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WFC - Q1 2014 Wells Fargo Earnings Conference Call

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OVERVIEW:

WFC reported 1Q14 earnings of $5.9b and EPS of $1.05.

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PRESENTATION

Operator

Good morning. My name is Regina and I will be your conference operator today. At this time, I would like to welcome everyone to the Wells Fargo first-quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

(Operator Instructions)

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

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

Thank you, Regina. Good morning, everyone. Thank you for joining our call today, where our Chairman and CEO, John Stumpf, and our CFO, Tim Sloan, will discuss first-quarter results and answer your questions.

Before we get started, I would like to remind you that our first-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 our call over to John Stumpf, Chairman and CEO.

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

Thank you, Jim, and thank you to everyone for joining us today. We earned a record earnings per share of $1.05 in the first quarter, which was our 17th consecutive quarter of EPS growth. Wells Fargo's ability to grow consistently across a variety of economic and interest-rate environments demonstrates the benefit of our diversified business model and our unwavering focus on our vision of meeting all of our customers' financial needs and helping them succeed financially.

Our financial results have strong capital generation and returning more capital to our shareholders has remained a priority. We're extremely pleased that our 2014 capital plan allows us to increase our common stock dividend by 17%, subject to Board approval, of course, and also increase our common stock repurchases in 2014. We're proud of the fact that we've been able to increase our dividends and share repurchases every year since 2011, while we have continued to grow our capital levels.

Let me now highlight our growth during the quarter, compared with a year ago. We generated earnings of $5.9 billion and EPS of $1.05, both up 14% from a year ago. We had strong and broad-based loan growth, up $28 billion, or 4%. Our credit performance continued to improve, with total net charge-offs down $594 million, or 42%, from a year ago, and net charge-offs were only 41 basis points on average loans this quarter.

Our outstanding deposit franchise continued to generate strong growth, with total deposits up $83.8 billion, or 8%. We deepened relationships across our Company, achieving record retail banking cross-sell of 6.17 products per household. Wholesale banking increased cross-sell to 7.2 products; and wealth, brokerage and retirement cross-sell was 10.42 products.

We remain focused on reducing expenses with our efficiency ratio declining to 57.9%, down 40 basis points from a year ago. We increased our returns, growing return on assets by 8 basis points to 1.57% and return on equity by 76 basis points to 14.35%. We continued to generate strong capital growth, with our estimated common-equity Tier 1 under Basel III Advance Approach, which was over 10%.

Our results not only demonstrate the strength of our diversified business model, but also the benefit of an improving economy. While economic growth during the first quarter was uneven, economic activity improved later in the quarter, including national auto sales, which reached a seven-year high in March.

Employment also increased in March for the 42nd consecutive month, one of the longest periods of sustained growth ever, and consumer confidence hit a six-year high. The housing recovery remained on track and should benefit from the spring buying season.

I'm optimistic about future economic growth, because consumers and businesses have continued to improve their financial conditions. Households have reduced their leverage to the lowest level since 2001, and the burden of their financial obligations is lower than at any time since the mid-1980s.

Also, businesses are well-positioned to hire and invest with ample supplies of cash. As always, Wells Fargo is ready to help all of our customers meet their financial needs through our diversified product line and financial advice.

I want to conclude by highlighting the management changes we announced last week. Dave White, who has been with Wells Fargo for over 32 years, is retiring in June. Dave and his exceptional team of leaders have built a wholesale banking business which is well-positioned for continued growth.

Tim Sloan, who you all know has been an excellent financial and strategic leader for Wells Fargo and had previously spent 22 years in the wholesale banking group and is perfectly suited to continue wholesale banking's commitment to serving customers as he becomes the Head of Wholesale Banking.

John Shrewsberry will join me as CFO on our earnings call next quarter, who has deep understanding of our financial and business operations, as well as our shareholder expectations through his 20 years of proven leadership, including heading Wells Fargo Securities, with responsibility for investment banking, capital markets trading, and investment research businesses. John will be supported in his new role by a strong and talented finance team. These changes demonstrate the deep bench of high caliber leaders at Wells Fargo, which I believe is the best team in banking.

Tim will now provide more details on our first quarter. Tim?

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

Thank you, 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 earned a record $5.9 billion in the first quarter, up 5% from the fourth quarter. Our record earnings per share of $1.05 was also up 5% from last quarter. This was our 17th consecutive quarter of earnings per share growth and our 12th consecutive quarter of record EPS, reflecting the benefit of our diversified business model.

As John highlighted, and as you can see on page 3, we had strong year over year growth in the fundamental drivers of our business: in commercial and consumer loans, deposits, cross-sell, credit, expense management, which resulted in growth in net income, capital, and earnings per share, and produced higher returns on assets and equity. I'll highlight the drivers of our growth, which create long-term value for our shareholders, throughout the call.

Page 4 highlights our revenue diversification, which is once again evenly split between net interest income and non-interest income. The drivers of our fee income, however, can differ depending on the interest rate and economic environment. For example, mortgage originations were 6% of our fee income this quarter, down from 23% a year ago when the refinance market was strong. Other businesses such as equity investments, brokerage and mortgage servicing, contributed more to fee income this quarter, demonstrating the benefit of our diversified business model.

Let me start by highlighting some of the key drivers of our first-quarter results from a balance sheet and income statement perspective, starting on page 5. We had strong linked-quarter growth in both loans and deposits. We are especially pleased with this performance, since first quarter is generally a seasonally weaker quarter for growth. Loans increased $4.1 billion from the fourth quarter, after increasing only $392 million on a linked-quarter basis a year ago.

Deposits grew by $15.4 billion, compared with $7.9 billion on a linked-quarter basis a year ago. The improving economy and high-quality loan originations continued to benefit credit quality, with net charge-offs declining to 41 basis points.

Turning to the income statement on page 6. Net interest income declined as we expected, reflecting the two fewer days in the quarter and lower income from variable sources. Non-interest income increased in the quarter, reflecting higher retail brokerage asset base fees, mortgage servicing income, and market-sensitive revenue. This growth was partially offset by seasonally lower deposit service charges and card fees, and lower mortgage production revenue.

Our expenses declined from the fourth quarter. While we have seasonally higher personnel expenses, we had lower deferred compensation expense, salary expense, and revenue-based incentive compensation. Equipment, professional services, and advertising expenses all declined from elevated levels in the fourth quarter.

Our results this quarter included a $423-million discrete tax benefit, primarily from a reduction in the reserve for uncertain tax positions due to the resolution of prior period matters with state taxing authorities. This lowered our income tax expense by $227 million, compared with last quarter, and reduced our effective income tax rate to 27.9%.

Let me now cover our business drivers in more detail. As shown on page 7, we continue to have strong loan growth in the first quarter, our 12th consecutive quarter of year over year growth. Period-end loans were up $28 billion, or 4% from a year ago.

Our liquidating portfolio continued to decline, down $12.8 billion from a year ago and down $2.9 billion from the fourth quarter. Excluding our liquidating portfolio, our core portfolio grew by $40.8 billion, or 6%, from a year ago, and was up $7 billion from the fourth quarter.

On page 8, we highlight how broad-based our loan growth continued to be. C&I loans were up $12.7 billion, or 7%, from a year ago, as we successfully grew loans and asset-backed finance, corporate banking, and government and institutional banking. Foreign loans grew $7.2 billion, or 18%, from a year ago, reflecting growth in trade finance and the UK's CRE acquisition we completed in the third quarter.

Real estate one through four family first mortgage loans grew $7.2 billion, or 3%, with growth in high quality, nonconforming mortgages. Auto loans were up $5.3 billion, or 11%, reflecting increased auto sales and record originations. Credit card balances were up $1.9 billion, or 8%, with record new account growth.

Deposit growth also remained strong in the first quarter, with average deposits growing $91.1 billion, or 9% from a year ago, and up $16.9 billion from the fourth quarter. This increase reflected solid growth across our businesses, particularly our consumer businesses and an increase in liquidity-related term deposits.

