Operator

Good day, everyone, and welcome to the Bank of America First Quarter Earnings Review. [Operator Instructions] And it is now my pleasure to turn the conference over to Mr. Kevin Stitt. Please go ahead, sir.

Kevin Stitt

Good morning. Before Brian Moynihan and Chuck Noski begin their comments, let me remind you that this presentation does contain some forward-looking statements regarding both our financial condition and financial results, and that these statements involve certain risks that may cause actual results in the future to be different from our current expectations. And 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, please see our press release and SEC documents.

And also joining us this morning as he did last -- three months ago will be Neil Cotty, our Chief Accounting Officer. And with that, let me turn it over to Brian.

Brian Moynihan

Good morning, everyone. Before we get started this morning, I want to spend a couple of minutes on announcements that occurred this morning other than earnings. Obviously, we will cover in this call the announcement with the FSA/Assured on the monoline.

But on the leadership side, I just wanted to talk through what we've done there. Last year, Chuck came to me and due to an illness of a close family member in California where he has lived, it was going to be clear that he may not be able to move, and we decided to continue to talk about the situation. He had made a commitment to move at the end of the school year obviously because he has a daughter who’s at senior high school. But with that, it became clear as we moved through this quarter that Chuck could not move. So I asked Chuck to take another leadership position that could help us work on some client matters, matters in the mortgage company and help them transition to new CFO.

So what we announced this morning was to have Bruce Thompson take over for Chuck as CFO effective -- and that transition will be completed by the end of the second quarter. And Chuck will continue as a great judge and perspective to help Bruce continue to learn the tasks. Chuck has served as a CFO at a time when we had a tremendous transformation on our financials.

He's been a great partner, and we're glad that we came up with something that worked for everybody. Bruce, many of you know, he's been a Chief Risk Officer. He's done a great job for us since last year doing that. He manned our Capital Markets business for Tom and ran Leveraged Finance and many other things for the company over his 15-year career here. As Chief Risk Officer, he may assist through a difficult situation including, as you'll see in some of the pages later, a great reposition of the balance sheet.

In addition to those two changes, we also announced that Gary Lynch will join us as Global Head Of Legal, Compliance and Regulatory Relations. My judgment was that we want to continue to add to the quality and capabilities of our management team. As Gary became available, his reputation in the Street in legal circles and regulators is well known. He has also been the Head of Enforcement at the SEC. And the relationships he has around the world, he spent the last couple of years in London, will help us outside the United States. He'll join us when his garden leave expires later this year.

So with the management changes behind us, let's shift to the quarterly results. With that, I'll start on Slide 4. Rather than get into some of the detail on the page, let me just give you the themes for this quarter, which are similar to those relayed to you in early March.

The franchise that we've built over the last 230 years in this company continues to deliver, and you can see that in the numbers and the statistics this morning. Obviously, the Mortgage business is still in need of continued repositioning, and we continue to work on that. But what you've seen is solid customer activity across the board. Our focus on changing the strategy in the Consumer Deposits business has led to the first quarter of net checking account growth, a return to profit in that business, improved customer satisfaction across the board, the best retention of customers in that business in many quarters.

In other areas, we continue to grow our FA headcount. We've had strong referrals in the businesses across to each other. The deposit growth through the whole franchise has gone over $1 trillion in total deposits. And as the economy has improved a bit, we're starting to see some loan growth on a core basis in the Middle Market business with David Darnell. And we'll touch on some of that later, but the key theme is the franchise continues to deliver.

As you back up to the second point, revenue rose from last quarter. Expenses were flat on a gross basis to $20 billion, including goodwill, and I'll cover it a little later, up $500 million more on the core business. But the absolute levels are elevated, and I'm just going to talk about what we're doing about that in a few minutes.

Overall, earnings improved to $2 billion or $0.17, but we're still impacted by charges as we continue to pull out through the financial crisis. We had $5 billion in charges this quarter we absorbed, and we also had $3 billion between reserve releases and higher private equity to the good side.

When we talked to you at Investor Day, we said we were shooting for pretax, pre-provision profits as we normalized to $45 billion to $50 billion. This quarter, Chuck will walk you through the one-time items, but if you adjust for those, you'll get to a number of approximately $10 billion, which is up from last quarter, and I think puts us in a position that we can see clearly how we build a bridge to the $45 billion to $50 billion level as we normalize. That normalization requires the interest rate environment to change more fundamentally to more normalized environment. We've got to take the costs down across the board. As the economy continues to plug away, we'll continue to make progress in other revenue sources.

In addition, one of the things we talked about at Investor Day was the need to continue to drive down the legacy assets and risk in the company. During this quarter, we took care of one of the monoline exposures. We absorbed the home price fall-off, and we also continued to have our loan portfolio run off across all categories of portfolio we identified for you a couple quarters go. This quarter, that portfolio ran down by about $6 billion, excluding the government-matured loans, which we show you in the Appendix. The cost of that to the P&L was about $1.9 billion pretax this quarter. Again, Tom and his team did a good job reducing legacy trading assets and we continue to make progress in that area.

When you look at the balance sheet, we continue to position the balance sheet, our reserves even after the release remains strong, 4.3% to loans, 1.63x trailing to charge-offs. We made progress improving the capital ratios, lowering our risk-weighted assets again, growing liquidity and reducing long-term debt. All those important metrics we identified for you a few months ago.

We also continue to move forward to take advantage of the opportunities we identified for you. We have a great opportunity in this company in the Affluent and Mass Affluent segments and between Joe Price and Sallie Krawcheck and the team, they continue to see good growth there. We continue to have opportunities in our international capabilities, and I'll describe the work we've done there over the last quarter. And we continue to have opportunities in the business, that will rebound as the economy continues to move forward in the Investment Management and Capital Markets areas, and we had solid quarters there.

And again, this quarter, we continue to simplify the franchise. This quarter, we made progress. We sold a European small business card portfolio. We have Balboa under contract. That will close late this quarter, early next. In addition, we continue to reduce our private equity positions across the board, and we continue to sell some other small pieces to continue to fine-tune this franchise.

When we get to the broader economy this quarter, what we saw is that the customers' health continues to move forward. Delinquencies were down across all portfolios, consumer spending continued to increase this quarter over last, in 2011 over 2010. In March, it increased 7% to give you an example, about 1½% of that would have been gas price increases, the rest is sort of fundamental customer purchases moving forward.

We see loan demand in select areas and loan stability across the board, absent the runoff. Our Affluent clients continue to take more risk in the market. And we've seen growth in the area there, and the capital markets remain robust.

So enough with that, let's drop to Page 5 and get into some of the specific results for the quarter. On Slide 5, you can see we can start with the capital ratios. We told you at the conference, our share return model requires us to focus on building our balance sheet with a strong reserve position, driving optimization of risk-weighted asset position and building capital through 2011, 2012 as we move from Basel I to Basel II to Basel 2.5 to Basel III. This quarter reflects the continued progress.

