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EDITED TRANSCRIPT

USB.N - U.S. Bancorp at Goldman Sachs Financial Services Conference (Virtual)

EVENT DATE/TIME: DECEMBER 09, 2020 / 3:40PM GMT

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PRESENTATION

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. So I'm delighted to introduce our next presenters, who are Andy Cecere, Chairman and CEO of U.S. Bancorp; and Terry Dolan, who is the CFO. Between the two of them, they have almost 6 decades of experience at USB. And they are regular presenters at this conference, and we genuinely appreciate you coming back every year to update us on the strategy and on the progress that you've made.

Andy and Terry are going to give a brief presentation, and then they'll join me for a fireside chat. So Andy and Terry, over to you.

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Great. Thank you, and good morning, everyone. Thank you, Richard, for that kind introduction. It's good to see you. As you said, we're going to give just a brief commentary on the company's overall strategies and initiatives, then Terry will give an update on the quarter. And then we'll sit down and go through your questions.

On Page 2, I want to remind you that I may be referring to some forward-looking statements, so I refer you to the safe harbor statement for your information.

I know a lot of you know the company, but I just want to provide a brief overview on Page 3. The way we think about the company, just over $540 billion in assets and a market cap of $68 billion. And the way we think about how we serve our customers is on the left, in the red, you'll see where we have our branches and ATMs across 26 states, having entered our 26th state just last year in Charlotte, North Carolina with what we're calling our branch-light, digital-first strategy.

I will note that we do have customers across all 50 states with credit card, auto and mortgage loans. In the middle, in the light blue, you'll see our Corporate and Commercial, as well as our Wealth Management and Institutional Services businesses, where we serve customers across the country. And then finally, on the right in the dark blue, we have 3 international business lines: Elavon merchant processing, Corporate Trust as well as Fund Services.

Page 4, you'll see that we are the fifth largest bank in the country. And it's interesting. We're the largest non-GSIB, which gives us some advantages from a capital standpoint as well as a business regulatory standpoint. You'll also notice from this chart that we are more valuable than we are big in terms of if you compare the other bank right above us in both, you will see, we're about 1/4 of the size on size, but about half as much in terms of value.

And that's a function of a couple of things, which I'll start with the business mix, which is on Slide 5. We have 4 very simple businesses. On the left, you'll see Consumer and Business Banking, which is our traditional banking business with about 42% of our revenue, and Corporate and Commercial, about 20%. So 62% common across most banks.

But on the right, you'll see a couple of unique businesses. 1/4 of our revenue stream comes from Payment Services, which is a very capital-efficient, a valuable business to us and very important in this environment as well. And finally, as I talked about, Wealth Management and Investment Services, also pretty unique and a very large presence in Corporate Trust. This balance helps us because different businesses perform differently in different cycles and particularly the fee components are very valuable in a low interest rate environment like we're in today.

The second reason for that valuation is on Page 6, which is our long history of industry-leading returns. You see this over a 5-, 10- and 15-year period where we have the leading ROE against the peer group, which are basically the top 10 banks in the country.

And if you go to Slide 7, you'll see that is really driven by 2 things. It's not just the bottom line is the components of it. We have had the superior PPNR, pre-provision net revenue, across those same time frames as well as a less volatile charge-off rating. So in a normal environment, our charge-off rate is just a bit higher because we have a higher-than-normal credit card portfolio. But you'll see from this chart that when the challenging times come, we actually outperform our peer group in terms of having lower volatility, and that goes to our credit quality process.

As we think about the future, we're focused on 3 things: innovation, optimization and superior returns. And I'm going to talk about each of them just for a minute. So first of all, on Slide 9. If anything has accelerated in this environment, it's the drive to digital. Consumer behaviors, I think, have advanced years in just a matter of months. And right now, over 3/4 of transactions are occurring digitally, over 50% of our sales are digital. And we're very focused on that, and we've been talking about that, Richard, actually, for the last couple of years in terms of our focus in digital investments, and it's paying off very well in this environment.

The second component, on Page 10, is this concept of a payments ecosystem. We talk a lot about that, but I talked about the 25% of the pie that's payments. One of our key objectives and initiatives is around combining that into the banking slice of the pie so that we have a complete ecosystem of capabilities and services to offer customers, businesses, individuals and corporations a set of -- a packaged set of products that help them run their business, commerce, money movement and the like. And weaving that together is critically important in our view in terms of the success of the future.

