S&P Capital IQ

CONTENTS

Bank of America Corporation NYSE:BAC

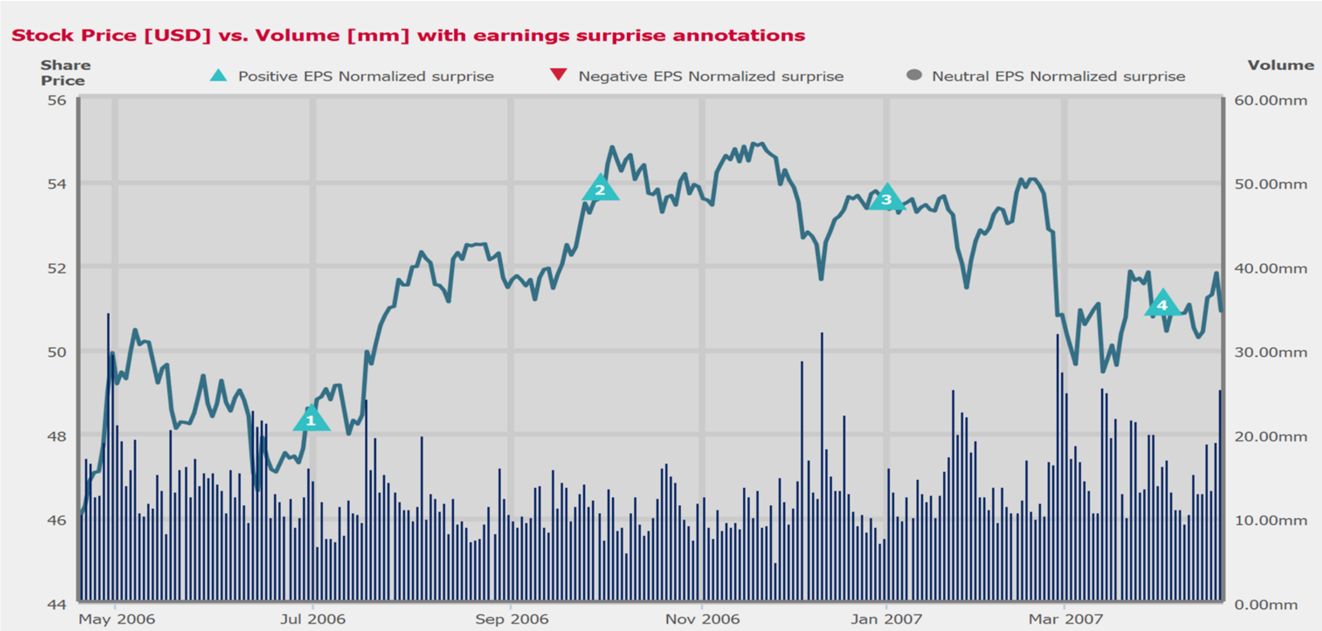
FQ2 2007 Earnings Call Transcripts

Thursday, July 19, 2007 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2007-			-FQ3 2007-	-FY 2007-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	1.20	1.30	▲8.33	1.22	4.85	5.00
Revenue (mm)	18486.13	19563.00	▲5.83	18769.53	75256.42	-

Currency: USD
Consensus as of Jul-19-2007 11:14 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2006	1.10	1.22	▲10.91 %
FQ3 2006	1.16	1.22	▲5.17 %
FQ4 2006	1.18	1.19	▲0.85 %
FQ1 2007	1.15	1.17	▲1.74 %

Call Participants

EXECUTIVES

Joe Price

Ken Lewis

Kevin Stitt

ANALYSTS

Betsy Graseck
Morgan Stanley

Jefferson Harralson
KBW

Jonathan Singer
Singer Interest

Matthew O'Connor
UBS

Mike Mayo
Deutsche Bank

Nancy Bush
NAB Research

Ron Mandle
GIC

Presentation

Operator

Good day and welcome to today teleconference. At this time all participants on a listen-only mode. Later there will be an opportunity to ask question during our Q&A session. (Operator Instructions). Please note that this is recorded.