The tangible common equity ratio increased to 6.1%, above the level we believe that -- of the risk inherent to run the company. The focus that we also shared with you is driving tangible book value per share. We moved that to $13.21 this quarter as you can see in the upper right-hand corner of the slide.

Our regulatory cap ratios continue to improve. We had a fairly sizable change in the DTA allowance period for regulatory capital treatment that caused a 27-basis points decline before we got the quarter started. But even with that, we still made progress. The Tier 1 common ratio was up 4 basis points or 31 basis points, not taking into account the adjustment. And the Tier 1 was up 8 basis points gross.

On the lower right, you can see we made progress by continuing to reduce RWA. And as we've talked to you, we had significant mitigation coming later in the year in Basel calculations after planned implementation of technology, risk models and other risk management opportunities we've been working on for the last couple of years.

All this is critical in our ability to meet the Tier 1 Basel III common ratio goal of 8% at year end 2012 as if Basel III was fully implemented, and to move forward on capital management later this year and next year.

Now let me go to Page 6, and then just step back and think about the progress first quarter of 2010 versus 2011 in the core balance sheet of this company. As you can see on this page, overall assets down 3%, our RWA is down 6%, our deposits are up 4% or $44 billion, our long-term debt has been reduced $77 billion, which is significant and has a significant benefit on our margin.

Importantly, you can see our tangible common shareholders' equity is up $16 billion. Our Tier 1 common equity's up $8 billion. And you can see the rest of the statistics on this page. So in a year's time frame, we've been able to significantly lower the risk, increase the capital and increase the statistics on reserve coverage while at the same time managing the customer franchise.

As we move to the businesses, I just want to reflect quickly on those, and then I'll let Chuck take you through the detail on the numbers. On Slide 7, you can see the overall picture. It's a pretty simple picture. You can see all the businesses have moved back to profitably except our Mortgage business, and we'll talk in some detail about that later on.

As you go on each of the businesses, let's first take our Deposit businesses starting on Page 8. The deposits team produced earnings this quarter of $355 million, and that was versus a loss in the fourth quarter. They had higher revenue and lower litigation expense compared to the fourth quarter.

Remember that in this business, the fourth quarter was kind of the low point because the regulatory items affecting the Deposits business, i.e., the Reg E and overdraft are fully in this business. Our Durbin charges will go into our Card segment later this year if it becomes effective.

The return on tangible equity for our Deposits business this quarter was 25%, which is above the rate of our early rates obviously, but we expect to go higher as the business continues to recover. As deposit balances were up $5 billion or 4% annualized, the cost of retail deposits, both in this business and our Wealth Management business combined, were down 4 basis points to 33 basis points.

Importantly, new accounts reflect continued focus on quality relationships and retention. As a matter of fact, we're seeing the lowest attrition in accounts we've seen in three years or more. In this quarter, we saw the first net account growth based on the change in strategies that Joe Price and his team are accomplishing in five quarters.

Account closures are down, and our customer focus continues to work. Early results in our pilots to reposition our franchise based on all the regulatory changes in a customer-driven analysis are still in early rollout, but exceeding our expectations. In adding a preferred customer solutions group, our Platinum Privileges offerings, as we call it, has worked well.

On the expense side, the team is working. Branches are down 200 over the last five quarters. Our cost to deposits ratio that we showed you in early March went down from 264 basis points. That's all the cost of operating a franchise over the deposits to 250, which shows continued growth. Our active online accounts exceeded 30 million, a record for this company. Our mobile users are up 55% first quarter '10 to first quarter '11 to 6.8 million mobile users.

As we've switched to Card Services, that business earned $1.7 billion in the quarter on improved credit quality. Its revenue is down as the portfolio keeps repositioning as we continue to run down the book for the loans we don't want in that business, and the lower yields did a seasonal decline in retail volume. The unit did benefit by reserve release, but the earnings are normalizing, and we'll see that happen over the next few quarters. The retail volumes are down from the fourth quarter, but as I said earlier, customer usage of cards has gone up year-over-year by in the 5%, 6%, 7% range, depending on the month.

Our net loss rates broke another level here as we filed below 8% for the first time in a while, from the peak of nearly 14% on card losses in U.S. credit card book. New accounts in our U.S. credit card book were up 26% in the fourth quarter in the highest level in six quarters. In credit quality, there's no origination that's very strong. So as you think about our core Consumer businesses, we returned to profit deposits, and we ought to expect to keep driving that forward. And our Card business continues to improve and both have upside as the interest rate environment and economy continues to stabilize.

We move to the next page, Slide 9 in our Wealth Management businesses. The Global Wealth Management team turned in $531 million after-tax, up 69% from solid fourth quarter results, but driven by an 8% increase in revenue and lower provision for credit cost.

Our pretax margin in this business, showing the value of the innovative model across all the various products, is reaching nearly 19%. And the return on economic equity was 30%.

The growth in margin, as I said, is reflective of the loan deposits growth, which grew 5% in the quarter. And it demonstrates the customers who want to integrate their finances with us, and that loan deposit growth led to NII growing 10% from the fourth quarter 2010.

Now many times people ask if that money is just money sitting on the sidelines. But during this quarter, we've also seen the activity related to the investment side of the house grow nicely. Client balances grew 2%, and that's on a $2 trillion base to give you a sense. So it's $45 billion in growth in clients and the new product flows of about $14 billion in long-term assets under management, were all good performance by this unit.

The growth in Financial Advisors continue to be steady, 184 new Financial Advisors were added. We continue to have record low attrition in our advisor forums. And referrals by this unit, which is sort of a Lynch Pandora referral strategy, continue to be strong and remain healthy with the other businesses.

On Slide 9, we moved to one of the -- at the bottom of Slide 9, we talk about one of the core businesses we had, which is Middle Market, Small Business Lending, which turned in another quarter of $923 million of earnings. They're down slightly as they went from a release of provision to actually having provision this quarter. The return on tangible equity in this business is 18% for this quarter.

Average C&I balances were up 2%, and that's concentrated in the middle market space. It offsets declines in the Commercial Real Estate business and Dealer Financial Services business. Average deposits also grew 2%. The Asset Qualities businesses was very strong through the cycle and continues to improve.

One of the things that you often ask about that we saw here, was that we saw revolver utilization of our companies move from 32% in the fourth quarter to 35%, which shows the companies are using credit ever so slightly. Remember that normalized to that level, it’s probably in the mid-40s, so we've got work to go ahead of us there still.

We move to Slide 10, move to our large corporate and capital markets and sales and trading team in Global Banking and Markets. They earned $2.1 billion for the fourth quarter. Returns on tangible capital of business were 28%. The revenue was up 44% from the fourth quarter, driven by increases in sales and trading, a robust quarter investment banking and steady corporate banking revenue driven by treasury management growth of about 5%. Corporate loans were up $3 billion for the quarter, about 12% annualized, driven by growth in our International Lending business.