Primary consumer checking customers were up 5.1% from a year ago, up from 4.7% in the fourth quarter. We have steadily increased the growth rate of this higher cross-sell, more profitable customer base over the past four quarters, through product enhancements and consistent focus.

As shown on page 10, tax equivalent net interest income increased $157 million from a year ago, even though our net interest margin declined 29 basis points, reflecting the benefit of lower funding costs. Net interest income declined from the fourth quarter as expected, primarily from two fewer days in the quarter and lower variable income.

Our net interest margin declined by 7 basis points from the fourth quarter, to 3.2%, driven by three primary factors: lower income from variable sources, reflecting lower PCI resolutions reduced the NIM by 4 basis points; customer-driven deposit growth reduced the NIM by 2 basis points; and the liquidity actions that we took in the fourth quarter in response to increased regulatory liquidity expectations reduced the margin by 1 basis point. While our deposit growth and liquidity actions reduced our NIM, they had minimal impact on net interest income.

Like last quarter, balance sheet repricing and growth did not impact the net interest margin this quarter. Growing net interest income remains our focus, and we believe we should be able to grow net interest income throughout the remainder of the year.

Non-interest income increased $148 million from the fourth quarter, with lower mortgage origination revenue offset by stronger equity gains, mortgage servicing revenue, and brokerage fees. Compared with a year ago, non-interest income declined $750 million, primarily reflecting lower mortgage banking results. Non-interest income excluding mortgage banking was up $534 million from a year ago, with growth across many of our businesses, including brokerage, trust and investment management, credit and debit card, commercial real estate brokerage, and equity investments.

Our equity gains have steadily increased over the past year, reflecting good operating performance in our portfolio, and the benefit of strong public and private equity markets. We've been in equity-related businesses for over 50 years.

Like the other businesses at Wells Fargo, these businesses, which are permitted under the Volcker Rule, have experienced management teams that have produced strong results for decades. Our equity gains this quarter reflected roughly the same number of transactions as last quarter, but our gains per investment were higher, benefiting from positive market conditions.

Our mortgage results in the first quarter reflected the expected decline in origination volume. We originated $36 billion of mortgages, down $14 billion from the fourth quarter. Our unclosed pipeline increased to $27 billion at the end of the quarter, and we expect a normal seasonal benefit of a stronger purchase market in the second quarter to drive origination growth.

Our gain on sale margin was 1.61% in the first quarter, within the range of the margins we saw if the second half of 2013. We also continued to see improvement in our net servicing results, with servicing revenue up $229 million from the fourth quarter.

As shown on page 12, expenses were down $137 million from the fourth quarter, and down $452 million, or 4%, from a year ago. We also improved our efficiency ratio to 57.9%. Our first-quarter expenses included $440 million of seasonally higher employee benefit expenses from higher payroll taxes and 401K matching, as well as $221 million in annual equity rewards for retirement-eligible team members.

While we will not have these seasonally higher personnel expenses in the second quarter, there are certain expenses what will increase, including salary expense, reflecting day count, and the impact of our annual merit increases, and certain expenses that are typically lower in the first quarter, such as outside professional services and advertising expenses, are expected to increase in the second quarter. We also plan to continue to invest in our businesses, and revenue-based incentive compensation expense could increase as businesses grow. However, we expect our efficiency ratio to remain within our target range of 55% to 59% in the second quarter.

Turning to our business segments, starting on page 13, community banking earned $3.8 billion in the first quarter, up 31% from a year ago and up 19% from the fourth quarter. Retail banking continued to grow cross-sell, achieving a record of 6.17 products per household, up from 6.1 products a year ago. While mobile banking continued to be our fastest-growing channel with 12.5 million active mobile customers, up 23% from a year ago, store traffic has remained strong, with teller transactions stable from a year ago, despite decreases in geographies that experienced severe winter weather during the quarter.

Our credit card business grew balances and fee income compared with a year ago, reflecting record new account growth, up 6% from the first quarter of 2013. Purchase volume grew 14% from a year ago, and household penetration increased to 38%, up from 34% a year ago. We continued to be the number-one auto lender in the country, with record originations in the first quarter of $7.8 billion, up 15% from a year ago.

Wholesale banking earned $1.7 billion in the first quarter, down 15% from a year ago and down 17% from the fourth quarter. This decline was primarily driven by lower PCI resolutions and investment banking revenue and seasonally higher expenses. Wholesale banking continued to generate strong loan growth, up 7% from a year ago and up 2% from the fourth quarter.

The linked-quarter growth was broad-based, with corporate banking growing $2 billion from new loan growth and higher utilization rates from our energy and large corporate and institutional customers. The asset-backed finance portfolio increased $2 billion from the fourth quarter, primarily due to higher utilization rates on warehouse lines, and the commercial real estate portfolio grew $1.8 billion from the fourth quarter, driven by higher utilization rates on construction loans and new loan originations.

Credit quality remained exceptional, with $59 million in net recoveries for the quarter. Wholesale banking has had net recoveries for five consecutive quarters, reflecting our conservative risk discipline and improving market conditions. Cross-sell increased to a record 7.2 products per relationship, up from 6.8 a year ago.

Treasury management continued to be a key relationship-building product, with revenue up 4% from a year ago, driven by strong sales growth, growth in commercial card volume, and pricing increases. Wealth, brokerage, and retirement earned $475 million in the first quarter, up 41% from a year ago, and down 3% from the fourth quarter. We understand the importance of investing and saving for the future, which is why we are focused on offering our customers sound guidance and advice.

Our brokerage advisory assets have grown to $388 billion, up $63 billion, or 19% from a year ago. Revenues from advisory assets increased 25% from a year ago, and recurring revenues are now 80% of WBR revenues, up from 74% a year ago. Wealth, brokerage, and retirement also had strong loan growth, with average loans up 14% from a year ago, primarily driven by high quality, nonconforming mortgage loans.

Turning to page 16, credit quality continued to improve, with first-quarter losses down $138 million from the fourth quarter and net charge-offs declining to 41 basis points of average loans. Losses in our commercial portfolio were only 1 basis point of average loans and consumer losses declined to 75 basis points.

Non-performing assets have declined for seven consecutive quarters, and were down $840 million from the fourth quarter. We had a $500 million reserve release in the quarter, and we continue to expect future reserve releases, absent a significant deterioration in the economy.

We also continue to focus on strong capital generation and believe the most important measure of our capital strength is the estimated common equity Tier 1 ratio under Basel III, using the Advanced Approach fully phased in. Our ratio grew to 10.04%, up 28 basis points from last quarter. Although we repurchased 33.5 million common shares in the first quarter, the amount of shares outstanding at the end of the quarter was up due to annual employee benefit plan issuances.

As John mentioned at the beginning of our call, our 2014 capital plan included an increase in share repurchase activity compared with 2013 activity, and we expect our share count to decline in the second quarter and throughout 2014 as a result of our anticipated share repurchases. Also during the first quarter, our Board approved an additional 350 million shares in our repurchase authority.

Our 2014 capital plan also included a proposed dividend of $0.35 per share for the second quarter, subject to Board approval, an increase of 17% over the $0.30 per share we paid in the first quarter. At our last Investor Day in 2012, we provided a target payout ratio of 50% to 65%. We look forward to revisiting this target at our next Investor Day on May 20 in San Francisco.

In summary, our consistent EPS growth reflects the advantages of our diversified model. Our results in the first quarter benefited from good loan growth and good deposit growth, improved credit quality, and lower expenses.

Our capital levels continued to grow, while we returned $2.6 billion to our shareholders through dividends and share repurchases. We are optimistic that the continued improvement in the economy and the focus of our team members on meeting the financial needs of our customers will continue to produce strong results.

We'll now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question will come from the line of Betsy Graseck with Morgan Stanley. Please go ahead with your question.

Betsy Graseck - *Morgan Stanley - Analyst*

Hi. Thank you. Good morning.

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

Good morning, Betsy.