I would like to turn the program over to Mr. Kevin Stitt. Mr. Stitt, please begin.

Kevin Stitt

Good morning. Before Ken Lewis and Joe Price begin their comments, I want to remind you that this presentation does contain some forward-looking statements regarding both our financial condition and financial results. And these statements involve certain risks that may cause actual results in the future to be different from our current expectations. These factors include among other things, changes in economic conditions, changes in interest rates, competitive pressures within the financial services industry, and legislative or regulatory requirements that may affect our businesses. For additional factors you can see our press release and SEC documents.

And with that let me turn it over to Ken Lewis.

Ken Lewis

Thanks Kevin. Good morning and thanks for joining us. As we've done in the past few quarters, I'm going to start by highlighting certain comparison late quarter and year-to-year, and then I will shoot off to Joe for some additional detail and color on various topics.

Reported earnings $5.8 billion in the second quarter were $1.28 per diluted share and that includes a penny of merger charges, which was up 8% from record results a year ago and up 10% from the first quarter. I will not be able to spend too much time on late quarter comparisons other than to say that the revenue pick up in the first quarter was quite aggressive, and although partly seasonal demonstrative strong customer activity across all of our businesses.

Versus a year ago, which was a record earnings quarter for Bank of America, revenue trends indicated good growth in all of three business segments driven by 12 year growth in several of our businesses along with the benefit from various investments we've made over the past few years.

On to managed basis, as you can see on slide six, 1% growth in net interest income from a year ago, along with 21% growth in non-interest income more than offset $1.3 billion increase in credit cost and a 4% increase in expense levels.

As we've discussed several time prior to today, along with revenue growth, we continue to see credit cost increase due to normalization, seasoning in specific portfolios and higher loss expectation in businesses we have targeted for growth. Even in the phase of unit net interest income growth, higher credit cost and ongoing reinvestment all of our businesses, we continue to generate attractive earnings growth.

Now this quarter's results include a positive impact of approximately $0.09 from the sale of certain private equity fund investments, along with negative impacts of $0.02 from increased litigation reserves and $0.05 from building the allowance for long lease losses. Now if you look at slide five, several positive trends are discernable related to our three business segments versus result to year ago.

Managed total revenue for our three businesses and remember this excludes principal investing and almost all of the equity investment gains. That's up $1.2 billion or more than 7% from year ago, inline with our revenue growth goals of 6% to 9%. Managed fee revenue from these three businesses is up 10% from a year ago.

Average managed loans across our three business segments, excluding mortgage loans in our online portfolio growth combined an 11% or approximately $66 billion. Average retail deposit growth is regaining some momentum although, still not where we wanted it to be with growth approximately 2%, since last year.

However, that does include the impact of the roll off of higher price deposits at MBNA. I would say that the momentum in retail deposit growth will be more evident in the second half.

Currently the benefits of this achievements is muted by the interest rate environment, which should be more apparent if the curve continues to grow or just towards return to inversion going forward.

Other events during the quarter or later issue include the Washington Capital, the close on July 1 of U.S. Trust and profits of the Netherlands indicating we are closer to requiring selling that.

We expect to close the sale of Washington Capital in the fourth quarter and anticipate a gain on that transaction to be around $1.4 billion pre-tax. The U.S. Trust acquisition closed on July 1 and our people are extremely busy with the integration, as well as excited about the opportunities the combined private banks have a ahead of them. The actual financial impacts of the acquisition on third quarter results will be immaterial give its size the overall corporation.

As most of you have seen, the Dutch Supreme Court last Friday cleared the way for our acquisition of the sale for ABN Amro. Our application we prepared was filed early June, so we are waiting their approval. When approved we would expect to close shortly thereafter, which look likes it would be early in the fourth quarter? We would be more definite about the impact on earnings in 2007 when we discuss third quarter earning in October.

Now, before I turn it over to Joe, let me summarize by saying that results in the second quarter from a revenue perspective were a bit better than our expectations.