Now one of the interesting things here is our international market share in some of our businesses is now stronger than our U.S. market share, which shows the effort the team has made to grow across the world with its global client. In Equity Capital Markets advisory, we actually had higher shares outside the U.S. this quarter than we did inside the U.S., which shows good progress on our international strategy.

And now we move to the business that we continue to have to do a lot of work on, and that's our Consumer Real Estate Services business. As you know, we split this business in two parts to focus the executives in the business to concentrate on two pieces: Barbara Desoer and her team to concentrate on the Front End business; and Terry Laughlin and the team to concentrate on the Legacy Asset business and running down.

In the business, the Legacy Asset business obviously had a significant loss. And the go forward business had a slight profit, and Chuck will talk you through that later. Our production levels in mortgage banking fell to $56 billion, but we maintained our market share. To deal with the fall off, we announced today and have been reducing headcount by approximately 3,500 people. About 2,000 of those are contractors in that business and about 1,500 are teammates. This is all in the good side of the house in Barbara's side of the business.

On the Legacy side, we continue to plug resources to get through the backlog and modifications and foreclosures. During the quarter, we modified 64,000 loans, bringing us to over 840,000 loans modified in the last few years. On our Legacy side, as you saw in our press release, we settled the exposures, one of them major monoline insurers, and Chuck will cover that later.

Again and after the review the regulators conducted late last fall and our self-assessment, we have made significant progress in implementing the changes and solution on short sales, deeds in lieu and foreclosures, and we'll complete about 70,000 of those in this quarter. The cost of delay in foreclosures and assessments related to that is reflected in the P&L this quarter as is increased servicing cost in our MSR valuation.

As we move to the subject of cost, which is something we focused on, you can see on Slide 12 that you can see that we’ve laid out for you sort of the fourth quarter and the first quarter in terms of the overall cost. There was about $20 billion in reported cost, but on a core basis, we had about a $500 million increase from quarter-to-quarter.

We know that we need to do more on cost, and we'll continue to work on those. If you look at the base run rate's approximately $17 billion, and this is the run rate we've been facing consistent with what Chuck told you at the Investor Day about a $70 billion number. So we've been managing cost to try to run it flat as the incremental one-time costs continue to hit us on a given quarter. But the way we're managing that has been managing headcount. Overall headcount grew on a point-to-point basis from December 31 to March 31 about 0.3%. That's 0.3% or 2,700 people across the 285,000 to 288,000 people.

With the Mortgage business and the Legacy side adding 2,700 people and the rest of the company going down by 2,000. That 2,000 reduction is even with the investments we're making in small business bankers out in international capabilities, financial advisers and many other areas.

Our efficiency ratio's at 75%. It's down from 92% in the fourth quarter, but that is not the progress we'd like to see. We expect that to continue to recover as the legacy assets and some of the charges go down in the high 50s, low 60s, which is where we were earlier in 2010. But we need to do more than show we can hold expenses flat or reduce them as revenue rises, deliver the returns in this business in the company we need to do. To do that, as we told you at Investor Day, we continue to finish off with all the integrations, and that will give us the time, the so-called peace dividend in the effort to continue to drive this company forward.

We told you we could get back to the 55% efficiency ratio. We have launched an effort this week using outside teammates who've worked with other companies in a significant amount, an internal team called New BAC, which will continue to work to take all the work in this company, examine it and see the work that doesn't add value to our customers or teammates and move it out of this company. We'll work on this effort for the next several months. It takes two phases and leads us all the way into 2012. The first phase completes late this fall, and we'll continue to implement immediately thereafter to get the expense savings and keep the run rate down as the revenue and the economy recovers.

With that general overview, let me turn it over to Chuck to take you through and detail the quarter. Chuck?

Charles Noski

Thanks, Brian. I appreciate your kind words, and I'm looking forward to continuing to work with you and the senior management team in my new role as Vice Chairman. I think Bruce will do a great job as the next Chief Financial Officer. And also Gary Lynch, who will be joining us later in the year, will be a terrific addition to Bank of America. As some of you may know, I worked with Gary during the five years I served on the board of directors of Morgan Stanley. And I found him to be a first-rate executive.

With that, let's turn to the slides and begin on Slide 13. For the quarter, as Brian said, we reported $2 billion of net income or $0.17 a share after preferred dividends. There were several significant items during the quarter, which are detailed on Slide 14. Representations and warranties provision in the first half was $1 billion, of which slightly more than half was associated with the GSEs and the remainder was related primarily to a recent experience with a monoline. The provision related to the GSEs was driven by higher estimated repurchase rates, along with the further deterioration in the home pricing index, what we call HPI in the quarter.

If you recall, when we announced our agreement with the GSEs earlier this year and adjusted the liability for future losses, I noted that there could be further refinements from a number of factors. A major factor in our estimate of the liability for future losses is the performance of HPI, which declined this quarter and impacts the severity of losses in our reps and warranties liability.

The credit market unstructured liabilities under deferred value option resulted in a negative adjustment of $586 million, reflecting a tightening of our credit spreads compared to a negative adjustment of $1.2 billion in the fourth quarter and is reported in other income.

Equity investment gains during the quarter included a $1.1 billion gain from an investment in connection with the related IPO in the first quarter and reflected both the sale of shares as well as the fair value mark on the remaining shares we still hold. We have $546 million in gains on the sale of securities during the quarter. Trading-related income included a negative DVA impact of $357 million due to wider debt spreads.

Excluding fees paid to external legal service providers, litigation expense this quarter was $940 million, principally associated with mortgage-related matters.

During the quarter, there were various mortgage assessments and waivers accrued for several areas of exposure driven by the foreclosure delays, which totaled $874 million, including $548 million for compensatory fees that we expect to be assessed by the GSEs as well as costs incurred during the foreclosure process that we do not expect to recover.

Also included in the first quarter, as Brian mentioned, was approximately $1 billion of expense related to retirement eligible stock-based compensation awards, so-called FAS 123R, that we have every year at this time. And merger related and restructuring charges were $202 million.

Credit loss reserves were reduced by $2.2 billion in the quarter versus $1.7 billion in the fourth quarter. The current period reserve number included

$1.6 billion of reserve increases related to the purchase credit impaired portfolio. One item not on this slide, but which I want to highlight for you is our effective tax rate that this quarter was 26.3%. At this time, we would expect the rate for the rest of the year to be around 30%, plus or minus unusual items like a charge for the U.K. rate reductions expected later this year or more valuation allowance released benefits like we've seen during the last couple of years.