On Slide 11, I have a couple of examples of this, merchant Everyday Funding and Payee Choice. Again, examples of creating an opportunity of weaving together payments with banking to solve our customers' problems.

On Page 12, I talked about innovation. And innovation and optimization go sort of hand-in-hand in my view. The opportunity to optimize allows more for investment, which allows you to optimize in sort of a virtuous circle. About 18 months ago, we announced that we were planning on closing about 10% to 15% of our branches. And that was really a function of customer behavior, as I talked about, most transactions now occurring in a digital way.

About 2 or 3 months ago, we announced that we're actually going to close an additional 15%. So in total, we will have a plan to close, by early in 2021, about 25% of our branches. Now branches are still important. But they're going to be less of a place where people go for transactions and more for advice and consultation. Therefore, they don't need to be as many, and they don't need to be as large. And that offers us opportunity in terms of optimization of physical assets.

The other thing we've talked about is this concept of expanding through partnerships. And an example on this page is State Farm, where we have an alliance able to work with 19,000 State Farm agents and million customers to offer our banking products through their network. And it's a great example of really leveraging the payments, the branch network that we have through this branch-light concept. So that is our focus from the perspective of how we're thinking about this environment.

And if I were going to simplify it on Page 13, we are trying to manage for the long term while delivering near-term results as we think about the future. And I want to ask Terry just to give an update on the quarter. In fact, we're just a few weeks from the end of the quarter, I thought it would be helpful. Terry?

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

Yes. Thank you very much, Andy, and good morning to everybody. So our outlook in the fourth quarter is very much aligned with the guidance that we gave during the third quarter earnings call. On our third quarter earnings call, we said we expected taxable equivalent net interest income to be flat to down a little in the fourth quarter. With the premium amortization coming in a little higher due to continued strong refinancing activity, net interest income is likely to be down a little in the fourth quarter compared to the third quarter. And as you know, with Premium amortization, it tends to peak a quarter or 2 after refinancings peak. And so as we think about it, we think this is more temporary, and it will start to come down as we look into the early 2021.

In the third quarter, one of the things we talked about is that our cash balances were a little lower. And as a result, net interest margin was about 6 basis points higher than what we had anticipated. If you recall, at the beginning of the fourth quarter, we acquired about $10 billion of deposits from State Farm, which came on our balance sheet. And as a result, cash balances have increased. And so we expect net interest margin to be down by a similar amount to the 6 basis points that we saw in the third quarter, and that will be coming down.

When we look at fee income, we expect mortgage banking revenue continue to be strong, but to be -- to decline somewhat from the third quarter, both on a seasonal basis and because of the refinancing trends. We would expect our payments revenue -- payments revenues to be adversely affected on a year-over-year basis, similar to what it has been in the past, because of the lower consumer spend and business spend activities. However, I would say that U.S. volumes continue to improve on the -- maybe not quite at the same trajectory or the pace that we saw in the third quarter because it has slowed a little bit. The European volumes in our merchant processing business are a little bit under pressure because of the lockdowns that have occurred in the European areas.

When we think about expenses, we continue to expect noninterest expenses to be relatively stable compared to the third quarter of 2020. And from a credit standpoint, we expect the increase in net charge-offs and nonperforming assets to moderate in the fourth quarter. With regard to the reserve, credit quality trends have been more favorable than maybe what we had projected at the end of the third quarter. We don't expect any further reserve build in the fourth quarter, but I wouldn't expect a reserve release in the fourth quarter. Yes, I think there's just too many uncertainties that still continue to exist out there at this particular point in time.

And then finally, from a tax perspective, on a full year basis, we continue to expect the taxable equivalent rate to be about 19%. And again, that's the taxable equivalent tax rate being about 19%.

So with that, Richard, I'll turn it back to you.

QUESTIONS AND ANSWERS

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. Thank you. That's a very helpful update. So Andy, I thought I'd start off with a bigger picture question, which is -- look, 2020 has been an extraordinary year in a lot of different ways. When you reflect on 2020, how do you think USB performed? And what have you learned, given that this is really the first real-world stress test that we've had since the global financial crisis in 2008?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Sure. Thanks, Richard. So first of all, I think if I reflect on the year, we've helped a lot of customers. We had over 100,000 PPP loans. We've had a number of customers that we helped through forbearance, large companies that we extended credit to when they needed it. So our ability to help customers in this environment is what stands out. And our employees doing it day-to-day is also a big component of it.