Betsy Graseck - *Morgan Stanley - Analyst*

Couple of questions. Good morning. A couple of questions, one, on the LCR, I know you mentioned that the LCR-related build hit NIM by $1 billion -- 1 basis point, I'm sorry, 1 basis point in the quarter. So wanted to get a sense as to how far along you think you are and how much more you need to do to get to either 100% or whatever cushion you're going to run over 100%.

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

Sure, Betsy. That's a really good question. You saw us in the third and fourth quarter, in particular, make a number of decisions where we raised the liquidity in a number of ways to try to anticipate where the domestic LCR would ultimately land. I think the problem that I've got in terms of -- or a challenge we have in terms of giving a specific answer to the question is we don't know what the final rules look like yet. But rest assured that we think we have adequate liquidity to operate the Company, and we don't anticipate, whatever the final rules are, that it's going to have a material impact on the Company.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. So don't be surprised if we have a couple more basis points coming out, but it's not going to be much more than that. Is that a fair way of thinking about it?

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

I wouldn't necessarily equate it to net interest margin. Clearly, the impact of our liquidity build this quarter was much less than in the fourth quarter, in particular. But again, it's going to be a function of what the final rules look like, and those are in flux right now. But again, I don't believe it's going to have a material impact on the net income or the operations of the Company.

Betsy Graseck - *Morgan Stanley - Analyst*

Got it. Okay. And then secondly on mortgage, the basic question is how are you thinking about the go-forward from here? You did indicate that weather-related was tough in 1Q, and we do have a seasonal pick-up with purchase activity in 2Q. But going into the year, I think the industry was thinking that mortgage originations would be somewhere between 1.1 and 1.3, in terms of [trillions of dollars] of origination. You had some capacity in your mortgage-origination business to potentially take some share in that environment.

Do you see that we're going to be at materially lower levels of origination for the full year? Have you adjusted your expenses for that? At this stage, I saw you cut back in headcount a little bit in the quarter. And maybe you could speak to what the plans are for that over the next quarter or two.

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

Sure, I'll jump in, and then John may want to follow up. The first thing is that when you look at our mortgage business, it was profitable, both on an origination and the servicing side, which we're very pleased with. Mortgage is an important business for Wells Fargo. We've been in it for decades. We've been through cycles. Our mortgage team is poised and ready to take advantage of a stronger selling season. You can see that we entered the quarter with a slightly increased portfolio and pipeline, which we're very excited about.

But again, I would -- when you look at the fundamental drivers of the mortgage business, and that is rates still historically are very low, the affordability index is very attractive, and consumer debt is coming down, as well as employment continues to increase. So we're optimistic. I don't know what the size of the market will be, but I know that our mortgage team is poised and ready to take advantage of opportunities.

John, I don't know if you --

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

Sure. I would add a couple things to that. We are optimistic. Housing continues to improve. I don't think we'll see the percentage increases in values this year that we saw last year, but we believe it to be positive. I don't know if it's going to be in the 4% or 5%, which is the consensus. But as I traveled around the country, there's a lot of enthusiasm about housing, and just because the mortgage -- who knows what the mortgage market will be? There's, frankly, a lot more cash buyers today, to be honest about it.

So -- but housing is better, and a bigger share of our originations today are purchased money, which is actually a healthy place to be. And when you think of the sales force, the team that we have, and all the referrals coming out of our store channels and other places, this really plays to our wheelhouse. So we're excited about it, and weather did have some impact, but we're excited about the selling season.

Betsy Graseck - *Morgan Stanley - Analyst*

I guess I was interested to see you had some job cuts in mortgage this first quarter.

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

We're always balancing that. Yes, yes.

Betsy Graseck - *Morgan Stanley - Analyst*

All right. That's not an indication that you were too optimistic going into the year?

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

No, no, no. We've always -- we're adjusting. There's -- it's a big business, and we're always looking at how to get more efficient, of course, and making sure that we have the right number of team members. But we are ready for whatever come. And if it's not as good, we'll make adjustments. If it's better, we'll make adjustments that way. We've been nimble on our feet for decades in that business.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. Thank you.

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

Thank you.

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

Thank you, Betsy.

Operator

Your next question will come from the line of Erika Najarian with Bank of America. Please go ahead.

Erika Najarian - *BofA Merrill Lynch - Analyst*

Good morning.

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

Hello, Erika.

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

Hello, Erika.

Erika Najarian - *BofA Merrill Lynch - Analyst*

Thank you so much for the clarity on the share count outlook. I will -- I do want to pose a question, though, on the $350 million share repurchase authority that I've been getting from investors. How should we think about the catalyst that will drive the pace at which you use up this authority over the next few years?

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

So Erika, the way that I would describe it is that, think about it, step back for a second. We returned $11.4 billion to our shareholders last year. We are going to return more than that this year.

In terms of the specifics of how that's going to play out on any given day, in a month, or within a quarter, we don't have a specific plan in place that we're going to execute. But we would tell you that we think our shares are on sale every day, and we are going to repurchase more shares this year than we did last year. And you're going to see that share count go down in the second quarter, in the third quarter, and in the fourth quarter.

Erika Najarian - *BofA Merrill Lynch - Analyst*

Great.

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

And the reason we can do that is because the earnings of the Company, just think about it. And that's the fundamental driver here.

Erika Najarian - *BofA Merrill Lynch - Analyst*

And so as a follow-up to that, you're clearly an earnings machine and you have plenty of excess capital any way you measure it. I'm wondering, John, how are you -- could you update us on how you're thinking about what potential acquisition opportunities there could be, in terms of helping enhance particularly some of your fee businesses?

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

Sure. We don't need to do anything, and that's the beauty here. But we're always looking at things in an opportunistic way. The biggest capital required acquisitions or the ones that use the most capital are deposit businesses. We are, of course, at a level now where we're already at the cap

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or over it. The things that we look at are, is there a way to enhance wealth, brokerage, retirement, possibly, and that would be interesting to us; portfolio purchases; we announced something with Dillard's recently. These are the things that we like doing. We like the [car] business. What we're doing, if there can be an add here or there.

So I would think of it as bolt-on businesses and not think of it in the way of transformational. But again, if we don't do anything, that's also fine.

Erika Najarian - *BofA Merrill Lynch - Analyst*

Great. Thank you for answering my questions.

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

Thank you.

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

Thank you, Erika.

Operator

Your next question will come from the line of John McDonald with Sanford Bernstein. Please go ahead.

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

Hello. Good morning, guys.

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

Hi, John.

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

Couple of quick questions, Tim, wanted to nitpick on net interest income. How much did the day count hurt NII dollars in the first quarter? And then, when you say that you think you can grow net interest income for the rest of the year, I assume you mean starting from the 1Q starting point. Is that a good way to read what your comment was there?

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

John, that's correct. So from the first-quarter starting point, we believe that we're going to grow net interest income throughout the year, similar to what we did last year. The impact of a couple of days was somewhere in the $120 million to $130 million range.

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

Okay.

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

A quarter.

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

And then in terms of investing cash with rates coming down this quarter, it doesn't look like you did too much deployment this quarter. Could you comment on that? There was some movement in the held-to-maturity investments; it looked like they went up. But can you comment on what happened this quarter on cash deployment?

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

Sure. The good news is that the first call on cash deployment is always for loan growth, and you saw good loan growth year over year and on a sequential quarter basis, so we were very excited about that. But you're right, rates have been pretty volatile this quarter.

There have been times during the quarter when they were more attractive from our perspective, and we did accelerate some of our investments. Most of the purchases that we made in the quarter, which were about $13 billion on a gross basis, were in the held-to-maturity category, and we specifically purchased some more treasuries.

Every quarter has a little bit different complexion. You've seen us be more aggressive, and you saw us be more aggressive, for example, in the third and the fourth quarters of last year. We will continue to invest our excess liquidity in a very appropriate way. But you're right, rates are a little bit lower than we find attractive today.