You may recall that we wrote down a portion of our deferred tax asset last year in the third quarter due to the 1% U.K. tax rate reduction, resulting in a charge after tax of nearly $400 million. It looks like the U.K. is considering two more 1% tax rate reductions, which could impact the third quarter of this year. So we are expecting a charge income tax expense of nearly $800 million upon enactment of those rate changes. Because we would just be reducing deferred tax assets that are disallowed at the margin, the $800 million charge would not affect our regulatory capital levels.

On Slide 15, you can see that average loans were down $1.6 billion from the fourth quarter while average deposits increased more than $15 billion. Deposits remains a good story of growth as consumer balances grew, Wealth Management clients continued to do more business with us and Commercial customers continued to prefer to hold rather than invest cash. In line with our comments over the past few months, ending long-term debt dropped $14 billion, and we expect that decline to continue.

As you can see on Slide 16, loans at the end of the quarter, excluding net charge-offs and run-off activity, were up $2.9 billion. Consumer loans were relatively flat. Commercial loans x real estate were up $3.5 billion or 1.4%, driven primarily by growth in Asia and EMEA. And commercial real estate loans declined $2 billion or 4.1% as reductions in higher risk assets continue to offset new originations.

Let's turn to net interest income on Slide 17. Net interest income on an FTE basis was $12.4 billion, down $312 million from the fourth quarter. The impact of lower hedge income, lower consumer loan balances and yields and fewer days in the quarter were offset partially by a reduction in long-term debt and other items.

Our average earning assets for the quarter were down $14 billion, mainly due to reduced customer financing activity in the repo area. Average consumer loans were down as additional runoff in the Card and Home Equity portfolios more than offset retained mortgage originations.

Average commercial loans were relatively flat as decreases in real estate and U.S. Commercial were partially offset by increases in both core loan and trade finance activity in our non-U.S. Corporate Banking business, reflecting our growing international footprint.

As we've said for the past few quarters, we expect net interest income to be down again in the second quarter and anticipate stabilization in the second half of the year. We are also on track to lower our long-term debt footprint by 15% to 20% by the end of 2011, relative to third quarter 2010 levels.

Turning to Slide 18. Card revenue was down almost $300 million from the fourth quarter, results due mainly to the seasonal decline in interchange. Decreases in retail spending were 6% versus the prior quarter, and versus the prior year reflected an increase of 6%. Card revenue was down 7% from a year ago, due to the impact of the CARD Act as the provisions became effective throughout 2010.

On Slide 19, we show service charges were flat with the fourth quarter, but down 21% from a year ago due to overdraft policy changes, which as you know, were fully embedded in our results as of the fourth quarter of last year.

Let me say a couple of things that you should note before we move away from retail banking driven revenue. Consumer spending is up, account closures are down. Quality sales remained strong, deposits grew and employment levels are higher, which all point to improving performance in our Retail businesses in future periods.

Mortgage banking income on Slide 20 improved by $2 billion from the fourth quarter as lower reps and warranties provision was partially offset by lower production volumes in margin as well as less favorable net MSR hedge results. Production volume in first mortgage of $57 billion, was down 33% in line with the drop in the overall market size from the fourth quarter, while lock volumes were down 45%.

MSR performance net of hedges was negligible this quarter versus a positive $257 million last quarter. The capitalization rate for the consumer mortgage MSR asset ended the quarter at 95 basis points versus 92 basis points in the fourth quarter. Given the level of interest rates and our lower lock pipeline, we forecast production levels will be lower over the near term.

Turning to Slide 21. You can see the total reps and warranties provision in the quarter was $1 billion down from $4.1 billion from the prior quarter. Much of the decrease was due to the impact of our agreements with the GSEs in the fourth quarter. The $1 billion provision in the first quarter dealt principally with the GSEs and recent experience with the monoline.

On that note as Brian made reference to this morning, we announced an agreement with Assured Guaranty to resolve all of the monolines outstanding and potential repurchase claims related to alleged reps and warranties breaches involving certain first- and second-lien residential mortgage-backed securitization trusts where Assured provided financial guaranty insurance. The agreement covers combined original collateral exposure of approximately $35.8 billion with the combined principal at risk of approximately $10.9 billion. The agreement includes a cash payment of approximately $1.1 billion to Assured as well as a loss sharing reinsurance arrangement that has a current estimated fair market value of approximately $500 million. Approximately $1.1 billion of that was reserved for these potential repurchase claims at the end of December with the remaining liability recognized in the first quarter.

This settlement gets behind us a sizable piece of home equity exposure along with some first-lien exposure. We currently estimate the upper end of the possible loss range related to non-GSEs to remain at around $7 billion to $10 billion over existing accruals. Any reduction in our previously disclosed estimated range resulting from reserve accruals in this quarter were largely offset by the impact of HPI deterioration during the first quarter.

As a reminder, this estimated range does not represent our estimate of a probable loss and is based on current assumptions that are necessarily subject to change. The liability for reps and warranties ended the quarter at $6.2 billion compared to $5.4 billion in the prior quarter.

Our unresolved repurchase requests increased $2.9 billion to $13.6 billion due to an increase in submissions from the GSEs on both remaining countrywide originations not covered by the agreements we announced in January and legacy Bank of America originations. Part of the increase was the result of lower submissions in the fourth quarter as we finalized the GSE agreements.

On Slide 22, we've outlined in more detail the organizational changes we announced in the last quarter for our former Home Loans and Insurance business. And on Slide 23, we split out for you what we now call Consumer Real Estate Services into three pieces to provide a way to better understand the financial results and track our progress in those activities.

Home Loans and Insurance, as you can see, made $130 million this quarter and includes loan production activities. Our servicing of current loans, insurance operations and consumer real estate services, home equity portfolio not included in the legacy asset servicing portfolio. Insurance earnings drove the results given the low levels of customer mortgage application activity in the quarter and the cost we incurred to fulfill the outstanding pipeline left over from the fourth quarter's low rate environment.

Legacy Asset Servicing lost $2.5 billion and is responsible for servicing delinquent loans and managing the runoff and exposures related to selected residential mortgage, home equity and discontinued product loan portfolios.

The LAS results represent the net cost of legacy exposures, including reps and warranties provision, litigation cost, financial results of the home equity loan portfolios allocated to Legacy Asset Servicing and financial results of the Legacy Asset Servicing portfolio service for others. The LAS portfolios include both current and delinquent loans that met standards defined for inclusion in Legacy Asset Servicing. The other column is essentially the results of management of the MSR and includes the change in the value of the MSRs net of hedges. We will continue to refine how we present this information going forward.

Okay, now back to earnings on Slide 24. Our activity with Wealth Management clients is producing revenue that achieved post merger highs, which is where we generate the bulk of investment and brokerage revenues. Investment in brokerage revenue was up $222 million or 8% from the fourth quarter due to higher market levels, long-term assets under management and higher transactional activity.

