about being able to authenticate customers, know when they are in the stores, working on things that would authenticate at an ATM machine, maybe using your mobile device. So there's just lots of things going on there.

We're actually learning a lot of those things from retailers and other service providers outside of our industry. So, pretty exciting stuff.

Betsy Graseck - *Morgan Stanley - Analyst*

And do you feel that this is like table stakes, and will maintain share? Or do you think that you're doing things that could potentially drive share up, drive down that expense ratio?

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

Well, I think about it less to an expense ratio. But these are more than table -- well, they are table stakes in some cases. If you don't have a mobile offering, you're probably not going to serve most millennials today.

But we think of it more than table stakes. We think it's a big reason why we're growing net new primary checking accounts of over 5% a year.

The deposit growth we've had clearly is a result of -- partially a result of our distribution model and the omni-channel view we have of these various channels. Not separate businesses, but combined into really centric around the customer needs and convenience. Our growth is, I think, reflective of our commitment to that.



Betsy Graseck - *Morgan Stanley - Analyst*

I'm just wondering, too, on the Dillard's, because I would expect that retailers also want best-in-class mobile apps, et cetera. Is this part of what we should expect you'll be delivering to Dillard's and other private-label portfolios that you win?

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

Well, I don't want to speak about a particular situation, but I'll just give you this: 16 years ago we didn't have an online offering. Today, over 80% of our customers are actively online -- some 24 million customers actively online on the consumer side. Five years ago we didn't have a mobile offering. Today we have over 14 million customers on that.

Mobile is the fastest-growing, fastest-adopted channel we've had in our history of our Company. And the things that customers can now do mobility, and the things that they'll be able to do in the next year or two as we continue to introduce new capabilities, is really exciting. So watch for this, it's really important.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay, thanks.

Operator

John Pancari, Evercore ISI.

John Pancari - *Evercore ISI - Analyst*

I'm going to kick the energy horse here again, so my apologies. But first of all, can you help quantify your total leverage loan book, what the size is? And then, of that leverage loan book, how much of it is energy?

John Shrewsberry - *Wells Fargo & Company - CFO*

Sure. So, we don't have a leverage loan book. We have loan portfolios in various lines of business.

We have an energy loan portfolio, which would include both oil and gas. As I mentioned, it's about 2% of our loans overall. It includes E&P companies, it includes midstream pipeline companies, and it includes services companies. It also includes some investment-grade integrated oil names. But the sum of that is about 2% of our total loan portfolio.

Some of those companies will have higher leverage, some of those companies will have lower leverage. But we don't draw the portfolio line along the level of leverage.

John Pancari - *Evercore ISI - Analyst*

Okay. And then separately, related to that, you have the amount of bond exposure that you may have held in your trading portfolios for any deals that you've done in the energy sector. Do you have that quantified?

John Shrewsberry - Wells Fargo & Company - CFO

Yes, it's a good question. I'll quantify for you our total securities exposure, including what's in trading, and also what's in AFS, because we had some corporate investments in energy names as well.

The sum total of both of those is less than \$1.5 billion at Wells Fargo. And a much smaller portion in trading, which, of course, gets mark to market through the P&L every day. And somewhat larger percentage of that sitting in AFS, which we mark every day, but the value change goes through OCI.

John Pancari - Evercore ISI - Analyst

Okay, all right. And then separately, on the loan growth, I agree, good pickup that we saw in C&I for the quarter. And as we look out into 2015, is it fair to assume that you should see some acceleration in the loan growth that you're looking at for 2015 versus what you achieved in 2014? I think you are in the 4% to 5% range for 2014. Is it fair to assume that accelerates from there next year, or for the full-year 2015?

John Shrewsberry - Wells Fargo & Company - CFO

I think knowing what we know about the economy today, we'd feel better about the next four quarters than a couple of the last four quarters. So, if the most recent quarter is the continuation of a two-quarter trend, then, yes, we'll probably have higher loan growth or higher amounts originated.

Now, the denominator keeps growing as we grow the size of the portfolio, and at some point the rate gets impacted by that. But, yes, it feels like a good year for loan growth.

John Stumpf - Wells Fargo & Company - Chairman and CEO

You know, John, we think, if you're going to grow revenues over the long run, you have to be growing households, cross-sell deposits and loans. And we sure plan for all of those.

John Pancari - Evercore ISI - Analyst

Okay. And then my last question -- I know there was some questions around the excess liquidity reinvestment of what you've been buying. I know you indicated you're buying treasuries and agencies. Do you have what durations and what yields that you purchased in the quarter, just to get an idea of what the ultimate impact could be on the margin?

John Shrewsberry - Wells Fargo & Company - CFO

We don't lay it out quite that way. You will see in our tables what we're talking about. It's treasuries and agencies -- you know the time frame. I can tell you we're in the intermediate part of the curve. So that will probably get you there.