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

Okay. And then on the volatile sources, is there a -- where are we on that this quarter? Is there a multi-quarter average or that you can compare? Were those volatile sources below average this quarter? Is there any way to contextualize that?

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

Well, the variable income, particularly related to PCI resolutions, was, I would say, above average in the fourth quarter. This quarter, if there is such an average for a volatile item, which was hard to (inaudible) to be honest, is a little bit of a challenge. But I would say this quarter is a little bit more typical than what we've seen.

Now, there are other items in the variable category, like loan fees and resolutions and things like that. But the fourth quarter was a little bit higher and this feels a little bit more typical.

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

Okay. And then can you have any comment on where you are in preparations for the OLA? I know the rules aren't finished yet, but is there any quantification of available [billing] resources or what level of potential requirement you might be preparing for to help us think of how far along we are?

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

Sure. Again, it's similar to the LCR question, and that is we don't know what the final rules look like yet. We're hearing the same things that you probably are, that it's going to be based on the required level of Tier 1 common equity here in the US, and then some sort of metric that is going to be reflective of risk in the underlying companies. The good news is that our business model is a little bit less risky than others, and that, I think, should benefits us.

Based upon what we're hearing, we don't anticipate any significant changes in the level of our long-term debt. But having said that, I don't know what the final rules are going to be. My understanding is that they could be released sometime this quarter, could be next quarter. We'll adjust. I wouldn't anticipate it having a material impact on the operations of the Company.

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

Okay. And then the last thing from me, on reserve releases, can you give us underneath the service what's driving the reserve release in terms of category? I assume there's not much that you're releasing out of the commercial book anymore. Is it really, to the extent you see further reserve releases, is it coming out of mortgage and home equity?

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

I would say, John, it's predominantly, but not completely consumer-driven. You've seen -- and it's a reflection of the fact that the underlying credit quality of the Company continues to improve. Think about the quality of the loans that we've originated post-crisis, the loan losses, credit quality are very, very good. And so our expectation is that while our loan loss reserve release was down this quarter from the prior quarter and from the prior quarter before that, we do anticipate future releases. But it's primarily consumer-driven.

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

Okay. Great. Thank you.

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

Thank you, John.

Operator

Your next question will come from the line of Moshe Orenbuch with Credit Suisse. Please go ahead with your question.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great, thank you. You had alluded to, Tim, before, the idea of bolt-on-type acquisitions. Is there a maximum size that you would think about in portfolio acquisitions? And if it's what used to be thought of as a specialty finance business, but has perhaps, Internet-based deposits, does that qualify as a bank? Does that restrict you? How do you think about those two questions as it relates to the acquisition possibilities?

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

Moshe, I don't think there would be any difference in how we would view Internet-based deposits versus more traditional deposits; deposits are going to be viewed as deposits. And as John mentioned, they're -- it's not a business that we can buy.

Clearly, we have adequate capital to run our business and excess capital, which we primarily want to return to our shareholders, so we have the capacity to do a relatively large acquisition. However, our focus is going to continue to be on running the business. As John said, we don't really need to do an acquisition to continue to grow. If you look at some of the sizes of the acquisitions that we've done over the last few years, the largest have been portfolio acquisitions, and I think the largest was $4 billion, $4.5 billion. So we can clearly do something to that size and really not miss a beat.

Could we do something a little bit larger than that? Sure, we could. But as you know, we're pretty discriminating in terms of what we want to acquire, so I wouldn't anticipate us making any big splash in the near future.

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

Let me just make sure we're all on the same page here. Tim's absolutely right; our best opportunity to increase shareholder value is run our existing businesses even better. We have huge opportunity. We have this diversified business model, this culture. 97% of our revenues are here in the US. It's still a very fragmented market. This is where the opportunity is, and we don't need to do anything. If we do, it would be clearly accretive, and it would look opportunistic to you and to us, but our focus is on running the business.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great. One of the things on the mortgage side that the trade pressed had said a lot about is that basically a lot of the origination growth has come in the non-banks. Could you talk a little about your strategies from a market-share standpoint, given that there's been this growth coming from outside of the traditional banking industry?

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

I think that's a fair point. We're not overly concerned about that, though obviously, we've got to be cognizant of our competition. And the reason for that is we have the best distribution in the entire market. We have number-one market share. We have a very experienced team. We've got over 6,200 stores, retail locations, plus additional mortgage offices. And I don't think anybody's better positioned to take advantage of the business, and we view it as a core business. We are growing this business and we want to continue to grow the business. We're not concerned about that.

So we're going to have competition. We have non-bank competition in every one of our businesses. John, I don't know if you want to --

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

Sure, 50% of the US population and 50% of the businesses in America reside within two miles of one of our stores, just think of that. And while people a lot of times join us online, they pick the location -- they pick the provider that they're familiar with or that's close by them, because they still use the store, even for the millennials, who are very technologically advanced and savvy. So this is really a very important part of what we're doing.

Moshe Orenbuch - *Credit Suisse - Analyst*

Okay.

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

So we don't -- and we don't focus necessarily just on share for share's sake. We focus on adding value and meeting the needs of our customers.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great. Just one last nit-picky question: if you look at the yield on the loan portfolio, commercial and commercial mortgage loans, about $300 billion, had some pretty sizable drops in the yield. Was that part of the restatement? Was that a PCI thing, or was there something else going on there?

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

It was mostly related to the decline in the PCI resolutions, Mo.

Moshe Orenbuch - *Credit Suisse - Analyst*

Got it. Okay. Thank you.

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

Thank you, Moshe.

Operator

Your next question will come from the line of Joe Morford with RBC Capital Markets. Please go ahead.

Joe Morford - *RBC Capital Markets - Analyst*

Good morning, everyone.

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

Hello, Joe.

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

Good morning, Joe.

Joe Morford - *RBC Capital Markets - Analyst*

Just wondered if perhaps you could give us any more clarity on the relative change in the mortgage-related production expenses quarter to quarter or sequentially, based on the cutbacks you announced in the back half of last year?

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

Well, they were down. I wouldn't -- the way that I would think about it, Joe, is that we've been responding to the decline in the refinance activity, and we started to do that in the summer and throughout the fall and through the winter. We think we're appropriately staffed right now to take advantage of the spring selling season. And so there will be a little bit of a reduction in terms of the base level of expense because of the changes -- or the decisions that we made in the first quarter in terms of the number of people, when you think about the second quarter.

But we're hopeful, candidly, that the expenses rise in the mortgage business in the second quarter, because that's going to be reflective of the fact that revenue -- or that originations are up and there will be more incentive-based compensation.

Joe Morford - *RBC Capital Markets - Analyst*

Okay. That makes sense. Beyond that, the other question would be beyond mortgage, do you see weather having any factor in your loan-growth trends this quarter? Maybe another way of looking at it is how did the pipeline look at quarter end, relative to three months ago? Or how do you see loan growth progressing through the year?

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

Loan growth in general or in mortgage, Joe?

Joe Morford - *RBC Capital Markets - Analyst*

Beyond mortgage, other categories.

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

The pipelines looked good. I think we were really pleased.

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

First quarter.

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

$4 billion-plus growth on a net basis and $7 billion in the first quarter, that's a really good first quarter, number one, in an absolute number.

The other thing that was exciting from our of perspective is how broad-based it was. It wasn't in any one, specific business. It was in our commercial and wholesale businesses. It was in many of our consumer-lending businesses. And it was in the relationships we have in the wealth, brokerage and retirement business, so it is very broad-based. So we're optimistic about continued loan growth.

I don't know what the number's going to be, but none of our businesses are saying that they don't think they can grow loans for the rest of the year.

Joe Morford - *RBC Capital Markets - Analyst*

Okay. Thank you for the update.

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

Thank you.

Operator

Your next question will come from the line of Chris Mutascio with KBW. Please go ahead.

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

Good morning, John and Tim. Good morning, how are you guys doing?

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

Good.

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

Good, Chris.

