TD BANK GROUP
CIBC EASTERN INSTITUTIONAL INVESTOR CONFERENCE
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PARTICIPANTS

Mike Pedersen
TD Bank Group – Group Head, U.S. Banking

Rob Sedran
CIBC World Markets – Analyst

FIRESIDE CHAT

Rob Sedran – CIBC World Markets – Analyst

Are we on? Okay. So our last morning session is with Mike Pedersen, he is the Group Head of U.S. Banking at TD Bank, and he has been with TD since 2007. He has been Group Head of U.S. Banking since 2013. Before that he spent time both domestically and internationally in various financial institutions, including this one, CIBC that is. So showing both domestic and international experience.

He now runs a business that accounts for more than 20% of earnings, and I guess about 75% of the conversation at TD Bank these days. So welcome to the conference.

Mike Pedersen – TD – Group Head, U.S. Banking

Thank you.

Rob Sedran – CIBC World Markets – Analyst

I'm going to start off with a fairly broad question. And it's fair to say the Bank has been very active. A number of acquisitions over the years building the platform. It's now largely built. It carries, I don't know, what would you call? A single digit return on equity? I don't focus so much on that, because I'm not a history professor.

But in terms of where you think it's going, the marginal ROE, the growth in the business, what makes you confident that what is built is going to deliver the expected return?

Mike Pedersen – TD – Group Head, U.S. Banking

You could at least be kind enough to say upper single digit ROE.

Rob Sedran – CIBC World Markets – Analyst

Upper single digit. Yes, sorry.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. Just as you were talking I had a sense of déjà vu. The last time I was here at this conference, sitting here with Rob, I had 14 broken bones. It was a very different experience.

Rob Sedran – CIBC World Markets – Analyst

I didn't cause any of them.

Mike Pedersen – TD – Group Head, U.S. Banking

I was under the influence. No. It was not a fight with a bank analyst. I feel better today.

So great question. I think there's two things to start with. The first is that when you look at our ROE over the last 2 years, in each of those years we've increased the allocated capital by 1%. So as earnings grew, ROE basically stayed flat in each of those 2 years. I don't think that's going to increase next year. So if earnings grow, you should see a better ROE.

The second is the phenomenon that Rob eluded to, which is that we've got a lot of goodwill on our balance sheet from the 12 or so acquisitions we've made to build the Bank in the U.S. If you exclude that goodwill, the operating ROE as I like to call it is about 15%.

Needless to say as we grow the Bank, that goodwill becomes a smaller share of the whole. And the overall ROE should go up. But those are sort of just where we find us. The real question is, can we increase that operating ROE? Because that's sort of middle of the pack amongst our peers in the U.S. And my view is that we can.

We're a young Bank, 10 years old. And have been built through fast organic growth and 12 acquisitions. So we're not a humming example of efficiency yet. We've got at least four levers that I think we have that other banks don't have to the same extent.

The first is, because we're younger and under-represented in some of our markets, we're growing much faster than our competitors. So whether you look at loans or checking accounts or households or some of our newer businesses like cards and wealth, we're growing much faster than our competitors, in some cases twice or more as fast as our competitors.

Another opportunity we have is share of wallet, though you may think of it as cross sell. That's a really big one for us. The history of our Bank has been to focus on our predecessor banks like Commerce Bank, which we acquired. It was really just about selling checking accounts. So two-thirds of our customers just had one product. It's higher than that in small business. So we've got lots of upside in terms of selling other products to those customers. And we're making really good progress on that, and I'm happy to talk to that.

Another upside we have is our distribution network with digitization and mobile and so on. We're optimizing our store network in the way that we think is right for our strategy, as we invest in digital. So that's an opportunity.

And then a big opportunity is productivity, efficiency expenses, whatever you want to call it. We're a couple of percentage points behind our competitors on efficiency ratio. Again I don't feel badly about that, given how fast we've grown and all the acquisitions, but it means we have an opportunity.