John Pancari - Evercore ISI - Analyst

Okay. All right, thank you.

Operator

Eric Wasserstrom, Guggenheim Securities.



Eric Wasserstrom - *Guggenheim Securities - Analyst*

Just to follow up on the OpEx for a moment, I understand the discussion of the ratio. But in terms of absolute level, based on what I'm hearing in terms of your loan growth expectation, it sounds like we should be anticipating an absolute level of expense that is higher than what we saw in 2014. Is that correct?

John Shrewsberry - *Wells Fargo & Company - CFO*

It's really tough to say, which is why we talk in percentages and think about things in terms of a range. You can see the items that we're calling out as feeling seasonal in Q4, and there's a handful of them, and they amount to a few hundred million dollars. And then, of course, in Q1 we typically have escalated personnel and benefits expense as well.

In terms of the OpEx, or the investments that we are making in risk management, et cetera, they will be elevated for some period of time. But because of all of the other drivers to the total expense number, it's possible that we operate -- and there's a reasonable expectation that we operate -- at a lower level than we have in the last couple of quarters, because we are always pushing down on things where we can.

So that's why we give you the range. We think we're going to be in the range, in 2015, like we have been in 2014.

One other item I'd mention, for those that are newer to it, that we do have this deferred comp element that shows up in expense even though it's a P&L-neutral item. And that creates a hundred, or in some cases a couple hundred, million dollars worth of noise in any given quarter, which is material, given the differences that we are talking about here.

John Stumpf - *Wells Fargo & Company - Chairman and CEO*

Eric, even though we are at the high end of the range now, one should not assume that it's not top of mind around here. It is; it remains top of mind. And it's always looking for opportunities to be more efficient, but also continue to invest in the future, because we do have a long-term view.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Right, of course. And the financing that you provided on the student loan sale -- what is the expected duration of that?

John Shrewsberry - *Wells Fargo & Company - CFO*

So, that financing probably comes down over the course of next couple of years on a relatively steep curve, as the portfolio gets permanently financed into student loan ABS. And so, my expectation -- I think the reasonable expectation is that its average life would be maybe a little bit more than a year, as it comes down.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Got it. And quickly, one last thing: The tax benefit that you mentioned in the period from the change in federal tax law -- is that a permanent benefit? And what should we expect for your go-forward GAAP tax rate?

John Shrewsberry - Wells Fargo & Company - CFO

So, what happened in the fourth quarter is both the impact of the extender legislation that came in at the end of the year, as well as the resolution of some discrete matters that we've been working on with the various taxing authorities for some period of time. I would look at recent prior years for what a good expectation is for our tax rate going forward.

Eric Wasserstrom - Guggenheim Securities - Analyst

Okay. So, largely unchanged, it sounds like?

John Shrewsberry - Wells Fargo & Company - CFO

Yes, I think that's right.

Eric Wasserstrom - Guggenheim Securities - Analyst

Thanks very much.

Operator

Chris Mutascio, KBW.

Chris Mutascio - Keefe, Bruyette & Woods, Inc. - Analyst

Quick question for John Shrewsberry: You noted that the investment securities portfolio has been increasing quite materially over the last year. I think it's up about \$50 billion. Can you tell me what portion of that is Ginnie Mae, MBS? How much is that Ginnie Mae portfolio, if you have exposure, has that grown in 2014?

John Shrewsberry - Wells Fargo & Company - CFO

It's negligible.

Chris Mutascio - Keefe, Bruyette & Woods, Inc. - Analyst

Okay. The refinance activity there, with the 50-basis-point cut, plus rates being down, I didn't know what the impact would be perhaps on the margin. But your Ginnie Mae exposure is negligible?

John Shrewsberry - Wells Fargo & Company - CFO

Negligible.

Chris Mutascio - Keefe, Bruyette & Woods, Inc. - Analyst

All right, thank you very much.

Operator

Nancy Bush, NAB research.

Nancy Bush - NAB Research - Analyst

Two questions for you: John, you mentioned the changes in the GSEs and at the FHA with regard to allowable mortgages, et cetera. There seems to have been a remarkable turnaround in Washington since the days of the financial crisis when everybody was cracking down on mortgages, and we're in a reverse posture now. As a result of this, do you see any changes that you might make at the mortgage company in terms of businesses that you exited, the wholesale business, et cetera, that you might want to go back and revisit?

John Stumpf - Wells Fargo & Company - Chairman and CEO

No. First of all, I think those are positive changes that have been made. And I think they've been largely made because it got too restrictive, and customers who deserved a loan, who wanted to buy a home who could afford it, could not get credit. And I don't want to overstate the amount of those folks, but there was that element. I think we've come to a much better place with regulators, with the industry, and with customers.

But, no, we don't have an intention of going back into joint ventures or the wholesale business. We like the business mix we have now.