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

First, Tim, good luck in the new role. And if Dave is listening, congratulations on his pending retirement. I'm pretty jealous of that. Tim, I wanted to ask you a quick question, actually two quick questions.

On the gross servicing in the mortgage side, on page 39 of the release, before hedging and before any fair value adjustments, you had a pretty good increase, about a 15% increase in the gross servicing income from fourth quarter to first quarter. What would drive such a big increase, despite the fact the portfolio was roughly the same size? Does the lower expenses on foreclosures impact that gross servicing income?

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

Yes, a fair point. When you look at that page, you see that we originated -- our servicing fees were over $1 billion, which was terrific. Now, you can look back and see that phenomenon in the second quarter of last year too. But it's primarily driven by the point you just made, Chris, and that is that the quality of the portfolio is better and that's a good thing. It's primarily a lack of late charges and special servicing fees and the like.

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

Okay, and unrelated question backing in on the reserve. You're releasing about 10 -- I won't say releasing, but the reserve ratio has been going down about 10 basis points, plus or minus, for the last couple quarters, per quarter. At that rate, if that were to continue, you would be at a reserve ratio to loans of in the 130, 135 range by the end of the year. Is that something that you're comfortable going to in the environment that we're in right now, in terms of the regulatory environment?

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

Chris, candidly, I didn't know that -- I didn't appreciate the math that you just described, that it's been about 10 basis points a quarter. If it has been, it's been accidental more than anything. It's really a function of the improvement, the underlying improvement in the portfolio. I think that that ratio will continue to improve. I don't know where -- we don't know where it's going to land. It's going to be a function of the portfolio -- the performance of the portfolio. But it's definitely going to go down.

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

Okay. Thank you.

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

Thank you.

Operator

Your next question will come from the line of Brian Foran with Autonomous. Please go ahead.

Brian Foran - *Autonomous Research LLP - Analyst*

Good morning.

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

Good morning, Brian.

Brian Foran - *Autonomous Research LLP - Analyst*

I was wondering if I could ask about the Basel III capital. And over the past couple quarters, it's grown faster than a simple model of earnings plus dividend less buybacks, and linking RWA growth with asset growth would imply. Is that something -- what's been the main drivers of that?

And as we look forward, do you think the Basel III ratio continues to grow faster than that simplistic view would imply? Or is it going to converge with the normal earnings growth rate?

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

Well, Brian, it's a good question, and the whole topic is a little bit complicated, primarily, because we've had a number of rule changes and rule interpretations by the entire industry, number one. We, if you recall in the third quarter, we did reduce our RWA, and we called out some specific items in the third quarter to reduce our risk-weighted assets. But I think the trend, in terms of being different than the basic math that you described, it's more likely that it's going to be closer to the basic math than just you described than not.

Candidly, it will continue to be a function of the underlying risk within the portfolio. That is the primary driver. If we can continue to improve credit quality, continue to improve market risk, continue to improve operational risk, those will be the big drivers, because that's what the new methodology is based upon.

Brian Foran - *Autonomous Research LLP - Analyst*

Appreciate that. On the LCR, I know the rules aren't finalized, so all this is prospective, as opposed to anything you'd be doing now. But at a very simplistic level, it seems to raise the value of retail deposits and lower the value of commercial deposits relative to each other, because the retail deposit runoff assumptions are so much lower. How big a deal is that? Is that something that just hit the margin? Maybe thoughts with the mix of commercial deposits or something, or as currently written, is that a bigger deal that actually shifts the focus of industry deposit gathering?

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

I don't think it's going to fundamentally shift how we think about gathering deposits. John, you may have a different view, but anytime we can bring in and broaden relationship with one of our retail or commercial customers, we want to do that. We want their deposits in. What we don't like is our wholesale deposits in the more traditional defined sense, or hot money, things like that. That's not the -- we're looking for long-term relationships.

But even in the most extreme interpretation of the new rules, we still want to grow our commercial deposits. And again, that's because we have such a large deposit base. We're not overly concerned about the impact, in terms of how it affects the LCR. But we'll know that what the rules look like and the impact I'm sure later this year.

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

Brian, Tim's absolutely right. We love deposits when they are part of a primary relationship. And we like them at times when some were asking us why are you growing deposits, because you can't utilize them. And we said, it's good for long-term shareholder value.

We have a fixed infrastructure, and the more customers we can serve with that fixed infrastructure, magic happens, not always every quarter, and sure, we're all looking for earning assets. But I'll take all the deposits we can get that are part of a primary relationship, and we cross-sell off that, and it's a major driver in customer loyalty. So it's a big emphasis here for us.

Brian Foran - *Autonomous Research LLP - Analyst*

Thank you for taking my questions.

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

Thank you.

Operator

Your next question will come from the line of Ken Usdin with Jefferies. Please go ahead.

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

Hello, Ken.

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

Hello, Ken.

Ken Usdin - *Jefferies & Company - Analyst*

Hello, guys, how are you doing?

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

Good.

Ken Usdin - *Jefferies & Company - Analyst*

I wanted to follow up on the deposit-side question. With you guys sounding pretty confident about the loan pipeline, we're also continuing to see a very strong amount of deposit growth from you guys, as well as in the industry. And I'm wondering are there any undercurrents where you are at least starting to see customers use deposits to fund their businesses? Or do you think we're into a new regime where it's all about building the relationship and continuing to see deposits grow while loans grow better. I guess the question is what's different, if anything, as far as how you're seeing loan pipelines grow versus deposit growth continuing?

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

Let me take a shot at that. You're right, what you typically see, Ken, is when loans start to grow, the people -- customers tend to use their own cash first. So there is some of that going on, but there's a lot of liquidity in the system. People are saving more. Americans save more now than they did in the last decade or two. And frankly, our delivery, the health of our retail delivery system, when I say the health, I mean the online and the stores and the ATMs, and the mobile and phone, all of it working together as an omni-channel, is a very compelling value proposition for businesses and consumers, and we're getting a disproportionate share. So that is -- and we just love that. So and I would also say this: our deposit franchise is probably undervalued today, given where absolute rates are, and that will change over time.

The other thing that's happened is we probably have a better set of competitors today than we've had, more rational competitors, as in the past. So it's a combination of a lot of things, and we're expecting to continue to see strong growth. When I look back at five years ago, when we merged with Wachovia, if you'd exclude CDs, we had about $650 billion of deposits. Today, if you exclude CDs, we have about [$1.050] trillion. We've grown $400 billion in five years.

Ken Usdin - *Jefferies & Company - Analyst*

Yes. Great. My second question, IB was soft, as it was for the industry, on a quarter-to-quarter basis and some of that is seasonal. But I wanted to get your comments on your thoughts about market-share opportunities and where you think the IB pipeline looks from here.

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

We continue to be optimistic about the growth in our investment banking business, and the reason for that is that most of the business that we're doing in investment banking is with existing Wells Fargo customers who already have a relationship across the board. And so, because we haven't penetrated those customers as much as we'd like, we still think that there's a lot of opportunity there.

The share -- your market share is a result of focusing on customers and clients, as opposed to trying to get to a specific market-share number. But you're right, we understand that that business can be a little bit volatile. We were down a bit this quarter. Hopefully, we'll be up in the second quarter and the third quarter. But as long as we focus on our clients and on the overall relationship, particularly those that are already, we've got a good chance to continue to grow the business.

Ken Usdin - *Jefferies & Company - Analyst*

Okay. Then my last real quick one is you mentioned the discrete tax benefit in the first quarter. Can you clarify what your expectation is for the tax rate for the rest of the year?

THOMSON REUTERS

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

Sure. The expectation is it's likely the tax rate is going to go up. I'd love to be able to tell you that we could have that kind of tax benefit every quarter, but I sure wouldn't plan on it. I think it's more likely that the tax rate for the rest of the quarter, which obviously is going to be very dependent on how much money we earn, and we're looking forward to growing revenues and growing income over time. But I think it's more likely that that tax rate's going to be in the low 30%s.