I think the other thing that stood out is that a couple of years ago, we had this tremendous focus on digital and the migration and the changes in consumer behaviors. And as I mentioned in my prepared remarks, that has, if anything, accelerated greatly. So those investments that we've made and our focus on that is critically important.

We have a large payments business, so it's a good window into what's going on in the economy. And as we all know, in the March, April time frame, there was a severe decline across all spending categories. And what's interesting to see is that it's come back in most categories, back to pre-COVID levels, with the exception of those industries that you would expect: airlines, hotels, travel and entertainment. So those are continuing to be pressure. But for the other parts of the economy, the spend is almost back to where we were.

And it's also interesting that what we're seeing, credit is better than you would expect given the macroeconomic factors that we see. But I do think it's a K recovery. There are a number of companies and corporations and individuals who are doing very well. But at the same time, there are also a number of consumers and small businesses that are very much struggling in this environment. So we would agree that another stimulus would be very helpful to continue that bridge until we get to a more stable environment.

And finally, Richard, one of my key observations is the value of a diversified business model. If you step back and you look at this year, having a set of businesses that impact -- that are impacted differently in low interest rate environments and still can perform like our mortgage and our Corporate Trust business and our Commercial Products business and having that diversity between fees and net interest income. Those things are all very beneficial in turbulent times.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. That's very helpful. So you've been one of the more consistent underwriters over the cycles. And I actually think that's something that investors really like about you. What have you learned from a risk perspective this year? And again, if you reflect on 2020, do you think you've got the right balance in terms of risk reward across your portfolios?

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

Yes, Richard, let me take that. When you think about our philosophy, I guess, if you will, from a credit perspective, there's really kind of a couple of different principles that we think about. And that is, from an underwriting perspective, we have consistent underwriting and we think about it through the cycle. So we don't expand our credit box in good times and then shrink it when we hit the more difficult time. We try to be very consistent. I think that as a result of that, we see consistent performance from a credit perspective even in challenging times.

The second principle is really around being very proactive in terms of how we think about managing the portfolio. When the pandemic hit, as an example, those at-risk industries, we were very proactive in terms of looking at the credit quality, looking at risk ratings, et cetera. When you think about underwriting, what that means is that we have a very well-diversified portfolio. We have a portfolio that focuses on -- in the consumer side, it's a prime -- super prime sort of lending. On the commercial side, it tends to be focused around investment-grade type of companies. Leverage lending is very limited.

And when you think about, for example, the Commercial Real Estate portfolio, our loan to values are pretty conservative at about 62%. So it's something that we think about really through that cycle. And as you know, one of the things in the Commercial Real Estate area, we've been shrinking or holding that down really for about the last 4 years. And then when we think about, from a proactive sort of management perspective, we were pretty proactive in terms of the downgrades of those at-risk sectors or industries early in the -- even in the first quarter so that we could make sure that we had a strong focus around those and working those issues pretty quickly.

So we feel like we're very well positioned when we think about it from a credit perspective, and we're going to weather the storm pretty well.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

I mean, from your -- since we're on the subject, from your perspective, do you think that the market is pricing credit risk in a rational manner? And I guess the backdrop is obviously, QE has not just impacted interest rates, it's also impacted credit spreads. So given everything that you can see and given your outlook, how do you think about the attractiveness of risk versus return across some of your key lending portfolios today?

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

Yes, Richard, that's a great question. So when we end up looking at the current pricing, we've actually seen it to be pretty rational in terms of the pricing within the -- in the marketplace relative to the risk in this particular environment. So I think that's been pretty well balanced. In fact, on the loan side of the equation, we've seen spreads widen during this particular point in time, which is exactly what you would expect to see.