In April, at our prior earnings discussion, we were comfortable with the direction of the economy, which you may recall we indicated the GDP growth in the first half of 2007 could be below 2% would pick up in the second half. Currently we are looking for GDP growth around 3% in the second half of the year after what appears to be a 2 plus% export driven second quarter.

We see that as a healthy growth but remain a little concerned about domestic consumptions spending given the prolonged housing slump sub prime issues and our fuel prices. However, given our business momentum in the first six months of the year we think we are well positioned going into the second half of 2007 with additional upside in 2008 especially when you consider some of our acquisitions coming on forward.

And now one of the things just, I remember because getting a question on it, our Board of Directors has a scheduled meeting next week, which is when the board considers potential changes to the quarterly dividend. Since I have a substantial investment in Bank of America like many of you out there, I look forward to discussing my thoughts with them. With that I will turn over to Joe.

Joe Price

Thanks Ken. Let me spend a few minutes going into some of the business metrics before I talk about principal investing credit quality and a few other topics. In Global Consumer and small business banking and I am referencing slide 10 here, new customer generation continues with net new retail checking account openings of 717,000 up a bit from opening to year ago and still continuing the strong momentum we experienced over the past two years.

New account growth within Card Services was 3.5 million for the quarter up 6% from a year ago, and reflected strong sales efforts in e-commerce, unsecured lending, international including Canada and business card as well as our direct mail efforts.

In consumer card our lower cost delivery strategy is driving increased sales coupled with e-commerce. Interchanged fees from debit and credit cards are up 14% and 15% respectively from a year ago. Sales of small business products across the company including both loan and deposit products continue to set new heights and were up 41% from a year ago. First mortgage origination across the company was $29.2 billion, an increase of 25% from last year.

Now based on our most recent data, the percentage of deposit customers who have originated a mortgage with Bank of America has increased from 7.7% in Q1 '06 to 10.3% in Q1 '07, a 34% increase. And since the launch or a national launch in late April of our No Fee Mortgage PLUS product, banking center application volume is up 36% versus the same period last year.

Average home equity loans are up 24% from last year and were 5% from the first quarter. Now with the GCIB and you can refer here slide 11 Capital Markets and Advisory Services had a record quarter. Investment banking income was up 27% from a year ago while total sales and trading revenue was up 20%.

The team did a good job trading through the tougher markets during the quarter. And as you know the environment can be volatile. These results along with the 39% increase in sales grade from secondary trading reflect the continued traction of experiencing from our investment in the fixed income platform over the last couple of years.

Within Global Wealth and Investment Management, investment brokerage services income was up 14% from last year. Columbia Management that are putting from good investment performance, positive client in flows and market lift had an 18% increase and that's at management fees.

In Premier Banking and Investments, Investments brokerage services jumped 24% reflecting a 38% increase in fee based brokerage assets and a 20% improvement in productivity at a sales force. We continue to invest in this business, and we have added more than 300 client managers or a 14% increase from a year ago.

Total assets under management, AUM, increased 13% from a year ago or $66 billion with more than half of the increase due to equity and money market inflows. Now outside of our three business segments equity investment gains and other, you can see this on slide 13, were $1.7 billion, which is an indication of the continued strong recorded day in the market during the quarter.

Included in these results was a gain of approximately $600 million associated with the sale of private equity funds with the market value of about $1.9 billion to Conversus Capital. And Conversus Capital is a permanent capital vehicle to offer all its investors, both institution and retail long term capital appreciation through a season portfolio of private equity investments.

The way to raise funds through an issue in some of the Euronext exchange as well as through sales of certain strategic investors and the transaction closed on July 6. Management of Conversus Capital portfolio is through a contract with Conversus Act at management and investment manager principally owned by Bank of America and Oak Hill Investment Management. After the sales of principle investing portfolio is approximately $4 billion in funded investments of which approximately two thirds are direct investment and the remaining third is investments in funds.

Now given our action on this quarter we're looking for more normalized equity investment gains in the second half of 2007. Now given the recent market choppiness and the selected pullback of liquidity it's a little hard to gauge. However, we estimate a base of above $300 million to $500 million a quarter with market conditions, some what dictating something like that.