Ken Usdin - *Jefferies & Company - Analyst*

Okay. So back to historical. Okay. Got it. Thank you, guys.

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

Thank you.

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

Thank you.

Operator

Your next question will come from the line of Mike Mayo with CLSA. Please go ahead.

Mike Mayo - *Credit Agricole Securities - Analyst*

Good morning.

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

Hello, Mike.

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

Good morning, Mike.

Mike Mayo - *Credit Agricole Securities - Analyst*

So Tim, I'm looking at this and thinking what are you leaving your successor, 17 quarters in a row of higher EPS? That's tough to continue. I know I've been asking this several quarters, but if you take out, I estimate $0.07 benefit due to the lower tax rate, that's a trend that's going to maybe be tough to continue. I don't know, what's your thought about that?

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

Mike, I'd love to take credit for 17 quarters of consecutive earnings growth, but there's another 264,999 people around here that really get the credit for it. And it's not about what we do every quarter. Obviously, we're very proud of not only the last 17 quarters, but the last five years where we've grown earnings on a compounded rate of 16%. So the trend has gone on for a long period of time.

But every quarter's a little bit different, and the second quarter is going to have a different complexion that the first and the fourth and the third of last year. But we continue to be optimistic, Mike.

Mike Mayo - *Credit Agricole Securities - Analyst*

To ask it a little bit differently, revenues are down 3% year over year, and it's good. Expenses are down 4%, and that's helped efficiency improve from close to 59%, down to 58%. But that's still in the high end of your target of 55% to 59%. So did you guys not get as much in savings as you would have liked, or is that a future opportunity?

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

We continue to -- our goal of improving the efficiency of the Company. We provided a range of 55% to 59% a couple of years ago, and we haven't gotten to the 55% level. That's clearly a goal that we'd like to achieve sometime. We think the improvement that we've made year over year on a sequential quarter basis to get back to 57.9% has been very good. But I'm hopeful that the primary reason that the dollar expenses could continue to grow in the Company is because revenue is going to grow. That's a good thing, and that's why we focus on efficiency.

So there's still a lot of opportunity in terms of becoming more efficient at Wells Fargo. We're not done yet.

Mike Mayo - *Credit Agricole Securities - Analyst*

On the expense side, can you elaborate on a few of the key initiatives that might move that efficiency ratio to the lower end of the range?

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

Sure. There's not really any one key efficiency project, Mike. We're a large Company. We have lots of different businesses, and each business is focused on improving efficiency.

But for example, we're focused on the amount of space that we have. We've done a great job in terms of reducing the amount of square footage we have in the Company. But the fact of the matter is, our people, our team members are working differently than they did 10 years ago and five years ago. They're spending more time with customers and less time in the office, so we have an opportunity to reduce occupancy cost and reduce our square footage over time. That would be an example.

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

Mike, something else you could think about is that we still have a number of loss-mitigation folks, as we're still working with elevated foreclosure and those kinds of issues. On the other hand, we're investing more in operational risk and compliance and those fort of things.

So you're right, we're at the higher end of that range or -- on the other hand, as you know, that's a ratio. It's a numerator, expenses divided by revenue, and we have seen revenue because of interest rates on the margin, margin revenues, while we've been able to grow NII, it's -- those numbers are not at -- the margin's not at an all-time high. As that improves, that will also give you some lift.

Whatever we do here, we will be very careful about what we spend money on, but never at the expense of the long term. But we're focused on it, and it's a good point you bring up.

Mike Mayo - *Credit Agricole Securities - Analyst*

And that's why I brought up revenues are down year over year, and you're still at the high end of the efficiency range. I guess we'll hear more about that at the investor conference.

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

Actually, I think that's actually a good thing. Think of revenue is down and we actually improved the efficiency ratio. So we are -- but there's opportunity. You're right, we will talk more about that.

Mike Mayo - *Credit Agricole Securities - Analyst*

And then, if you can elaborate on the management changes, John. I guess you're gearing for the next generation. How much longer do you plan to stay around, and who would be in the pool of potential successors?

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

I'm glad you asked that. I was going to give you that information. I'm 60. I know you think I look a lot younger, but I plan to stay here. The Board is okay with that, and they want me through my 65th birthday and we've got great people here. We have a terrific team of leaders and you know some of them. I wish you could know more.

For those of you who come to our investor conference next month, you'll get to meet more of them. Please come. That's one of the reasons we'd love to show you more of them. But this is a great team and I couldn't be more confident. In fact, I think it's the best team in the industry.

One thing, even though -- and Dave has been such a great leader. Even with his leaving, the average tenure of my 10 direct reports is still around 28 years with this Company.

Mike Mayo - *Credit Agricole Securities - Analyst*

Thank you.

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

Thank you.

Operator

Your next question will come from the line of Matt O'Connor with Deutsche Bank. Please go ahead.

Matt O'Connor - *Deutsche Bank - Analyst*

Hello, guys.

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

Hello, Matt.

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

Hello, Matt.

Matt O'Connor - *Deutsche Bank - Analyst*

I'm sorry if I missed it, but did you provide the estimated leverage ratio under the new rules that came out last week or this week?

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

Matt, we didn't, and we're still working through that calculation. But just assume that at the parent Company level we're comfortably above 7%. So it's really not an issue for us.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay, and that leads me to my next question. If we look at the three banks that are bigger than you, I think when you put together all the new requirements out there for capital liquidity, it's a bit more onerous for them than it is for you. I'm wondering are you actually seeing them pull back in certain areas that you now feel like you can compete in? And has that changed since last June, when we first got the current proposal for the SLR?

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

Matt, I wish that was the case. The business is very competitive across the board today, and we expect that all of our competitors are going to adjust to whatever the new rules are. We've candidly been doing that since 2009. But it's a competitive market out there, and hopefully for whatever reason, we can continue to grow.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. And then lastly, a number of lumpy revenue items or the tax gain, anything on the expense side, besides this seasonal increase in cost that you'd want to point out, like litigation costs or anything else lumpy that we should be thinking about?

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

No, not beyond the seasonal items in the first quarter, but again, I want to emphasize that you should expect some increases in other line items within expenses in the second quarter that I called out. But nothing in the quarter that was lumpy from an expense standpoint, other than the seasonal compensation-related items.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. And I guess on that expense outlook, when you piece together the decline and some of the seasonal benefits and increases elsewhere, if we hold revenue flat quarter to quarter, do expenses stay flat, or go up or down, or what's the net of all the items?

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

Matt, we'll know for sure in about 90 days, and I don't know what the exact dollar expenses will be. But one of the reasons why we -- why I called out some of the categories is we do think some of those categories are going to rise relative to their first-quarter numbers. But again, a lot of our expenses are driven off revenue, and if revenues are higher in the second quarter and that's the reason that expenses are up, I think we'll all be very, very happy.

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

I don't think any of us look to the future and say let's hold revenues flat. No.

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

We think we're a growth Company.

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

Yes.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. Thank you.

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

Thank you. Thank you, Matt.

Operator

Your next question will come from the line of Marty Mosby with Guggenheim. Please go ahead.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

Thank you. I wanted to talk a little about the macro hedge in the mortgage side. The servicing profitability has actually tripled since last year, going from $300 million to about $900 million per quarter. Now represents more than 50% of the mortgage banking income. So I wanted to talk about and get your feelings on further improvements in that as we move forward, and had a few precise questions about some items that could help there as well.

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

Well, Marty, you're absolutely correct that the -- our servicing income is up significantly over the past few years or the past few quarters, as you can see. The drivers are primarily the fact that the underlying quality of the portfolio continues to improve. So there's less adjustments that we need to take to the value for things like foreclosure costs, to make any changes related to the consent order, or servicing settlement, and so on and so forth.

And in terms of the hedge, I wouldn't think about it as a macro hedge. It's a very complicated set of hedging activities that we need to do. We've got a large group of people that does it. They're very experienced.