That being said, we know that loan growth is challenging at this particular point in time. It's fairly sluggish. And the longer that continues to take to come back, I think you're going to see more competition as we get into 2021 from a pricing standpoint.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. That's very helpful. So maybe, Andy, a couple of questions for you. So you touched a little bit on your priorities. Maybe you could expand on those a little bit and talk about what you would like to achieve going into 2021 and beyond. And then, as really kind of an adjunct question, there's obviously a lot of consolidation that is taking place in the industry. And I guess one of the themes from this conference is that a lot of people are expecting that not just to continue, but to accelerate. So perhaps you can also touch on how your thought process around organic versus inorganic growth has evolved and what you think some of this consolidation that's happening around you means for USB?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Sure, Richard. So from a priority standpoint first. As I mentioned, a couple of years ago, we said we need to focus on digital. The customer -- consumer behaviors are changing in that manner. And as I mentioned, if anything, it's accelerated. So a very focused effort on making sure that our products and services and transaction capabilities can be done in a digital channel is a high priority. We've made a lot of progress, and that will continue to be an area that we're very focused on.

The second is this concept of the payments ecosystem. One of the benefits of having a payments business is also combining it with the banking business. Because oftentimes, all their customers, if it's a payments customer, they need banking. If it's a banking customer, they need payments. So weaving together those capabilities to help them run their business is a second priority.

And then thirdly is this concept of investment and optimization and making sure that we're optimizing sort of the core so that we can continue to invest in the future. And that's exactly what we're doing with optimizing the branch system, thinking about the physical assets overall, thinking about different opportunities. And it's interesting because as you innovate and as you invest, you also improve your efficiency, what we call below the glass, which has opportunities for more efficiency. So that's why I talk about this circle.

In terms of organic versus M&A as we've talked about, scale is important, and it will continue to be more important. And there are new entrants into the financial services space, which also increase the speed of change. And so I believe we're focused on the right things. And if we add up M&A opportunities and fintech capabilities or building scale in geographies and it was meaningful, it was financially appropriate and culturally a fit, we would look at them.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. I mean, you talked about the fact that there's benefits to the fact that you're large, but you're just below the GSIB category. How would you think about a transaction that potentially moves you above that threshold in terms of risk versus what it would add versus what it would cost?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Yes. So we are spending about $2.5 billion in tech investment on an annual basis. So we have a really good scale as we sit today across the business lines that we -- and the businesses and the customers that we serve. So it's not like we need to get to that GSIB functions, and there's pros and cons with that. So again, I think as we think about it, it's about financially appropriate, the cultural fit as well as the capabilities we'd be building and the scale.

And there are trade-offs. When you get to a GSIB level, there's more capital implications and regulatory implications that occur. So I'm not so much thinking about getting into the GSIB category, but thinking about those core capabilities around scale and geographic presence and customer acquisition.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

So let's dig a little bit deeper into the digital strategy. And I think one of the things that some of your competitors have talked about is that digital-only customers are lower revenue-generating than branch-based customers. As your digital strategy has evolved, as it's grown, what are you learning about the difference between branch versus digitally-acquired customers? And have you seen much of a difference so far?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Yes, that's a good question and a good observation. So what I would say is a digital-only customer, and we actually did some tests of entering new markets in a digital-only fashion, tends to be a lower revenue producer, also a higher attrition level customer. I think the optimal customer is that customer who uses all the channels. And that's why we talk about entering in this branch-light, digital strategy that they're actually able to use all the channels, that they're connected and that they are working with the bank across many different ways.

And those types of customers are the best customers. And as we enter new markets like Charlotte and other opportunities, we're going to focus on this combination because I believe that branches are still important, as I talked about, and it's this great combination of digital capabilities but human interaction. And that combination, I think, you get the best customers and you actually get the best service.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

So maybe we can talk a little bit about the branch network and how that's evolved. And you talked about what you've done, the incremental 15% of branch closures. I mean, if you think longer term, how do you think the branch strategy is going to evolve? And you also have been creative in terms of what you've done. I think State Farm is a really, really good example of that. I mean, what are the prospects of similar transactions like that? And perhaps you can talk through some of the benefits versus maybe some of the things that you lose through those types of joint ventures or transactions.

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

So first on the brand structure. Tim's done a terrific job in sort of evolving the branch from a place you go for transactions to a place you go for advice and counsel. And that reflects the people you have in the branch, what the branch looks like, and also the process of interacting with the branch with appointments and really seeking advice and counsel. And really, sometimes it's technology advice as well on how to use some of the digital capabilities.

So as we think about the branch of the future, which we're well on our way to achieving, is it's an appointment, advice, counsel, direction. And that, combined with the digital channels, I think, is a real key to success.