And you've seen already that we're attacking that. Our expenses this year are down 1% compared to last year so far. And I think we have further opportunity on the productivity side. And again I'm happy to get into that.

Therefore I think we can improve the ROE going forward. I would say that, wouldn't I? If rates happen, which is out of our control, if we get a rate increase tomorrow or in December sometime, that'll make it even easier.

And then there's also acquisitions. We're only focused on accretive shareholder-friendly acquisitions at this point in our maturation. We did the Nordstrom deal recently, that's good for shareholders. So that can help going forward as well. But I'd say our principle focus is organic growth. So let me stop there. That's a lot of words.

Rob Sedran – CIBC World Markets – Analyst

And you've basically given me the rest of my questions. So one of the issues – you talk about your competitors in the United States. One of the issues and concerns I've heard in the past is that, okay, well TD had this spectacular growth for a long – a great organic growth, while many of the U.S. banks were down. Now that they are resurgent, it's going to be a whole lot harder. And at the very least margin compression on the asset side is going to become a bigger concern. Is it a bigger concern now that the U.S. banks are arguably overcapitalized and really hungry to grow as well?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. It's tougher now than it was. I think Bharat, my predecessor, might not agree with that if we had that conversation. All our competitors are strong now in every respect. They've got the people again. They've got their costs under control. They want to win back business they lost. So it's much tougher now.

But I'd start with the factual evidence, which is that we're gaining share in all the major categories. But take for example deposits. It has gotten tougher there, as people need liquidity for LCR purposes, et cetera.

Lending has definitely become more competitive. In some areas of lending, mortgages for example, we're not outgrowing the market as much as we used to. We're not prepared to give on structure. We will be competitive on pricing if it makes sense for us. But we compete on service. So on some level there will be deals now that we don't get that we got then. But we're still managing to outgrow the market and take share, so it's not too bad.

Rob Sedran – CIBC World Markets – Analyst

And there has been some obviously – especially of late – some very good volume growth. You talked about the volume growth. The earnings growth not as much as the volume growth. How should we think about – like if we're trying to evaluate the direction this business is taking, is the longer-term view the balance sheet is growing, the earnings will show up? Or when will the earnings show up from the volume growth we've been seeing?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. Yeah. So definitely what drives TD Bank – and Bharat would say this, all my colleagues would say this – is building a sustainable franchise. When we go through tough patches, if we can still acquire customers, good customers, that in the long-term will build our franchise, we'll do it. Even if it's less profitable than it normally was.

Having said that if you look at this year, so our earnings growth this year is 5% year-over-year. Our volume growth is in excess of that both in deposits and on loans. But margin compression explains why it's not all falling to the bottom line. We've also had this phenomenon of past year securities gains. And we had some last year that we don't have this year, so that makes it little tougher as well.

So I think you'll see the volume growth and the earnings growth converge more as we move forward, particularly if we get a rate increase. If you had told me at the beginning of this year that we could be here and have 5% earnings growth, I would have taken it, because there were a lot of headwinds.

And my confidence at this point is higher than it was last year or the year before, just because we're getting some economic traction. We've got some of our own internal headwinds behind us, like the securities gains. I don't think margin compression trends can get worse than they are. And there's the prospect of rate increases, although we're not counting on it.

Rob Sedran – CIBC World Markets – Analyst

So if you're sitting here a year from now, is 5% a disappointment?

Mike Pedersen – TD – Group Head, U.S. Banking

I'll tell you next quarter, I'll tell you after tomorrow. How is that?

Rob Sedran – CIBC World Markets – Analyst

So...

Mike Pedersen – TD – Group Head, U.S. Banking

I guess if there's no rate increase, then you'll probably hear me say that our outlook for the year is as it was this year, modest.

Rob Sedran – CIBC World Markets – Analyst

Okay.

Mike Pedersen – TD – Group Head, U.S. Banking

So whatever that means. And...