We switch to credit quality in slide 15. During this quarter inline with our expectations expressed earlier this year at our investor day as well as during our review of first quarter earnings. Overall, consumer commercial credit quality remains sound. Managed net credit losses across all our businesses were 1.3% up 4 basis points from the first quarter. Net charge-offs remained flat with the previous quarter at 81 basis points. Overall 90-day passed due on a managed basis dropped from 68 to 62 basis points, while 30-days passed due dropped by like amount or 5 basis points.

Second quarter provision of 1.8 billion exceeded net charge offs resulting in a reverse bill to $315 million. This reserve bill was driven by seasoning and higher loss expectations in several portfolios we have targeted for growth, including small business, home equity and consumer unsecured lending. Now as expected, managed consumer credit card net losses as the percentage of portfolio came in at 5.02%, which we believe is the peak for the year.

As you know the increase in losses over past few quarters in consumer card was result of going normalization and the seasoning of some legacy Bank of America origination advantages. We believe the seasoning has more or less run its course and net loss to ratio would drop back in the third quarter before continued normalization trends at higher. 90-days delinquencies in consumer credit card dropped from a peak of 2.79% in the first quarter to 2.55% in the second quarter.

Charge offs and delinquencies in both home equity and small business continue to increase, given these two businesses have been a focus of our growth over the last several quarters. In dollar terms the net charge off's in small business were up $37 million from the first quarter, while home equity net charge offs were at $11 million. We'd expect net charge offs in both businesses will continue to rise given ongoing growth and seasoning in the portfolios.

Turning to commercial, commercial asset quality overall was strong even with the inclusion of the small business portfolios. Excluding the commercial small business the net charge-off ratio is 5 basis points. Commercial criticized assets and non-performers rose negligibly, as we are not really seen deterioration outside the well publicized home builder segment and we think our home builders' portfolio reflects both granularity and geographic diversity to further erosion as expected to be modest and manageable.

Assuming no change to our economic outlook, we wouldn't expect significant excess provision over charge offs for the rest of the year outside providing for business growth. This should get your provision expense in excess of $6 billion for the year trending towards $6.5 billion consistent with what we told you earlier on this year.

Now we told you in April, that we were expecting an upward trajectory in net interest income from the first quarter and we still believe that will happen.

On a managed basis and here I am referring to slide 17 core net interest income in the second quarter was up a $126 million or 1.3% while total net interest income including market based margin was up 2.6%. The net interest margin on a managed basis stabilized and was down 1 basis point while core net interest margin was down 3 basis point.

As you can see on the bubble chart on slide 18, our interest rate positioning haven't changed that much from the end of March and remains liability sensitive to parallel shifts. We will benefit from current steepening, but more so from short end lead steepening versus long end, which is what we have experienced over the last couple of months.

Now our slightly reduced exposure to higher rates is driven by the fact that our cap protection to higher rates is closure to the money, given changes in the forward curve since last quarter.

The main drivers of the trajectory that I referenced going forward are not so much rate dependent, but relate to core momentum in our businesses and balance sheet, which we feel pretty good about. Ken mentioned our outlook earlier which absence some event driven reason translates do not expecting to effect move interest rates in the foreseeable future.

Now let me say a few things about capital, which you can see on slide 21. Tier 1 capital at the end of June was 8.52%. Remember that the acquisition of U.S. Trust, which closed on July first, will reduce that level by about 30 basis point.

In the fourth quarter, we will begin marking to market our 8.5% investment in China Construction Bank, through other comprehensive income, which at today's value should have a positive impact on both tangible and total capital ratios.

During the second quarter, we repurchased $2 million shares on a net basis, to consistent with what we told you when we announced LaSalle transaction. We cut back our shares repurchase program to be essentially share neutral.

And also as we told you in April capital ratios on day one of LaSalle close around year end would be approximately 7.5% for Tier 1 one and 3.8% for tangible equity. As with the CCB appreciation I will note that we had anticipated the Moscow gain that Ken mentioned in the funding and capital gain plan from LaSalle transaction.