But as we've talked about in the past, we're not trying to make any macro bets from an interest-rate standpoint or in terms of a market standpoint. We're trying to generate a predictable set of earnings from an underlying business that we like a lot. It was very beneficial when we went through the refinancing boom, and we believe can continue to provide good earnings.

You're absolutely correct, that it's a larger portion of earnings than maybe the origination side, but my guess is that's going to change from quarter to quarter depending upon origination volume.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

And when I meant macro hedge, I meant more originations versus servicing, not hedging of the service portfolio.

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

You're right. Again, I think sometimes, folks think that somehow that servicing business is a natural hedge to origination volume, and given the -- what we've seen over the last year or so, given the size of the refinance opportunity, we can see that really wasn't the case.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

To some [port], but not completely.

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

Correct.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

When you look at the prepayment speeds not really accelerating, with refinance not really coming off the floor, you still wrote down the MSRs about $400 million this quarter. I know rates came back in, but really cash flows are what matter more than just the rates. The rate is a proxy, but if you don't get a significant increase in prepayment speeds, there really shouldn't be further write-downs in the portfolio at this point. So I was curious what you thought or what was driving that write-down this quarter.

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

You're absolutely correct that rates are a driver, and we've seen a lot of volatility in rates for certain. But again, rates are the primary driver. Also, underlying prepayments fees that we're seeing for other reasons in terms of how quickly folks are selling their homes and moving elsewhere. But our best guess is if -- that we could continue to see some benefit from the servicing portfolio.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

And then lastly, the provision for unfunded commitments jumped up this quarter, about $250 million. Is that something we should see at the same level, or is that something you made a little adjustment on this quarter that might fall back as you move forward?

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

It's a reflection of the fact that our loan commitments grew, which is a good thing, but also we adjusted some of our estimates. And I wouldn't anticipate that that would repeat itself on a quarterly basis.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

All right. Thank you.

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

Thank you.

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

Thank you.

Operator

Your next question will come from the line of Nancy Bush with NAB Research, LLC. Please go ahead.

Nancy Bush - *NAB Research - Analyst*

Good morning, guys. How are you?

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

Hello, Nancy.

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

Hello, Nancy.

Nancy Bush - *NAB Research - Analyst*

A question for you that I think John McDonald asked the question about the release in loan loss reserves, and I would ask for an additional detail on that. How much of this release was enabled by the reserves you built after the Wachovia deal? In other words, how much or how many of these reserves are related to better credit quality at Wachovia than you had anticipated?

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

I don't have the percentage off the top of my head, Nancy. I think what you saw is that we continued to build reserves throughout 2009, and I'm trying to remember what quarter we stopped building reserves. I thought it was through most of 2009. But I would say it's a reflection of clearly, improved credit quality in the underlying portfolio that we inherited from Wachovia, as well as the Wells portfolio.

I don't know what the percentage is related to that, because today it's really all mixed. We don't really think about it that way.

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

But Nancy, you are right to this extent: the Wachovia portfolio turned out to be better than we had thought. And if you look at how much we've moved from on the PCI side into the accretable from the non-accretable, and we especially did a lot better on the [pick a pay]. We had a terrific team that attacked that early on. But credit turned out, I think, partly because of things that we did, it turned out to be quite a lot better.

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

But Nancy, again, to reinforce John's last comment, and I should have mentioned it, most of the improvement that we saw in the Wachovia portfolio was really in the -- what you see in PCI and the detail we provide there, as opposed to in the loan-loss reserve.

Nancy Bush - *NAB Research - Analyst*

Okay. Secondly, this is a tangential credit quality question, and it has to do with Dave Hoyt's decision to retire. Number one, Tim, congratulations, but with the admonition that timing is everything in life.

And secondly, Dave Hoyt was the best in the industry at two things: number one, not answering a question; he was expert at that. But number two, foreseeing credit quality trends way in advance. And I have had the question from others, and I'm a little bit concerned that Dave is looking out into the future here and seeing that commercial credit quality is about as good as it's going to get. Could you comment on that?

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

Well, Nancy, I worked for Dave for about 20 years, and he absolutely was a terrific judge of credit quality. I think if Dave was on the phone, he'd also say that there were hundreds if not thousands of people that were behind him in wholesale banking that helped in that. And so there's no question that Dave's retirement is something that we weren't looking forward to.

But we have a great team here, and I would not read into his retirement as him saying from here on in, credit quality is going to significantly deteriorate at Wells Fargo. In fact, I think it's more likely that it's going to continue to improve.

The likelihood in the commercial portfolio that we're going to continue to have quarters of recovery as opposed to loan losses, that's not going to happen forever. The fact of the matter is that culture really matters, and the culture that we have in the wholesale banking group in terms of making good credit decisions, is going to continue on, because that's what Dave was very good at instilling in 1000s of people within the wholesale banking group.

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

And I can tell you from my perspective, and while I've not had that much time with Dave, I've only had 16 years with him, he is retiring. He has a fabulous family, including grandchildren. He has a lot of other interests and he felt it was right for him. And while we're sad to see him go, we celebrate with him his next stage. And as Tim mentioned, his legacy are the thousands of people that he has led that are in leadership roles right now that continue to propel this business forward.

Nancy Bush - *NAB Research - Analyst*

Well, please let him know that I'm sure I'm not the only analyst who's going to miss sparring with him. One other thing, on private equity, the gains you had, you guys have long had an expertise in technology, private equity investments, and is that still or is that the primary source of a lot of the gains this quarter?

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

It was a source of some of the gains, Nancy, but it was really real across the board. We had, as I mentioned, about the same resolutions, I'd say about 50% were in technology related, the other 50% weren't. We're very pleased with the gains that we had this quarter. But as you can appreciate, you can't count on those at the same level every quarter. I wish we could.

But this is a very buoyant time in the equity markets, both public and private, notwithstanding some of the market volatility over the last couple of days, and we've got good management teams. As you said, we've been in the business for a long time, so we continue to be optimistic about the long-term success of those businesses, but quarter to quarter it's going to be what it's going to be.

Nancy Bush - *NAB Research - Analyst*

All right. Thank you very much.

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

Thank you, Nancy.

Operator

Your next question will come from the line of Paul Miller with FBR Capital Markets. Please go ahead.

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

Hello, Paul.

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

Hello, Paul.

Jessica Ribner - *FBR Capital Markets - Analyst*

Hi, this is actually Jessica Ribner for Paul. How are you? Well.

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

We've upgraded. How are you, Jessica?

Jessica Ribner - *FBR Capital Markets - Analyst*

You have upgraded. It's true, and then he's going to read the transcripts.

You guys have actually shrunk your market share almost 50% to about 16% over the last couple quarters -- or the last few quarters, I should say. But you're also talking about growing it. Where do you see that going?

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

Sure. It's a good question. Again, if you step back and think about the time at which in the cycle that our market share was so high, arguably two times, maybe a little bit less than that, it was because the primary source of mortgage origination volume, depending upon the quarter, could have been two-thirds of volume or three-quarters of volume, or even more in some quarters, was refinance volume. And that's reflected the fact that we're the largest servicer, we had the highest quality servicing portfolio, and generally those customers gave us the first call and we were able to meet their needs by refinancing that mortgage.

And we had indicated that we thought that as the refinancing volume declined, and as the mix changed to more of a purchase money market, our market share would go down, so that was absolutely anticipated. But we don't think of the business as a market-share business. We think about it as how do we solve the needs of our customers? Do we have the right number of people in the right places?

As John mentioned, we've got the best distribution system in the market, and so we're optimistic about being able to grow. Whether that means we'll grow market share, I don't know, but we're optimistic about growth in the business.

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

Jessie, the other thing you should think about is that the 16%, or whatever that number is, 16% or 17%, part of it is an aggregation business where we do correspondent banking business, which is -- we love that business, but it's a lower margin business. And part of it is a retail business, where we actually originate the loan through one of our home mortgage consultants.

Some of the correspondent business is going directly to Fannie and Freddie. That business is actually changing a bit. So when you look even at the time where we had maybe double that share, you have to look at both sides of that. And while I focus on all of it, it's also important to make that distinguishment.