Rob Sedran – CIBC World Markets – Analyst

Is – are one or two moves really that powerful to the Bank that they'll – or is it just the message it's sending that the business is growing again? Like is it really that powerful, the one or two ratings...

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. It's meaningful. They're both. I think we've shared some quarters ago that a 25-point increase across the curve would give us in the U.S. roughly $100 million. It's a little less than that now but not much less. So two moves would be quite meaningful. One move would quite meaningful.

That's assuming a 60% deposit beta. And most of that is on the short end, which we get right away. There's about a quarter of it that happens as we roll our tractors, or effectively bond ladders. So it's meaningful.

Rob Sedran – CIBC World Markets – Analyst

Okay.

Mike Pedersen – TD – Group Head, U.S. Banking

But we're not counting on it. Yeah. Sure.

Rob Sedran – CIBC World Markets – Analyst

Sorry if you can just – if you don't mind. Thank you.

Unidentified Audience Participant

Moving into a scenario where we have the rates going up, it will be good for NIMs. But then we can expect that the residential property value will plateau or slightly decline, because it'll become tougher for people to borrow the same amount of money in the higher rate environment.

I would guess that the face value of the mortgage book will be plateaued or – at best, or maybe a decline if rates go up, while your NIM will benefit from that. So do you see earnings growth in such an environment?

Mike Pedersen – TD – Group Head, U.S. Banking

I'm not sure that's exactly how it'll unfold. I think if you get, as Rob has said, one or two rate increases and the associated increase in mortgage rates, that'll stop all the refinance activity.

But right now it's about two-thirds new purchases, one-third refinance. I think it may boost the purchase side, because if Janet Yellen is raising rates, that means that there's economic traction. And so I think the employment benefits, the GDP growth, all that stuff may – wage inflation may outweigh the additional costs in mortgages.

I actually think, when I walk around or fly around the system, whatever I do and meet with commercial clients, a lot of them tell me that they are poised to invest. But they're waiting for the first rate increase to confirm that the economy is on track.

I think there is a bit of that right now. And if you're talking 200 points raised, then you're right. Then we'll have to see what happens. But 25 basis points, 50 basis points, even 75 basis points, I think that could be stimulative to housing on balance. I can't predict it. But that would be my bet, if you forced me to bet one way or the other.

Keep in mind though that mortgages aren't a big driver of profitability or profitability growth. It's not the most profitable business in U.K., U.S. banking. It's not a huge driver.

Unidentified Audience Participant

Just a question on share of wallet. You talked about that. How successful do you think you can be in the U.S., where the structure is very different for some of the banks?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah.

Unidentified Audience Participant

What do you bring to the table that the U.S. banks can't in gaining the share?

Rob Sedran – CIBC World Markets – Analyst

And I was going to follow up on the share wallet of question.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah.

Rob Sedran – CIBC World Markets – Analyst

Because you talked about two-thirds...

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah.

Rob Sedran – CIBC World Markets – Analyst

...being single product customers. Where would you like that to get?

Mike Pedersen – TD – Group Head, U.S. Banking

The easy answer to your question is the reason we've got upside and the others don't is that Wells and BofA and Chase started this journey many years ago. We're just starting it now.

Let me give you a couple data points. I've managed through this issue before. This is my third time sort of trying to introduce a sales culture. The history of this Bank and particularly in Commerce Bank, which forms the nucleus of our footprint, was that sales was a dirty word. That if you serve them, the sales will come, which I think is nonsense. And the statistics you just referred to, Rob, prove that it is. So having been through this before, it's a difficult thing to do. It takes at least 3 years to do.

We started by asking our store personnel to sell more products and services to new customers. The reason for that is that it's less intimidating for the store personnel, because the new customer has elected to come into our store. They're asking to open an account with us. We've never done anything bad to them, so they're not upset with us. There's no chance that if somebody asks them, would you like a TD credit card, that they'll say, I've already got one. Why don't you know? All that stuff that scares people.