At this time we don't expect any material changes from those projections other than timing differences of capital issuances. A positive impact from expense synergies with LaSalle won't really be evident until the first quarter of '08 at the earliest.

As many of you probably noticed, the expense levels came in at a higher level then you may have anticipated with a negative impact on our operating leverage. During the second quarter, we increased our litigation reserve by about $150 million, which includes a number of matters. Incentive compensation was up a $100 million from the first quarter levels correlated to the strong quarter capital market and professional fees were up $54 million from the first quarter.

Also during the quarter, we increased spending related to several corporate initiatives. We think we continue to produce the best efficiency ratio in the industry given our business mix, so I ensure you we haven't taken our eyes off of that measure.

In closing let me reinforce Ken's comments and credit momentum is evident in a lot of our customer metrics, which will drop revenue growth for the rest of the year and position us well as anyone going into 2008.
And with that, let me open it up for question. And I thank you for your attention.

Question and Answer

Operator

(Operator Instructions). For the first question, from the side of Mike Mayo with Deutsche Bank. Your line is open.

Mike Mayo
Deutsche Bank

Good morning.

Joe Price

Hi, Mike.

Mike Mayo
Deutsche Bank

Could you, maybe compare and contrast contingent liabilities on the wholesale side, today versus the start of the decade but I'm really getting at would be leveraged lending or hung bridge loans or the potential for hung bridge loans?

Joe Price

May be I'll pass it to the beginning of the decade but Ken, but I will take the current environment. Mike, let me, I guess what I will do backdrop real quick is unlike say the ADS market order, which is obviously got the sub-prime actual credit deterioration in it. We really haven't seen real deterioration in the underlining borrowers i.e., the customer's cash flows, balance sheets are still strong.

Now having said that, there is a very large high yield in leverage month for calendar and we need to get that level of supply, we clearly get investor pushback which we will see seems to be centered in the term loan B market principally the covenant light is as where I think most people would focus. And in this area, I guess what I have characterized last is our risk management business practices they are serving us very well. We've developed a pretty healthy bridge syndication business in the way I characterize our current position is that we really are not sitting on any unexpected funding. Now having said that we are not immune to risk, but remember on a relative basis to our total company compared to maybe some others, this is just not as big, but we do have a big business here.

I'd also say we just happen not to be in maybe of the higher profile larger deals in the forward calendar, which also would give you some perspective on our exposure there.

So that's probably the way I characterize our current position compared to what's out in the industry in the forward calendar and may be any other stream.

Mike Mayo
Deutsche Bank

And just a follow-up; Can you size this a little bit. I mean, how large is this high yield and leverage loan calendar? What's you participation in that, and what's your capacity to potentially take more loans on your balance sheet, that you are not planning to?

Joe Price

Well first, I don't have the exact level of full calendar. But this calendar, a couple of $100 billion when you add high yields and leveraged lending together honestly call it a little heavier might get a little heavy within the loan side, probably the down side. From the perspective of our ability to absorb, we honestly underwrite maybe credit with the understanding that we put it back, in fact to hold that credit and so it becomes an individual client selection process if we are comfortable with our practices around. We also had a very elaborate process of watching by record don't forget our liquidity basis stronger than anybody around in the industry. So our ability to fund anything we underwrite is always there we are comfortable with that.

In a way I don't have specific story on the size about particular commitments and I guess you can see if we go to our supplement package you can see our aggregate commitments you know in the level of those for all lending product. I would say we are very comfortable from a funding perspective and our ability to absorb any thing, and quiet frankly we keep our right, our attendance up in these kind of transfer opportunities also.

Mike Mayo
Deutsche Bank

And so slide 15 of your presentation does not mention provision higher due to leveraged loan. So I guess that's the case?

Joe Price

Yes, that it is correct.

Mike Mayo
Deutsche Bank

Alright, thank you

Operator

We'll take our next question from the side of Nancy Bush with NAB Research. Your line is open.