On the alliances, the alliances offer the ability to expand your distribution network in step functions, broadly across the United States with partners who think the same way you do. That's the positive. Now there's a revenue-sharing that occurs with that, but it's still a very profitable transaction, and it's also a way for us to extend our capabilities to a broader customer base.

So in my view, it's a great customer acquisition tool. And I would expect us to continue to look at opportunities like State Farm across the market.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

So you talked about reinvesting some of the savings from branch closures into tech initiatives. Can you talk through your priorities in terms of your tech budget today? Talk about how that's evolved. And maybe even talk about the overall trajectory for tech spending, just given everything you're seeing in terms of this more rapid adoption of digital technologies.

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

Yes. I was just going to say, Andy mentioned the fact that if you end up looking at our tech spend, it's about $2.5 billion, about half of that is on the capital expenditure side, and half of that is kind of business as usual, OpEx. And our areas of focus are very consistent with what Andy talked about in terms of our strategy and our priorities. So we end up looking at where we are investing. We're heavily investing in digital and digital capabilities and focusing on how we can use that, both to expand revenue in terms of customer acquisition, but also thinking about how we make our business simpler and better, if you will, and enables us to be able to get optimization in the business.

The other area that we have been making some pretty significant investment ties into our payments strategy. Most recently, we made a nice acquisition with talech as well as CenPOS. And each of those brings a little bit of a different capability. talech, as an example, really will enable us to be able to more effectively link our banking products and services to our payments, sort of capabilities similar to what you're seeing in other areas of the competitive sort of landscape. And we think that, that will enable us to be -- have kind of a game changer as we think about small, middle and middle market sort of businesses and consumers as well.

The third area that I would say is really around the whole B2B space. And we think about real-time payments and the importance of that on the commercial side of the equation, and that is an area where we think is going to continue to accelerate. We want to be on the front end of that in order for us to be able to drive market share in that space as physical checks convert to more of an electronic sort of focus.

And then I think a really -- a big part of it is how do we end up simplifying and making for our -- for all of our customers more convenient, easier-to-do business with U.S. Bank. And I think that all those things kind of help to drive performance in the future.

And then finally, data analytics, because data analytics links with your digital strategy in providing smarter interactions from a customer standpoint on both sides of the equation. So...

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. So maybe we can talk a little bit about operating leverage. It's obviously important driver for share price outperformance. It's obviously something that shareholders are very focused on. And I appreciate that there's a lot of uncertainty around the revenue environment heading into next year. So perhaps we can talk a little bit about where you see the greatest opportunities in terms of driving efficiencies within your franchise from here.

And I think one of the questions that is coming up more and more is it looks as if the banking and industry seamlessly moved 90% plus of their employees to work from home. As you digest what you've learned from that, has that highlighted other areas of potential efficiencies that you wouldn't have thought about a year ago? And how much of this do you think will stick as the economy starts to normalize?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Yes, a couple of great questions there, Richard. And obviously, it's kind of built into our DNA to really focus on managing expenses as effectively as we can. And that continues to be a strong focus. And in fact, it kind of increases in urgency because of the revenue environment. If you think about -- our goal is really to kind of hold expenses flat in this particular environment while continuing to make the level of investment that we have

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historically been making in the things that I just talked about. Clearly, I think when we think about branch optimization, there is going to continue to be things that we will take a look at from that particular perspective as we look in the future, and we see digital adoption occurring.

To your point about work from home, the work from home environment allows us to really kind of step back and rethink our office footprint and smaller locations to identify whether or not there's opportunity there. And I think all of corporate America is really kind of going to be going through that.

And then I do think the digital investments that we are making is going to start to create a wedge when we think about operating leverage. It is going to be a game changer, I think, with respect to customer acquisition in the future. And we've seen some very nice trends, both in terms of deposit acquisition as well as lending acquisition. But as that revenue grows, it also gives us the opportunity to be able to optimize back office, operations and all sorts of things as you go to more of a straight-through sort of processing and digitize a lot of those capabilities. So I do think that there's a lot of different opportunities for us to think about.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. That's very helpful. So maybe we can talk a little bit about the loan demand picture and maybe link it to NII for next year. And a couple of questions here, I guess, which is, it does seem as if the recent shutdown has actually impacted corporate loan demand and the willingness for corporates to invest. Is your sense that if we get more of a V-shaped economic recovery, that loan demand will come back in the second half of next year or maybe even earlier depending on the rollout of the vaccine?