Asset-managed fees were a record $1.5 billion, up 6% from the fourth quarter and brokerage fees were also a record, approximately $1.6 billion, up 9% from the fourth quarter. Total client balances, including Merrill Edge, grew $47 billion to $2.3 trillion during the quarter as a result of market activity and strong flows into long-term asset management products.

Sales and trading revenue on Slide 25 of $4.9 billion, which includes both net interest income and noninterest income, increased approximately 93% from the fourth quarter, but was down around 30% from last year's record quarterly results. FICC results more than doubled from the fourth quarter led by credit products and rates and currencies.

Equity revenue was up 60% to $1.2 billion from the fourth quarter, driven by increases in all major lines of business. An improved trading environment and client activity helped the Equity Derivatives businesses while increases in both the S&P and Dow had a positive impact on the Cash Equity business. Average VaR in the period increased 17% from the fourth quarter to $184 million versus a drop of 33% from a year ago.

Investment banking results in Slide 26 were relatively flat with the fourth quarter, but compared to a year ago, revenue increased 27%. Our overall fee ranking remained at number two globally. Results versus a year ago were driven by increases across all major product categories, particularly M&A and equities. We were involved in numerous high-profile transactions during the quarter, several of which were outside the U.S.

Turning to expense levels on Slide 27. Total expenses, excluding the goodwill impairment charge last quarter, increased $1.4 billion from the fourth quarter. As I discussed earlier, $874 million of the increase was due to several areas of exposure, driven by the foreclosure delays.

Personal expense compared to the fourth quarter is up approximately $1.4 billion, reflecting again the impact of retirement eligible stock-based comp awards along with higher performance-based incentives in GBAM related to stronger results. Higher levels of headcount and expense in consumer real estate services were related to default management staff and other loss mitigation activities in that business. As we mentioned earlier, our litigation costs of $940 million in the quarter dropped from $1.5 billion in the fourth quarter.

As we told you last month at our Investor Conference, we expect our expense levels for 2011 to remain elevated as we work through these issues and continue to invest in the franchise. Highlighting what Brian said earlier, we have launched a comprehensive initiative focused on improving our financial performance by reducing expense levels and producing higher revenue.

Moving to asset quality trends on Slide 28. As they did through most of last year, delinquencies excluding government-ensured FHA loans, net charge-offs, criticized balances and nonperforming assets continued to improve.

On Slide 29, improving credit performance in most of our portfolios drove the decrease in net charge-offs. Net charge-offs of $6 billion decreased $755 million compared to the fourth quarter. Consumer net charge-offs were down $509 million, reflecting improvement in most products. Commercial asset quality also improved as net charge-offs dropped $246 million or 26% from the prior quarter with the biggest drivers being U.S., C&I, including a legal settlement recovery, and commercial real estate.

The increase in net charge-offs in non-U.S. commercial was due to a couple large legacy credits. And even with the decline in reserve levels, the ratio of allowance for loan losses to annualize net charge-offs was essentially flat compared to the fourth quarter at roughly 1.6x.

And thinking about credit costs for the rest of 2011, we think provision expense should continue to edge down through the year as charge-offs continue to move lower, primarily in the Consumer businesses. We expect loan loss reserve reductions will continue as long as portfolio performance in the economy continue to improve and our other credit metrics warrant lower reserves.

Moving to Slide 30. Our purchase credit-impaired consumer loan book, which is comprised of discontinued real estate, residential mortgages and home equity was $28 billion, including the allowance. We increased the reserve by $1.6 billion to reflect a more negative outlook for home prices.

Turning to Slide 31. Let me add before closing that we recognize that there are a number of items in the quarter that make your analysis a bit time consuming. From our view, the positive underlying trends are improvements in credit, capital, deposits and progress on redesigning our franchise to best serve our customer base. We believe the interest rate environment will remain challenging and don't expect the mortgage picture to improve significantly for several quarters. However, as you've heard at our Investment Conference, we have articulated our strategy, and we are executing against it.

So with that, let's now open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to the side of Glenn Schorr with Nomura.

Glenn Schorr - Nomura Securities Co. Ltd.

Maybe if we could just take a minute to expand a little bit, you've just mentioned and you have it on Slide 27, that the program to increase revenues and take out cost to drive profitability. And I think later on you said something about material benefits in the second half of '12 on the expense side. Can we talk maybe a little bit about the largest contributors or the largest buckets that we'll see that expense savings over the two years?

Brian Moynihan

If you think about it, think about two different things going on, Glenn. First, the largest improvement you're going to see over the next 24 months will be as we crest over the -- go over the crest on this mortgage servicing side for the delinquent assets and start to take those costs out. And likewise other places in the company, those similar costs exists. So that -- if you remember what we showed you is we showed you we had 70,000 human beings dedicated in the Mortgage business, including the contractors, 50,000 full time employees. We've gone from about 5,000 to 8,000 people who service six days in out loans to a total of 30,000 over the last several quarters, and again, 2,500, 2,600 again this quarter, 2,700 this quarter. So one of the things you'll see as we continue to get through the bubble of foreclosures, as delinquency come down, you really have a bodywork to get through. We had to stop the foreclosure. We restarted them. As we get through that, that will come down over the next several quarters. But we're talking about -- we knew we're going to get that, and so that we have identified, that's why we isolated it, and we'll get that out. What we also need to do is just to continue to -- look, we sold 19 or 20 different pieces of the company off. We have built up a lot of stuff for businesses that's no longer here. We have built processing and stuff when the company was a different company. We bought a lot of new enterprises. Our Six Sigma capabilities that we had put in because we bought in over 100,000 different associates who were new to all that. We had to step back, and take a look at every aspect of work in the company, work that doesn't benefit the customers or associates have to be taken out. That process is a process many companies use, and I've used it early in my career, but the process is in two phases. The first phase finishes late this fall; the second phase finishes early in the spring. And so we'll begin implementing as soon as we have ideas. That'll take a little longer as we go through. That is not stopping us from also doing things like in the branch team that I talked about. We are down 200 branches, down 50 this quarter. Round numbers, the cost of deposits ratio that we showed you at Investor Day dropped 260 basis points, which we think leads the industry by a lot. That includes the FDIC expense, the whole nine yards in there. So as you think about, we continue on the core assets we do on cost. The other benefits will come through a little slower as the bad assets get better and the work gets done in the program.

Glenn Schorr - Nomura Securities Co. Ltd.

So I very much appreciate that, Brian. On the Mortgage Servicing side, it's a whole lot of people, and I think we get that. But in general, I think we saw through JPMorgan's results, and I'm expecting through others, in general, the cost of servicing mortgages is still going to the moon on a run rate basis. Is that thought process included in your cost savings in the second half of '12? And does that have anything to do with the MSR, where you mark the MSR?