Nancy Bush
NAB Research

Good morning guys,

Joe Price

Good morning

Ken Lewis

Good morning

Nancy Bush
NAB Research

Couple of questions here; Is there a methodology behind these additions to the litigation reserve or does this just happen as it comes up or how does this get added to is there a discretion behind it, or you know if you could just describe the process I would appreciate it?

Joe Price

Nancy, we get into a pretty elaborate process of evaluating under what's considered SFAS 5 contingencies which means some has to be estimate able and probable quarterly. And if you look at all individual cases, our legal team working with our finance team in the business lines and that process this quarter yielded the incremental exposure that we reserve for, so while there is obviously judgment in that because it's an estimate of kind of a probability due, there's also the SFAS 5 rule that you had to follow

Nancy Bush
NAB Research

Okay. So this will just be a sort of a 1B number that comes along periodically, I mean, do you sit down and aim for particular quarters when you do this, or they just rise when they rise?

Joe Price

Pretty much a rise based on the underline suits and in some cases discretionary action we can take if we elected to, you know to settle something.

Nancy Bush
NAB Research

Okay. Thanks. Could you just give us a little of color as well on the deterioration in home equity portfolio, are there particular markets that you are looking at right now, if you could just add a little color to what we've heard industry wide thus far?

Joe Price

Yeah. Let me give you kind of a perspective first on our home equity business. Remember this is about $100 billion portfolio slightly under that and our charge off ratio went from 8 basis points to 12 basis points I think that are translating to $11 million, on a company our size. We think through the cycle and Bruce mentioned this, you may remember back in investor day, we think through the cycle that loss king of the range of on average that we would see in loss rate here could be 10-25 so even if we trended, pick a number like the 20 from here, from 12 we are only talking about its relatively small number and a grand scheme for us.

When you think about where we are seeing some of this, its generally given our growth its seasoning across our franchise, I would say though that the '06 vantages seem to be a little bit weaker, but principally just in the high LTV or high CLTV. So that if I'm looking around the industry that would tend to be probably the area that I would focus on.

Nancy Bush
NAB Research

And these were primarily generated, how?

Joe Price

The beauty of this franchise, as you know, is the banking center in the store. So this is really direct origination. We have very little of any other origination in here.

Nancy Bush
NAB Research

They are not much broker, not much correspondent, which seems to have been the mega boost in some other places?

Ken Lewis

You are absolutely correct. Nancy, this is Ken. Broker tends to be toxic waste.

Nancy Bush
NAB Research

I always thought so. Great, thanks very much.

Operator

We will take our next question from a side of Ron Mandle with GIC and is open

Ron Mandle
GIC

Thanks and thanks first of all for the managed numbers, I appreciate that very much. I had question in regard to bridge financing and leverage finance. JP Morgan, yesterday strongly implied that they took some write downs on loans available for sale of bridge loans through their trading accounts, in their second quarter and I was wondering if you had any similar write-downs through your trading accounts from loans available for sales?

Joe Price

Ron, as I had mentioned before we're really not sitting on any unexpected funding, this way I will respond to that so there is nothing of any note that related to that in our quarter numbers.

Ron Mandle
GIC

So that's basically you are now.

Joe Price

Yes.

Ron Mandle
GIC

Good. And then, in regards to credit card you indicated that you talked thought the loss ratio would be down in the third quarter and then might be turning up again from there. I was wondering if you could elaborate on that may be what you had in mind numerically?

Joe Price

Well, I don't want to get into specific projection on this things, but you may recollect back again to investor day when Bruce gave a pretty detail description of the seasoning, that was occurring in some legacy Bank of America portfolio and that's the kind what has run it's course.

Now we also talk about, I guess what is returned to normalcy in bankruptcy losses and how that is, it going to, it has taken longer than anybody expected more stretch down and that continued trend will occur and probably take us in as we had told you before into that 5% to 5.5% annual break, may be in '08 just kind of a may be even little bit after that, but really in that '08 kind of range so that's our benchmark to think about as it Ron.

Ron Mandle
GIC

And that would be the average for year in the range or the year end or what were your 5% to 5.5% would be?