Jessica Ribner - *FBR Capital Markets - Analyst*

Okay. Well, thank you. And then a related question. You guys said earlier on the call that you added about $7.2 billion of, it sounds like, jumbo mortgages on the balance sheet. Is that correct?

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

No. Our loan growth was primarily, on a gross basis for the quarter, was about $7 billion point to point. The growth in nonconforming mortgages on a gross basis, which would be the jumbo category, was about $5.8 billion.

Jessica Ribner - *FBR Capital Markets - Analyst*

Okay. And where do you see that trend going?

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

Hopefully it will continue to go up. I think that one of the areas that we indicated a couple of years ago at our Investor Day was a real effort on the part of our team in the wealth area, as well as in our retail banking area, to coordinate more on those opportunities, and they've done a terrific job. So we're hopeful with the improvement in the weather and the spring selling season that we'll continue to see that grow over time.

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

The ones we put on portfolio are a very small part of the originations. It's less than 5% or so. So there's opportunity there.

Jessica Ribner - *FBR Capital Markets - Analyst*

Okay. Great. Well, thank you very much.

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

Thank you.

Operator

Your next question will come from the line of Keith Murray with ISI. Please go ahead.

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

Hello, Keith.

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

Hello, Keith.

Keith Murray - *Nomura Asset Management - Analyst*

Actually Keith Murray for Keith Murray, so it's a bit of a downgrade for you guys. Sorry.

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

No, we still think that's an upgrade.

Keith Murray - *Nomura Asset Management - Analyst*

Thank you very much. On all the new rules, you've got Basel III, you've got SLR, you've got LRC. When you think about loan pricing, and pricing for commitments, has that all been factored in yet? And are you still working through the changes that will have to be made?

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

Really good question. I don't believe that the industry, set us aside for a minute, the industry has necessarily adjusted yet, because the capital rules have just been finalized. The leverage rules, for example, are relatively new, and we haven't seen the final liquidity rules. I'm sure there will be some adjustments, just like there's been adjustments to all the other new rules and regulations that we have post-crisis. So I think it's more in the future than in the past.

Keith Murray - *Nomura Asset Management - Analyst*

Okay. And then are you seeing much impact from non-bank lenders out there? Every private equity firm, non-banks, you're seeing a lot of them try to do more loans to middle-market firms. Are you seeing much impact at all?

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

There's no question that post-crisis, given a lot of the regulatory change, it's created opportunities for unregulated or differently regulated institutions. That's been the case for as long as I've been in the lending business and been with the bank.

I think the important point to make is that generally, those firms frequently are very good, are mono-line firms. That is, they have one product. They can provide credit. How we differentiate ourselves is that we have relationships and that we can provide tens of products or more and broaden that relationship. So we don't find ourselves losing a lot of business to non-banks.

I also think that generally, the competitive environment is a little bit more rational than it would be today. But again, we have a real advantage when we compete against a mono-line product provider versus our relationship focus and cross-sell orientation.

Keith Murray - *Nomura Asset Management - Analyst*

Thank you. And then finally, on fee-based businesses that you have, if you look out for the rest of this year and through 2015, which of those businesses do you think has the most potential upside for revenue growth?

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

We really like -- we like all of our businesses. In fact, we think there's growth opportunity. But if you -- a couple of them jump out. Wealth, brokerage, retirement, you saw that, we're up 41%. I don't think we can do 41% every quarter or every year, but that's a huge growth opportunity for us.

The card business, we think we've got some exciting things happening there, but that doesn't diminish anything else. We have opportunities with what we're doing internationally, because we have more of our US customers doing business there. We have opportunity in our capital markets businesses. And even mortgage where you think -- where people would say, you have the number-one share. There's huge opportunity there; 50% of our customers who call us their bank who have a mortgage don't do it with us. So there's all kinds of opportunity here.

Keith Murray - *Nomura Asset Management - Analyst*

Okay. Thank you.

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

Thank you.

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

Thank you.

Operator

Your next question will come from the line of Eric Wasserstrom with SunTrust Robinson Humphrey. Please go ahead.

Eric Wasserstrom - *SunTrust Robinson Humphrey - Analyst*

Thank you very much. Hello. A couple of follow-up questions. One is, I notice that your card fees declined by about the same amount as they did in the first quarter of last year. But in terms of your actual charge volumes, was there any decline that was more than what is typically seasonal in this first quarter?

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

No, not at all.

Eric Wasserstrom - *SunTrust Robinson Humphrey - Analyst*

So in other words, no disruption from weather or any other exogenous -- temporary unemployment or any other exogenous factor.

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

No, not at all.

Eric Wasserstrom - *SunTrust Robinson Humphrey - Analyst*

Okay. And turning to the gain on sale trend for a moment, and I recognize that the changes weren't big, but most of the proxies that we use suggested flat. And so I'm wondering if there was anything in mix or otherwise that would have explained the decline.

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

No, there wasn't necessarily a big change in mix. That's one of the reasons why we provided a range beginning in the third quarter of last year. I think there was a concern in the market that as volume went down, that gain on sale margins would go down significantly. We think that the range that we've provided, plus or minus 1.5%, is a reasonable range to operate in. But within comparing any quarter, 5 to 10 to even 15-basis-point level of volatility is not uncommon at all.

Eric Wasserstrom - *SunTrust Robinson Humphrey - Analyst*

Great. And then lastly, getting back to Brian's question about the accretion of Basel III capital versus the growth in earnings, recognizing that there should be convergence, it also seems that the quality of the portfolio that you've originated over the past few years has lower embedded risk. So wouldn't that suggest that the -- that as the risk component becomes an increasingly important determinant of your Tier 1 under the Basel III, wouldn't that suggest that Basel III capital continues to grow ahead of what the earnings math would otherwise suggest?

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

It could, but again, because it's a more complicated calculation right now, because you've got the impact of market risk, you've got the impact of operational risk. And candidly, the operational risk calculation for the regulators as well as the entire industry continues to be a work in progress and in flux. I wouldn't want to jump to a conclusion that underlying credit quality only would be the sole driver of improvement in RWA.

Eric Wasserstrom - *SunTrust Robinson Humphrey - Analyst*

Great, and then last one from me, and I hate to come back to this topic, because it's already been addressed many times. But in terms of the reserve releases, the non-performing assets continue to come down, but many of the forward-looking credit quality indicators are starting to flatten in terms of their sequential improvement.

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

Right.

Eric Wasserstrom - *SunTrust Robinson Humphrey - Analyst*

All else equal, and of course your portfolio of loans continues to grow. So all else equal, wouldn't that indicate that the pace of reserve release should start to decline also?

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

Well, it could. And to your point, that's what you've seen over the last three quarters. We went from a $900-million release in the third quarter to $600 million last quarter to $500 million this quarter. I don't know what the release is going to be in the second quarter. We do believe we're going to have a release, but it's a fair point. This is not going to go on forever, but the fact of the matter is, the portfolio continues to improve.

Eric Wasserstrom - *SunTrust Robinson Humphrey - Analyst*

Thank you very much.

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

Thank you.

Operator

Our final question will come from the line of Derek de Vries with UBS. Please go ahead.

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

Derek?

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

Derek?

Operator

(Operator Instructions)

There is no response from that line.

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

All right. Why don't we then conclude. Let me make a couple of comments. First of all, I'd like to thank Tim Sloan for the great work he's done as our CFO. As you all know, he's going to take over the wholesale bank. Tim, thank you for the great leadership and the work you've done here. You've just been terrific.

For those of you who don't know John Shrewsberry, many of you do, you'll get to see him. If not before, but you'll surely see him when you come to our investor conference. Remember that was May 20 in San Francisco. We look forward to seeing you. It's always an exciting time for us to talk about our business and share with you the enthusiasm and some of the great people that we have.

So thank you very much for your interest in Wells Fargo, and we'll talk to you next quarter and the investor conference earlier than that. Thank you.

Operator

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