Brian Moynihan

Yes, in the valuations on MSR for the last couple of quarters has been a charge to increase servicing costs, which decrease your cash flow, Glenn, and that's embedded in that valuation. We're carrying 92 basis points or so, which is a conservative value, we believe, but embedded in that, in the performance in that last couple of quarters have been roughly $500 million each quarter, $450 million or so each quarter for that. And that we have to price through to the Street, for lack of a better term, because the increased amount of work you have to do to service the mortgage loan, ultimately, we have to get paid.

Glenn Schorr - Nomura Securities Co. Ltd.

I appreciate that. All right. Last one on reps and warranties, I think following the partial settlement of the GSEs, I and others might have thought with $5 billion plus in reserves, we might see a leveling off on the provision. But another $1 billion with over half going to the GSEs, I'm assuming that, that's for the Fannie stuff that wasn't settled? And just curious on how you think about that as an annoying run rate that's with us for a few more quarters, or you feel like what percent of the pipe are you through now on the GSEs?

Brian Moynihan

Chuck?

Charles Noski

Sure. Glenn, there's a couple dynamics going on here. We saw a slowdown in new repurchase requests from the GSEs in the fourth quarter, as you might imagine, as they were going through the settlement process, so there's been a bit of backlog that built up by them in the fourth quarter that I think we saw hit us in the first quarter. They also seem to be devoting more time to submitting claims and less time to resolving claims, which has tended to create a bit of an elevated level at the end of the first quarter. So there's a bit of that going on. A substantial portion, though, of that, of the provision associated with the GSEs related to HPI deterioration, which was kind of funny. Most of that, I should say most of the submissions, who I've been referring to were Fannie, rather than Freddie. And in terms of where we are on the overall pipeline, we said last quarter we were in 70 to 75. I would say we're -- in terms of being all the way through with respect to GSEs, my guess is we're probably at the high end of that range now.

Operator

And we'll take our next question from Matt O'Connor with Deutsche Bank.

Matthew O'Connor - Deutsche Bank AG

As we look at the mortgage related hits in the first quarter, are there any estimates of what the impact will be from Wednesday's regulatory enforcement actions that were announced, in terms of whether it's value in the MSR or just higher foreclosure cost?

Brian Moynihan

Think about that order as being announced on Wednesday, but actually the work took place in October, November, December, the assessments and the supervisor works we've implemented, and that's why we've been adding people. So the single point of contact, the requirements on the signing of affidavits in the foreclosure process, that's been embedded in our run rate as we've been building up. And so that did impact in both the fourth quarter and the first quarter evaluation of the MSR, because we already were getting ahead of this. These are things that we identified in the work that we did in self-assessment, and the regulators identified other improvement. So the run rate aspect, that will have some elements to it, but a lot of it's in the system as we speak today.

Matthew O'Connor - Deutsche Bank AG

Okay, so outside of potential penalties for you and all the other banks as part of this, you don't expect material costs related to enforcement actions?

Brian Moynihan

The outside significant penalties is the question. And then remember, this is the bank regulatory environment, and we will have to make an assessment as we get to the other people if we get there, what other servicing requirements we may put on. But the core of what the bank regulatory requirements do is to look back. And the other things are fairly consistent in our dialogs, but we'll see in terms of run rate cost based on that. But from a standpoint of bank regulators, the piece left open is a CMP question.

Matthew O'Connor - Deutsche Bank AG

And then separately, but still staying on the mortgage topic here, as we think about the sensitivity of some of these mortgage hits outside of credit to HPI declines, how much sensitivity is there, for example, as HPI is 5% worse than expected? What do you think that would mean to the mortgage put-back hits and the litigation hits and some of the other moving pieces?

Charles Noski

Yes, HPI is going to impact us in several areas. One of them being the PCI, purchase credit impaired. It will impact us in terms of reps and warranties, and then it will also impact us on the credit side with our residential mortgages at 180 days past due. It really is difficult to do it on the purchase credit impaired because as you know, it's a fair value of a life alone. And it not only requires what's going to happen to HPI this year, but also assumptions about how long a recovery takes. But if you did a shock this year of roughly 4%, over all those portfolios I just mentioned, it'd be probably about $1.5 billion. But again, it assumes on the purchase credit impaired, if you got the shock of 4% this year, with the gradual increase in home prices over several years, but again, not returning to 4% increase in home prices until well into the second half of the decade.

Matthew O'Connor - Deutsche Bank AG

And then what about for some of the other buckets like the mortgage or purchases and litigation? How much sensitivity is there to those two [indiscernible]?

Charles Noski

That was in there as well.

Matthew O'Connor - Deutsche Bank AG

Okay, okay. And then just separately, last thing, as we look at the net interest margin for the second quarter, I think the guidance in March had been, you'd bottom out around 2½%. Obviously, 1Q came in a lot better than that. I'm just wondering what the outlook is on the NIM percent and the net interest income dollars for 2Q?

Charles Noski

Matt, we think it's -- we obviously think that the second quarter will be down, not clear that we're going to go down another 17 basis points to 250. We did have, frankly, a better performance in the first quarter than we expected.

Operator

And we'll go next to the side of Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley

A couple of follow-ups on the Assured. I wanted to understand how much of the Assured relationship that you have has been settled at this point? I mean you mentioned first and second liens were in this discussion, but it looked to me like maybe you only settled on the 21 deals that were first liens?

Charles Noski

Betsy, we have basically resolved virtually all of the controversies between our various companies and Assured, and that's contemplated in this settlement. Probably the only thing that is not contemplated would be those instances in which Bank of America or Countrywide or one of its affiliates might have sold a loan to another institution that then securitized that in the package of mortgages and then sold them to -- or then had them wrapped by Assured. So the way that transaction would occur, Assured would actually go to that third party and assert a potential reps and warranty claim, and then that third party, in turn, can come back to us. That aggregate exposure, in terms of mortgages, is about $1.5 billion. That was not addressed in this, nor have we really had much if anything in the way of claims asserted in that regard. But beyond that, we and Assured are basically done.

Betsy Graseck - Morgan Stanley

So is the -- do I interpret therefore that in your settlement, there's very little exposure or there's very little claims that you're making good on with regard to the second?

Charles Noski

Yes, with respect to the seconds, we're done. We had provided almost $1.1 billion as of the end of December relating to second-lien exposure, and we settled it basically what we had reserved for.

Betsy Graseck - Morgan Stanley

Okay, and then as we look towards the remaining claims that are outstanding, you indicated $7 billion to $10 million is still your figure. So on a total basis, if we look at 4Q plus 1Q, the exposure would be higher by about $1.6 billion. Is that right?

Brian Moynihan

No, I think the way to think about that, Betsy, is that we have re-assessed what the overall exposure is to the non-GSEs. You would expect with the settlement and with additional accruals that, that $7 billion to $10 billion would go down. That's largely been offset by HPI deterioration.

Betsy Graseck - Morgan Stanley

Okay and then lastly, the Assured press release had a discussion about max loss cap dollar amount. And your dollar amount and theirs are very different. Is that because the probability of getting that max loss in your opinion is low?