Joe Price

Full year

Ron Mandle
GIC

Full year average

Joe Price

Yeah.

Ron Mandle
GIC

Okay. Good. Thanks very much.

Operator

(Operator Instructions). And we'll go to the next question from Matthew O'Connor with UBS. Your line is open.

Matthew O'Connor
UBS

Good morning.

Ken Lewis

Good morning Matt.

Matthew O'Connor
UBS

Joe, in April you had said that net interest income would rise a little bit this quarter, that growth will accelerate the back half of the year. I was just wondering if that's still the case and what's driving that pick up in growth.

Joe Price

The answer is yes, Matt, we put in those prepared comments. We felt like we would see trajectory throughout the year and into '08 and still feel that way. My point earlier was its not rate dependent it's more so business, core business momentum driven and that still would be the case.

Matthew O'Connor
UBS

Okay. And some of the off balance sheet position I think there have been a drag on net interest income, is that going to start going away?

Joe Price

I guess the way I would characterize that right now and we will try to keep, put things as clear as we can and supplement or we have in the Q4, but the way I think about that is it had been an increasing drag by four hand I feel like that increase in nature of that drag will dissipate and then we took a ride into little bit down from that standpoint.

Matthew O'Connor
UBS

Okay. And then just upwardly, I mean if we step back and look at the macro environment there is obviously various pocket of credit risk increasing out there. You guys have been active buyers of credit protection either for single names or just macro consumer hedges. Have you been adding any of those areas reasonably?

Joe Price

No. Our CDs on the accrued loan book is actually down, but you may recall last quarter we described to you how we moved what we viewed as our largest excess credit position on to trading platform under the parading option, accounting election that we made and in that side of the business they are pretty well dynamically managed as is any other core trading desk with multiple instruments not necessarily just CDs and we really now run that on the trading desk and you would see that coming to our trading results.

Matthew O'Connor
UBS

Okay. And then how about on the consumers side anything there?

Ken Lewis

Again, I remind that on the home, on the first mortgage product we have, what we call a REDI transaction which is REDI protection which is an essence insurance that we take the first small amount of loss but then we sell off the next year and then we take the upper end, and we continue that program to protect our wonderful family mortgage portfolio.

Joe Price

And let me reiterate what Jill said before, how a loss rate on our home equity portfolio is 12 basis points

Matthew O'Connor
UBS

Right and actually just a somewhat related question for Ken, you had a couple of changes just and you are managing both in the investment bank and then also the treasury area. Any change to your approach to managing risks in either of those areas?

Ken Lewis

No other than we said got a year ago, I think that we would probably be less active in our security gains, things of that nature and try to have a more stable environment in that regard, but that was something that we said you know some time ago and so other than that no.

Matthew O'Connor
UBS

Okay, thank you very much

Operator

We'll take our next question from the side of Jefferson Harralson with KBW. Your line is open

Jefferson Harralson
KBW

I thought I'd ask a question about the LaSalle transaction is there anything out there that could block this deal, and at to this point and would you consider renegotiating this deal to just take the Chicago branches if one of the two buyers came to you, with that?

Ken Lewis

Well we are anticipating closing as scheduled and as I mentioned as early in the fourth quarter, we are anxious to get on with it and we expect to have the entire company and are looking forward to having it. So the answer is we like it as it is. If you recall, we think it has a great IRR and some upside potential as well.

Jefferson Harralson
KBW

Great and on the follow up on the equity investment gains, continues to be a lot stronger than you guys are conservative forecast, you still think. But what is your thinking about equity investment gains in second half of the year?

Joe Price

I'd refer you back to the kind of comments we made earlier, where I said, the basis probably are $3 million to $500 million number with market conditions dictating anything in excess to that.

Jefferson Harralson
KBW

Okay sir.

Operator

Our next question is from the side of Jonathan Singer with Singer Interest. Your line is open

Jonathan Singer
Singer Interest

Good morning. I had two questions, one relates to your portfolio duration and how that ties back to the other comprehensive loss and how you might expect that to roll off as you go forward? And my second question relates to your outlook for the dividend and when you might announce a change or an increase?