We piloted that last year. We started rolling it out to the system in November of this year. Before we rolled it out we were selling 2.7 products and services to each new customer. Now that's 4.28 products and services per customer. The biggest lift is in savings accounts and credit cards and online or mobile banking. So that's a big difference and just shows you that we can actually do this.

Meanwhile in every single business in the last 2 years we've introduced metrics and measures and constructs to encourage this same thing, whether it's corporate banking, commercial banking, small business. And by the way it's all the same. In corporate banking we have very – a lot of single product customers and so on.

We're making progress on this. And the data point I'll give you on retail for example is across the entire Bank's existing customers – now we're talking households, not customers, because that's how we look at once they're customers of ours. When we started this in the beginning of 2014, we had 4.82 products and services per household. Now that's 5.39.

I could show you the graphs going back many years. This is a way bigger increase than before we started these efforts. So part of it is that it's low hanging fruit, but it's also that we know how to do this. And this opportunity is real.

In terms of the service thing that we're famous for, the simple question I ask my people are – is this. Is it great service, legendary service as TD says, to sell your customer a checking account and let BofA take care of the rest of the needs, when they actually love TD?

The advantage we have is our customers are very, very loyal. They love our service. So when we say to them, we've got a great credit card or our wealth service, et cetera, they're not going to just say go away. They're going to say, well tell me more at least. So we're having lots of success.

One more statistic. At the beginning of last year in credit cards, 9.6% of our customers had a TD card. This year 15% have a TD card. So we really are making progress on this stuff. I can't guarantee you that'll continue, but I'm feeling good about where we are so far.

Rob Sedran – CIBC World Markets – Analyst

It would seem there's two elements to the cross-sell. Right? One of them is to have the customer service, which TD prides itself on. The other one – because it's an interesting comment you made about the new customer versus the existing customer. The other one is to have the systems to know what my customers have to allow me to then not embarrass myself in front of the customer. Do you have those systems in place?

Mike Pedersen – TD – Group Head, U.S. Banking

Mostly. So first of all I'd start by saying that in the 1980s there were banks that were great at cross-sell and ones that were really bad. Nobody had technology then. There are ways to get around this. It's much more important to have the sales culture than to have the systems. I'd love to have the systems.

We mostly have it. We have systems now that can prompt our tellers that Rob doesn't have a credit card, and he might actually want one. And tells them what to ask him. So we've got all those kinds of things.

But having been the product of 12 acquisitions, we still have some silos technology-wise where we can't share customer information. So we're working through that.

But that is not even near the top of the worry list in terms of getting to end state here. Like that'll come, but it's much more important that we hire people who can sell. That we train them. That we hire coaches that can coach to sales. That we instill this as an ethos in the Bank that used to value only service. Those are much more important than the systems.

Rob Sedran – CIBC World Markets – Analyst

It would seem to me – actually before that one, I want to talk. Because you – one last one on your opening comments. You talked about distribution and digitization and the branch network. And part of the restructuring charge was to rationalize some of the plans around expanding the branch network.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah.

Rob Sedran – CIBC World Markets – Analyst

At the store network, excuse me. So is the – what role will that store play in a more digitized world? And especially under a heavy service model that TD likes to run.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah.

Rob Sedran – CIBC World Markets – Analyst

Is there risk there of overbuilding a branch network?

Mike Pedersen – TD – Group Head, U.S. Banking

That's not a big risk for us in the short term. The risk is building stores that are too big or built for the wrong purpose.

But just to start, this isn't something that I'm like freaked out about, because we have 3,200 households per store. In the U.S. the average is 1,400. So we're in a pretty good situation with stores. Our stores are also disproportionately new, and they're in urban areas that are higher growth. So relative to some of our competitors, we don't face the huge compulsion to downsize our network.