Nancy Bush - NAB Research - Analyst

Okay. Second question is this: There was a, I believe, a Heard on the Street column a few days ago in the Wall Street Journal about the impact of the energy price drop on various banks. John, I think they mentioned that -- the figure 17% of revenues comes to mind, with regard to your capital markets businesses related to energy. Could you just clarify that -- where you stand in capital markets with relation to the energy business? Is there going to be a big impact in revenues there?

John Shrewsberry - Wells Fargo & Company - CFO

In that article, they referred to, I think, [Deologic] information for 2014 that suggested that we had about \$280 million worth of underwriting revenue from energy-related activity. So that would be debt and equity underwriting, and probably loan syndication fees as well. So, that's the order of magnitude.

The 17% would refer to that as a percentage of the US investment banking revenue for full-year 2014. So, in terms of at-risk or where it goes from here, that's a starting point for last year. And it's bounced around between \$150 million and maybe \$300 million over the course of the last several years.

Nancy Bush - NAB Research - Analyst

Okay. And just one more question, John Stumpf, for you: You've been very positive on the direction of the American economy for the last couple of quarters. And I think you remain that way. I don't know if you saw your predecessor, Mr. Kovacevich, on CNBC a couple of mornings ago. He was not so positive on strength of the American economy. I'm sure you still talk to Dick from time to time. What is behind the differing views?

John Stumpf - Wells Fargo & Company - Chairman and CEO

What was his name again? (laughter)

Nancy Bush - NAB Research - Analyst

You know, that K guy.

John Stumpf - Wells Fargo & Company - Chairman and CEO

Oh, the K guy. Well, I obviously respect Dick's view. And there are different views on the economy. But that being said -- and there is volatility, clearly. Today, look at retail sales, and you probably feel differently; so, you can feel differently on a day-to-day basis.

When I look at the businesses that we're in, and as I'm out talking with customers, which I am every day, and talking with our business leaders, and frankly, looking at the numbers -- 50 consecutive months of employment growth; unemployment in the 5%, 6% range; GDP 5%; and we'll probably have a few quarters this year start with 3s.

So, I'm optimistic. Again, I don't think this is a breakout, but I think we're on a front foot. And consumers' confidence is at an all-time high since the downturn. So, the way I read the tea leaves, I'm optimistic.

John Shrewsberry - Wells Fargo & Company - CFO

I think Dick also suggests that we could have gotten here sooner. We could be at higher levels.

John Stumpf - Wells Fargo & Company - Chairman and CEO

Sure. And that's fair; I would agree with that.

Nancy Bush - NAB Research - Analyst

Okay, thanks very much.

Operator

Marty Mosby, Vining Sparks.

Marty Mosby - Vining Sparks - Analyst

Wanted to look at the capital deployment ratios. If you look at your total payout this quarter, it's 72%, which is, I think, close to your stated target you talked about, around 75%. So, the increased capital deployment from here -- are you going to need to see some earnings momentum? Or do you think you could push past that 75% pay-out ratio?

John Shrewsberry - Wells Fargo & Company - CFO

So, our target is 55% to 75%. And you saw that it bounced around during the course of the four quarters of 2014, for a few reasons. One of them is that we do more share issuance in connection with our benefit plans in the first half of the year, and so it drives down the net pay-out ratio.

The first call on our capital is to be available to support more loan growth on behalf of our customers. So, the capital deployment horse is out in front of the net pay-out cart. And that's important to remember, because we are not hoping that we have enough to support the business growth after we think about distribution. We're making sure we have enough to support the business growth. And then we are factoring in distribution behind that.

So, we anticipate continuing to operate in the range, quarter by quarter, 55% to 75%. And the fourth quarter was a high tick on that, in the 70%.

Marty Mosby - *Vining Sparks - Analyst*

I was really looking back towards the E part of that, which is, as earnings grow that gives you more chance. What kind of catalyst do you see while we're waiting on interest rates to create some incremental earnings momentum, reigniting that, that we've seen slow down over the last couple quarters?

John Shrewsberry - *Wells Fargo & Company - CFO*

Well, it's loan growth, for sure. It's redeployment of excess liquidity into higher-yielding earning assets. It will be what the impact is on expenses that we've been talking about a little bit, if we do as expected there.

And then it's the various sources of fee revenue, which were flat quarter to quarter, up year over year. **But there's a lot of momentum in places like card,** places like investment banking, trust and investment fees overall. We just talked about the slightly more bullish case for mortgage this year. All of those are catalysts for growth.

Marty Mosby - *Vining Sparks - Analyst*

Thanks.

John Shrewsberry - *Wells Fargo & Company - CFO*

Thank you, and thanks, everybody, who joined us today. And again, Happy New Year to everybody, and thanks for your interest in Wells Fargo. See you next quarter.

Operator

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

DISCLAIMER

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

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

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

©2015, Thomson Reuters. All Rights Reserved.