Ken Lewis

Well let me start with dividend and Joe can get those you ask. We are, as I mentioned in my comments on next week the board meets to consider the dividend in our recommendation, and as you know we have very strong history of dividend increases and I look to forward to continuing that trend.

Joe Price

On the rate management side on the portfolio on the duration, clearly as rates along have moved up, we experienced higher level of OCI. I guess, I get back and remind you that that's one half of the equation, don't forget we have the absolute best in determinant material deposit base around. And that we as a result had to create some level of match maturity on there or some longer maturity fixed rate assets and that is really what have driven it. So when we look at those combined where cognizance and that one through OCI and the other one doesn't then we have be cognizance and that deal will be done, its doesn't present any cogs force in the way we run the company.

Jonathan Singer
Singer Interest

Okay. Great, thank you very much.

Operator

We will take our final question from the side of Betsy Graseck with Morgan Stanley. Your line is open.

Betsy Graseck
Morgan Stanley

Thanks. Just a follow-up on the duration question, are you doing anything differently in this player league steeper yield curve environment or is there opportunities for you to do some anything differently to enhance the returns you are getting from the portfolio on the bond side?

Ken Lewis

There is nothing significant contemplated. At this time we feel pretty good about the posture, the rate posture of the company, we feel pretty good about all the other aspects and not, nothing currently of any magnitude to contemplate it.

Betsy Graseck
Morgan Stanley

And the speed with which you have been moving from securities into loan has decelerated a little bit. Is it that you are nearing the end of that process or you…?

Joe Price

We had said that, we had an actual sale of security back third quarter last year; I guess it was, I can't remember exactly and we said pay downs in maturity would be the run so any real change in that pace of run off has simply been a pace of pay downs in the mortgage backed securities, so think of it more as a convexly question.

Betsy Graseck
Morgan Stanley

Okay. And then on dividend Ken, as you indicated long history of rising dividend and typically in the second quarter, I just wanted to get a sense on the payout ratio side, you indicated 40% to 50% overtime and you are at the high end of that range, are you thinking about changing that range at all at this stage?

Ken Lewis

Actually Betsy, we think more in the 50% range and we've said even then if we go over the 50% that doesn't bother us. So the pick up in the higher end is 40%.

Betsy Graseck
Morgan Stanley

Okay, lastly more of an operating business question. I just wanted to get an update on -- from you on the U.S. Trust integration. Your thoughts as to any investments that might be needed there and how you are also doing with regard to the affluent customer growth program that you've been engage in?

Ken Lewis

Well, first we'd expect in the third and fourth quarters to spend more in wealth management area particularly around the U.S. Trust name and so you'll see some marketing efforts that would be larger than we normally would have in that regard. Things go well, have gone well with that combination the teams were in place and so everybody knows what their responsibilities are and their, at the moment obviously engaged in calling on clients and in making sure we're talking with them on a regular basis.

And so that's I guess, that's about all I would say about that. With regard to mass affluent, there is a lot of effort going around that segment we think it offers incredible potential and you heard the numbers of the 7.5 million clients who qualify, who are not in the premier group and the Pat Phillips and others are actively engaged in and in fact we will be meeting on that tomorrow to see what they think we should be doing in addition to what we are doing to take advantage of that.

What we have come to grips with is that there are lots of client managers out there to actually serve every one of them with the client manager and so we're going to be doing some things differently with call centers and other marketing efforts to better serve them and to get more of the investment balances.

Betsy Graseck
Morgan Stanley

And is there any sense that you might want to be expanding the number of people as well in addition to just the call centers?

Joe Price

Yeah. We I think we added three hundred client managers over the past year and so that pace will continue, but even with that pace you can't get to 7.5 million clients, but we are adding a client manager at a pretty rapid pace.

Betsy Graseck
Morgan Stanley

Okay. Thank you

Ken Lewis

Thank you for coming and have a good day.

Operator
This does conclude today's teleconference. Thank you for your participation. Have a great day, you may disconnect at any time.