The new stores we're opening are definitely already different than they were when I arrived there 2 years ago. And certainly different than they were 4 years ago. I was in a store on Friday in New York City that we just opened. We opened it last week. It's 1,300 square feet. There are four Smart ATMs, all the walls are technology. There are four staff in the store, they walk around. There are no seats, and they have iPads, and they sell things to customers. You can go into two little kiosks, and you can buy a mortgage by talking to somebody in Mount Laurel. I saw it happen. In fact there was a Canadian customer that happened to be in there.

I'm not going to tell you that we have figured out that that particular formation is the answer. But we're trying a whole bunch of different concepts. And we'll feel our way through what works. So far these smaller, technology-heavy formats are working. They're obviously much cheaper, both in terms of personnel and leases. We've got another one in Canton Crossing in Baltimore. We just opened one in Naples. So all over the network we're opening these.

So this year we'll close 44 stores. We already have closed 44 stores. And by the end of the fiscal in 6 weeks, we'll have opened 23.

So that'll give you kind of a sense for how we're doing that. That's a net decrease that's smaller than most of my competitors. But I'm still of the view that customer acquisition will slow down significantly if we stop opening new stores. That's really how you win new customers. 85% of customers are still acquired in stores. That has hardly changed from a year ago. It will at some point, but for now I don't think there's big risk in opening small footprint stores with great brand presence that are advice and sales focused as opposed to transaction focused.

Rob Sedran – CIBC World Markets – Analyst

It would seem to me that a lot of what you're discussing sounds a lot like TD Canada Trust. Right? The high touch, cross sell.

But then also in the United States there's a bit of a different strategy in that the asset acquisitions, whether it was through the Chrysler Finance, whether it's through Nordstrom and Target and the rest. Is there – are you ultimately building something different from what you have in Canada in the United States? Or is the goal to at some point have both franchises delivered differently perhaps, but look the same from a strategy perspective?

Mike Pedersen – TD – Group Head, U.S. Banking

I think generally the answer to that is yes. I mean TD wants to have a brand promise and a brand that stands for the same thing in its various markets, including what we do for customers. So we call it slightly different things, because our research shows that certain words resonate with Americans and not with Canadians and vice versa. We don't use comfort in the United States for example. We use convenience and service and WOW! service. But it's the same stuff we're delivering.

The business model is pretty aligned. I mean the whole reason we bought Commerce was because that was the Canada Trust of the U.S. Right? Almost exactly the same strategy. So we're definitely about service and about WOW!ing customers in both countries.

And you say TD Auto Finance and Chrysler and Nordstrom's and stuff like that is different. Not really. We bought an auto finance player in Canada. We've now got I think number two share in auto finance in Canada. We have partner deals in cards in Canada. We do in the U.S. as well, very similar models executed differently, because they're very different markets.

Rob Sedran – CIBC World Markets – Analyst

Yeah.

Mike Pedersen – TD – Group Head, U.S. Banking

I mean the U.S. is the most competitive banking market in the world. Canada is slightly less competitive. So there are different dynamics, and we execute differently. But we want to be TD everywhere we are.

Rob Sedran – CIBC World Markets – Analyst

I think part of the direction of his question was, is the U.S. consumer different in terms of – do they want – there's a perception that they want to have three or four different institutions, as opposed to one. Like Canadians are happy to have everything in one place.

Is it a different environment in the U.S.? Or is it just the structure of the market evolved differently? And ultimately if you can deliver them the convenience, they'll give you all their business?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. I think it's probably the latter, but it's a big if.

Rob Sedran – CIBC World Markets – Analyst

Okay.

Mike Pedersen – TD – Group Head, U.S. Banking

There's a journey to travel. And the structure of the U.S. financial servicing market has been very different. And for example even 10 years ago, people wouldn't expect to get investment or wealth advice or products in a bank. So there's some obvious differences. Mortgages are different. There's no prepayment penalties in the U.S., that lends to very different characteristics of that business.

But ultimately the differences – like in evolved mature banks the products and services per customer is not a lot different in the U.S. than it is in Canada in 2015. So I think it's possible for banks to do a lot with each customer.