Charles Noski

No, I think -- well, they may have a different view. I think theirs is around -- I saw an earlier draft of it, I didn't see the final one. My recollection is they're around the -- they're thinking about draws, we're looking at the underlying reps and warranty exposure.

Operator

And we'll go next to the side of Paul Miller with FBR.

Paul Miller - FBR Capital Markets & Co.

Going back to the AGO settlement, there's another big settlement out there with some other monolines. Where you are -- and they're probably larger than probably the AGO. Can you address that a little bit?

Charles Noski

Paul, I'm not sure what you're asking?

Paul Miller - FBR Capital Markets & Co.

Well, I guess it's the MBI, isn't there another monoline suing you guys for like $20 billion or something, MBIA?

Brian Moynihan

There are -- if you think about all the monolines, there's six companies. We basically -- we settled with two. We've worked with the other ones. MBI is the last one, and that's a very complex relationship between us because across our company, because of the developments in our sales and trading business. And it's out there, and we'll continue to work on it.

Charles Noski

And I would note, Paul, that Assured, FSA Assured was really the only one of the monolines not suing us.

Paul Miller - FBR Capital Markets & Co.

And then real quick, you've mentioned, I think in the presentation or in your -- that you start your foreclosures in nonjudicial states? Where are you with the judicial states, like Florida? Have you started foreclosure processes in that state, or where do you think you can start?

Brian Moynihan

We have started foreclosure process across-the-board.

Paul Miller - FBR Capital Markets & Co.

Across-the-board?

Brian Moynihan

Yes, remember the difference between judicial and nonjudicial, is you've got to wait for the judicial process to take place in the judicial states. In nonjudicial states, it goes a lot quicker.

Paul Miller - FBR Capital Markets & Co.

So you're up and running across-the-board.

Operator

We'll go next to Moshe Orenbuch of Credit Suisse.

Moshe Orenbuch - Crédit Suisse AG

Two questions. The first is, you had good reduction in the loss rate on the Credit Card business, but I think what's interesting is the industry as a whole is kind of moving faster into lower levels. Can you talk a little bit about kind of what you think the pattern is going to be there over the course of the next several quarters?

Brian Moynihan

On the credit card specifically, Moshe?

Moshe Orenbuch - Crédit Suisse AG

Yes, credit card specifically, yes.

Brian Moynihan

From a high level -- I'll have the team address the specifics, but from a high level, remember that we were higher than they were and so we're coming down at a good rate. It's just that, I think we got 200 basis points, maybe even more above our peers. We got up to a 14% charge-off rate. So we have more upside as this keeps coming down. The underwriting we did starting -- changing in 2008 has outperformed in a not-as-good economic scenario three years later. And if you look at our emerging peers and stuff, we're getting strong performance in the latter part of 2008, clearly 2009, '10. So I think we have more room to go to improve frankly, largely because we had a deeper hole, frankly. And so I'll let Neil or Chuck fill in the exact reasons, but in a broad spirit, it is that we were dealing with this issue that we just had a higher number to start from.

Charles Noski

I think Brian summed it up best, ours went bad first, and we tightened the buy box and also came down very fast. Our early stage delinquencies during the quarter continued to improve nicely, and we will see continued improvement going forward. But it will be at a slow pace, but if you look back a little bit past four, five quarters, our improvement has been dramatic.

Brian Moynihan

So if you think about it in broad context, we're sort of high-7s now, and we should look that to weave under it and to hit a target of five, 5½, and frankly, with the performance, the portfolio, we've been putting on and time phrase I talked about has actually outperformed that. So this should be a continuous move. This was $13 billion in a single quarter at one point, so we still got some room to improve, but it's come down dramatically.

Moshe Orenbuch - Crédit Suisse AG

Kind of on a separate issue, you talked a little bit about the capital generation and the deferred tax asset disallowance in the quarter, kind of keeping that lower than normal. But even absent that, it feels like given the level of earnings, we'd really like to see that pace pick up if you're really going to get to that 8% level in something less than two years. So could you talk a little bit about what plans you have over and above what the kind of the run rate of earnings? It seems like there would need to be somewhat more. And related to that, any thoughts you might have on the SIFI buffers that might be assessed on you?

Brian Moynihan

If you look at the balance sheet that we showed you from last year first quarter, there's three or four quarters in CDRWA [ph] coming down, but you have to remember the thing about our company, the issues that we had to face is our Basel II implementation is still in process. And we had to get this dollar work right, and that's one of the reasons why we've been pushing our expectation out of when this will all be ready to go until later this year or next year, that we need to get some work done. And part of that work is to continue to optimize the RWA calculation, the risk models and other things that will bring down RWA dramatically in our trading areas. And that requires the systems work that's been going in, and will continue to go in during the course of this year. They've been working on that. That is a major piece of the equation, and then there's a lot of other pieces of equation. If you look at all the Legacy Assets sold and the Private Equity business being brought down -- and so we just -- we're continuing to do that each quarter. So we have a road map, and it requires us to keep executing very well. And then the earnings generation, remember what's affecting the earnings is actually reductions in risk of a significant amount and then in terms of repurchased or even '03 [ph] portfolios and things like that. So you've got to think this a little bit, mostly in terms of timing. Stuff we're pulling forward and taking now would have been stuff that we would have taken over time, and so that helps us out. But it really comes down to a lot of this is around the optimization of the balance sheet. If you think about us, we run about 65% of RWA to assets today. Our U.S. peers that are on Basel II and been optimizing on the risk models and stuff are in the 50s, and our outside United States peers who have been on it for a long time are in the 30s. And so there's a lot of work for us to do, and that work is going on this year. And that's one of the bridges we have to have completed as we look to do the capital management we like to do for you as shareholders.

Moshe Orenbuch - Crédit Suisse AG

Just on the SIFI, any thoughts as to how and when we're going to hear about that?

Brian Moynihan

One ought to be over the course of the summer here. We've obviously, by using 8% target, we’ve sort of said it's going to be something. I think fundamentally, I think I'd go back to what we told you late last fall that those views you saw at our conference where I talked about this, we will store that capital on the balance sheet. So if it's 100 basis points, that's $18 billion or $1.80 a share. If it's higher than that, you can do the math, we'll store that balance as -- that capital on the balance sheet will be embedded into the book value. You can't put it to work because if you do, then you have to need more. So if it's a higher number, we’ll have to store more capital, but we'll let that play out. I think in terms of the broad policy, I think we've got enough risk-based capital to run this company, and even more than we need. And I think we'll continue to work on our discussions in the broader policymakers about what the "right answer" is. But in fact, we've sort of accounted for 100 basis points, if it’s higher than that, we'll be storing the capital, but it's all yours. That’s what we've been trying to clear to you. It's not going anywhere. It's not doing anything. It's not making acquisitions. It's not being put in a business, it's all there. And the good thing is, is even if it is a higher number, what we haven't talked to you a lot about is from -- we're trying to hit that 8%. Our math gets us there at the end of next year, but -- and that's as if Basel III was fully implemented. If you think about a higher SIFI level, you have, you really have five, six, seven years to put it in. But importantly, what is not apparent to a lot of people is that the amount of optimization we actually have in the latter years is still high because there are certain structured credit trades or certain run-off portfolio still stands about half its balance after a couple of years. That will provide additional pause [ph] momentum, none of which is core to our business. And so we have a roadmap even '13, '14, '15 that there's significant RWA optimization available to us, largely, if we can be there in the sense that these are structured credit trades, they're going to run off, in other aspects it'll run off. So I think if it goes a little higher, we have other optimization. And I think in terms of the shareholder view of that, I think we'd manage into it over time, to be clear with you, how we're building towards it. But we got the risk capital to run this company.