And then secondly, can you talk a little bit about how you're thinking through just the management of the balance sheet, just given the significant growth in deposits and given where interest rate structures currently are?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Yes. A couple of great questions. First of all, on the loan side, we are seeing pretty strong loan demand in some of the consumer categories. So if you think about our auto businesses, our auto lending, retail leasing, et cetera, as well as the mortgage -- residential mortgage loan categories, those have actually seen some pretty strong growth even through this cycle. And we would expect that to continue for some period of time.

Credit card volume has been a little bit more challenged because consumer spend has been at lower levels. And I think that, that trend probably continues for some period of time until consumer confidence and business spend starts to pick up. And I think that consumer confidence, consumer spend is really kind of the bleeding edge of starting to see growth on the loan side with respect to the commercial side of the equation.

When you end up looking at 2021, I think that it tends to be a little bit sluggish in the first half of the year and starting to accelerate in the second half of the year. As consumer confidence starts to come back, I think that the businesses will have to start to replenish some of their inventories. And I think you're going to see business spend associated with that. And as that all starts to accelerate, you're going to see more focus around longer term sort of business investment.

The other thing that we're watching is just green shoots with respect to M&A activity. You're starting to see a little bit more of that, at least on the horizon. And I think that, that helps to bode well especially for the second half of the year because it takes a little bit of time for that to develop.

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

Go ahead, Richard.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

No, no. Go ahead. No, please continue.

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

Well, I was just going to say, from a balance sheet management perspective, during this time, so you have a little sluggish loan growth that we talked about, but I think that, that does start to accelerate. In 2021, we still expect deposit inflows to be pretty strong. And so what we will likely see is more investment on the investment security side of the equation as well as cash balances. Although we think that from a liquidity standpoint, we're in a -- probably a pretty good position. The implications of that is that in terms of net interest income, I think that it gives us growth, but probably more so as we get into -- as 2021 starts to develop.

From an investment securities portfolio perspective, we're really looking at the yield curve. Our expectation is that it does start to steepen as you kind of get later in the year and consumer spend starts to kind of help that. But our overall expectation is interest rates being low for a long period of time. So it's going to be challenging from a revenue point of view for the entire industry.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

So I guess, Andy, this is a question for you and as a follow-up, which is if we're going to be in this very low interest rate environment for a protracted period of time, do you think the industry will go back and start thinking through pricing structures around consumer products? So do you think that some of the lost net interest income could actually get recouped in the form of fees through adjustments to the way in which the value proposition is presented to customers on the retail side in particular?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Yes. Yes, I do, Richard. I do think that as an industry, and certainly, we're thinking about different ways of creating value-added services and packaging in a way that adds value, separate and distinct from the traditional net interest margin. You could think of subscription services or the like, but really packed together and gets back to that business banking, leaving together payments and banking and thinking about a service that we could provide that adds value to the customer in terms of running their business, their commerce and their money movement.

And I do think we're thinking about different ways of packaging that pricing in value-added services, for sure.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. Thanks. So I think we have time for one last question, and there's a few questions here on the capital position of the bank, the excess capital and how you're thinking about capital returns and the trajectory for capital returns. So I think, on our math at least, I think you've got almost $10 billion of excess capital. If the Fed was to lift the moratorium on buybacks, how active would you want to be in terms of returning capital through buybacks? And how are you thinking about dividends, dividend payout ratios, just again, given the uncertainty headed into next year?

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

So given our returns and where we are, so we -- as you know, we target 8.5% to 9% Tier 1 -- common equity Tier 1. We're currently above 9% today, but we're focusing at operating in that 9% range. We also have articulated our capital return goal of 65% to 85% of our bottom line, about half in dividends and about half in buybacks. So we do have capacity for additional buybacks, but as we all are, we're awaiting Fed guidance.

Richard Nigel Ramsden - *Goldman Sachs Group, Inc., Research Division - MD*

Okay. So I think with that, we're out of time. So thank you very, very much for joining us. We would love to see you again next year, would love to see you in person. And hopefully, we're going to see you in Downtown Manhattan in December of 2021. But thank you very much.

Andrew Cecere - *U.S. Bancorp - Chairman, President & CEO*

Sounds good. Thanks, Richard.

Terrance R. Dolan - *U.S. Bancorp - Vice Chairman & CFO*

Thanks, Richard.