Rob Sedran – CIBC World Markets – Analyst

Just indulge me for a second, I'll bring the mic down to you. There you go. It's a short walk.

Unidentified Audience Participant

I just wanted your take on the structural difference and efficiency between Canada and the U.S.?

Mike Pedersen – TD – Group Head, U.S. Banking

Boy that's a tough question. I mean in terms of the efficiency ratios of retail banks, I think in general the big five are more efficient than most of the certainly regionals and even some of the big guys in the U.S. I think that is partly a reflection of what the U.S. has been through. Canada has been through a good patch. That may be changing now. But the U.S. has been through a very rough patch. Literally 0% for 6 years in terms of rates. Right? At least in Canada you've had some margin on deposits.

Again because it's driven by both revenues and expenses, it's probably a bit tougher in the U.S. But that's in significant part been because of the difficult revenue environment for the last few years.

There's a famous SNL chart that shows 21 quarters of 0% growth in net interest income across the entire U.S. banking industry. That's all you need to know to understand how tough it has been for the industry.

Rob Sedran – CIBC World Markets – Analyst

A lot of those U.S. banks were taking costs out at the same time.

Mike Pedersen – TD – Group Head, U.S. Banking

That's all they could do. Right?

Rob Sedran – CIBC World Markets – Analyst

Yeah.

Mike Pedersen – TD – Group Head, U.S. Banking

They've taken a lot of cost out. Yeah.

Rob Sedran – CIBC World Markets – Analyst

And so you weren't really doing that. And you've started to do that.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah.

Rob Sedran – CIBC World Markets – Analyst

How big is that opportunity still in front of you? I know you touched on it in your opening comments.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. So we're a – depending on the quarter – sort of 63%, 64% efficiency ratio. I want to get that below 60%. That's as much as I'll say now, because it depends on revenues as well. I think I can get it below 60% for sure. If we get there we'll see what's possible beyond that.

I should say that you're never going to hear TD or me say that we want to be the low cost or lowest efficiency player. We can't really do that with our model. Our model is about fantastic service. Our stores are open 361 days a year and 7 days a week. And so at some point we have to pay for that service. But we've proven over the years that we get it back in revenues.

But the efficiency ratio should be a lot better than it is now, and we'll get it there.

Rob Sedran – CIBC World Markets – Analyst

One of the reasons for the poor operating – or poor revenue environment – was regulatory change. Does it feel like we're done? Have they stopped picking on the banking system? Do you feel like you have a – you know the rules of the game now? Or are you still concerned that there may be more changes yet to come?

Mike Pedersen – TD – Group Head, U.S. Banking

I don't think it's done. I don't think the pendulum is in the middle. I think we're still swinging over.

I think the reason that you don't hear so much about it is that, to the second part of your question, we've learned how to live within it. But as I look forward – I don't know what the statistic is, half the Dodd-Frank rules haven't been written. Right? We're still implementing the big ones. There's still additional pressures around AML, around compliance, around stress testing, liquidity, capital management, and I could go on. We're still all building. Not just TD, but all the banks.

The other thing that's going on is that in order to meet deadlines, a lot of us have created processes just manually. And the regulators aren't happy with that. And it's cost inefficient for us. So now there's sort of a second wave of investments to automate all that stuff, data being a huge one.

I think you're looking at at least a couple more years, where this is still swinging out. And I spent more this year on regulatory stuff than I did last year. I'll spend more next year than I did this year. I hope it'll abate at some point, but it's not abating now.

Rob Sedran – CIBC World Markets – Analyst

That's unfortunate.

Mike Pedersen – TD – Group Head, U.S. Banking

It is.

Rob Sedran – CIBC World Markets – Analyst

So there's a perception – I'm going to close off on commercial lending. There's a perception I guess that TD is largely a retail bank. But the commercial bank has been actually showing as good if not better growth, in fact better growth on the loan side.

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah.

Rob Sedran – CIBC World Markets – Analyst

Has that been a focus? Or is it just a function of it's the market that's growing more rapidly? Like what are your plans on the commercial side? And would you like to balance the business mix out a little bit better?

Mike Pedersen – TD – Group Head, U.S. Banking

It has absolutely been a focus. And it has really been a focus recently. The reality is on the retail side, when you combine the rate environment with the housing market with consumer confidence and all the regulatory pressures, that it's tough to grow earnings in retail right now. It's still a fantastic business return-wise and will be fine again. But right now it's tough.

So commercial has been a real opportunity for us. We're underrepresented in almost all our businesses compared to even our regional peers, never mind the big guys. And so we've been building capability and talent in our vertical industry teams and commercial and in corporate banking. And we're getting some real success.

One of the benefits we have is that unlike the regionals, we have a global brand and a track record of having navigated the crisis. Where there were 2 years, 2009 and 2010, there was only one top 20 bank in the U.S. that grew their lending. That was us. Customers don't forget that. And I hear that all the time. So we get invited into all the deals. And customers seek us out to bid on their business. And so that's a really good source of growth for us right now.

And it's not risky business. I look at that all the time. When you see growth rates in the double digits in commercial and corporate, you do sometimes want to make sure that it's a good business. But on all the parameters, whether it's the expected losses or charge-offs or non-performing loans against total loans, it's either better as we grow the book or flat. And in the corporate side it's definitely better.

So we're originating good quality business, because we've got a strong brand now, we've got great talent that we've built. And this is an opportunity for us to close the gap to the competitors.

Rob Sedran – CIBC World Markets – Analyst

And this crisis hangover is still part of the discussion when you...

Mike Pedersen – TD – Group Head, U.S. Banking

It absolutely is.

Rob Sedran – CIBC World Markets – Analyst

It is?

Mike Pedersen – TD – Group Head, U.S. Banking

Customers have long memories.

Rob Sedran – CIBC World Markets – Analyst

And so it's still driving behavior in the U.S.? And is that one of the factors why we haven't perhaps seen the resurgent housing market and the resurgent economy generally?

Mike Pedersen – TD – Group Head, U.S. Banking

Yeah. I think it is.

Rob Sedran – CIBC World Markets – Analyst

Is that just everyone's cautious? And so...

Mike Pedersen – TD – Group Head, U.S. Banking

Well you and I were talking a little bit before this conversation. I was observing to Rob and he was suggesting, and I agree with him, that this particular recession has burned people more than most. And when it first happened we heard economists say, the financial services industry-caused recessions are much worse. And they last a decade or even more before you get out of them.

We didn't believe it at the time. But I actually think we've seen that.

There's a couple of things that really strike me. One is that median household income in the U.S. is still not back to 2006 levels. So if you're an average family in the U.S., you know that. You know that 10 years ago you were better off than you are today.

Businesses too. I mean some of them really got hit. And they are smarting from it. And I hear some of them say, I have the capital to invest and I want to and I've got the opportunities. I'm just a little hesitant. I just need to make sure that it's on track, because they can still remember what happened in 2008 and 2009 and 2010.

So I think this is a part of why. I think it's the animal spirits that are missing. Because you've got 3.7% GDP growth, great unemployment, and things should be better. But people are just holding back a little bit. They're waiting for a sign.

Rob Sedran – CIBC World Markets – Analyst

Well hopefully the next 10 years are better than the last 10 years.

Mike Pedersen – TD – Group Head, U.S. Banking

Here's to that.

Rob Sedran – CIBC World Markets – Analyst

Thanks for your time, Mike.

Mike Pedersen – TD – Group Head, U.S. Banking

Thank you very much,

Rob Sedran – CIBC World Markets – Analyst

Appreciate the time.

Mike Pedersen – TD – Group Head, U.S. Banking

Appreciate it. Thank you all.