Operator

And we'll take our next question from the side of Ed Najarian with ISI Group.

Ed Najarian - ISI Group Inc.

Good morning. In terms of the $1.6 billion settlement with Assured, could you just walk me through how that runs through the income statement? I'm looking at Page 21, and looking at the repurchase reserve, and I guess it's not clear to me, how that's either coming out of the reserve or going to the income statement in some other way?

Charles Noski

Sure. Well, think of this in two elements. We had provided right around $1.1 billion, $1,050,000,000 for second-lien exposure. So that was in our reserve as of the end of December. We will make a payment of approximately $1.1 billion in the second quarter and beyond in order to satisfy that. So that $1.1 billion reserve was in the $5.4 billion ending balance of the rep and warranty liability and is in the $6.2 billion.

Ed Najarian - ISI Group Inc.

So it's going to be netted against the $6.2 billion next quarter?

Charles Noski

Yes, we haven't made -- we did not make the payments as of March 31. We signed the agreement yesterday with Assured. We will begin making payments coincident with the signing of that agreement and into the future. So that's one element of it. We also entered into a reinsurance arrangement with respect to the first-lien mortgages, principally because there's very little experience associated with that. We had some modest reserves set aside for that, for a portion of that. But there's very little experience Assured has put back to us, a relatively small number of those mortgages. And so rather than pay them for something that may never happen, we thought it was more prudent to enter into a reinsurance arrangement where we've taken a view as they have with respect to the -- how those drawdowns will occur and how we might participate in those. And we estimated the cost of that reinsurance arrangement, as we've said, at about $500 million. And that was accrued in the -- as a part of our consideration of the first quarter rep and warranty liability.

Ed Najarian - ISI Group Inc.

And then maybe Brian can put some context around this secondary question. I mean you mentioned that you feel like you're at sort of a core pretax, pre-provision run rate of about $10 billion, which as I go through your non-recurring items, we get pretty close to that number as well. And then I sort of think about looking forward, this was a reasonably good trading quarter. You're going to have some net interest margin pressure, at least in the second quarter and maybe lower net interest income. And then we at least get about a $500 million or maybe more a quarter hit from the implementation of the Durbin Amendment, although obviously that could get delayed, but at this point, I guess we'll see. But that sort of brings me down to no more than sort of an annualized run rate of about $38 billion, 9½ x 4. And so it strikes me as a challenge -- and maybe you could just walk me through some of the bigger items of how you think you're going to get to a $45 billion to $50 billion pretax pre-provision run rate. Because sort of the middle of that range is about a 25% increase from $38 billion, so I'm just maybe looking at context around that.

Brian Moynihan

Sure. I think you've got a -- maybe behind us, make sure your time frame's right. We said that was beyond the '11 and '12 time frame out there. Think about what would happen between now and then. You'd have the mortgage cost come down, you'd have the interest rate environment change, and so we may do better next quarter. As Chuck said, we're 267 on the margin. We totally might bottom at 250, we may do better mathematically and the numbers be higher. But if rates rise, and I assume at some point the core estimates of the market -- our core estimates rates rise up to a modest set funds rate of a couple of percentage points, that is hugely beneficial to our company and ought to push us back up to 275 and higher in the margin. If you start to do the math on our size balance sheet, that's significant. So the cost structure comes down, that happens. And then on top of that, while we had a reasonably good trading quarter, that $4.5 million, that is the run rate that's on -- needs to produce on a quarterly basis. If you look at the how that we're getting that now, it is all core customer-driven business that is just coming through, coming through. Last year's elevated levels and last year's decline levels had more to do with sort of circumstances outside their control. But that's that. Then if you go to the other core businesses, remember as the economy grows, we have had no loan growth. We'll continue to run them down. The runoff portfolio, which costs us $1.8 billion, $1.9 billion this quarter, it's half that number out there. So it's really continued credit cost -- continued cost structure improvement. It's really the interest rate environment, not going crazy, but just improving the -- a little bit, which really helps the core deposit business, and then grinding on the growth of the franchise that we see on the revenue line based on the fees and other factors. And so the restructuring of consumer deposit accounts, which would be effective this year into next year, you'll see -- and as we've said, the expenses are unavoidable on the mortgage side now, but we'll get those out, then we'll work on the rest of it. So I think the business around rates, expenses and then the economy, if you've said economy was going to go on decline, that's a different question. But assume the economy gets up to more than a trend growth, the 3%, 3½% type of numbers, you'll see the general earnings of the company lift because of loans and other things.

Ed Najarian - ISI Group Inc.

Okay. And then last quick one, over the last two quarters, the period end share count has gone up by approximately 50 million a quarter. Is that a share creep-up rate based on, I guess, employee comp that we should continue to think about?

Brian Moynihan

Neil, won't you...

Neil Cotty

It's comp. It's pretty much comp.

Ed Najarian - ISI Group Inc.

And we should expect some kind of creep-up like that each quarter, not just in the first quarter?

Neil Cotty

Ed, in the average shares, if you're looking at average shares, we also had a two preferred issues that flipped and a common in the fourth quarter that pushed up the average cost.

Charles Noski

The mandatory converts we had.

Neil Cotty

Correct.

Brian Moynihan

So I think, Ed, what we haven't been able to do and we'll be able to do as we move down the road is the issue of being able to neutralize the comp-related stuff, which was, we get to the point where we can capital manage we'll do that as one of the first things.

Operator

And we'll go next to the side of John McDonald with Stanford Bernstein (sic) [Sanford Bernstein].

John McDonald - Sanford C. Bernstein & Co., Inc.

One more question on the Assured Guaranty. Chuck, are there reasons to believe that their success rate would be higher than claims you received from other private investors, perhaps if they have stronger rep and warranties, or anything you can point to there?

Charles Noski

No, I don't -- it's not a contractual issue, John. It's -- just keep in mind, they're about a third of our home equity exposure. And that second-lien home equity exposure is probably some of your most riskiest stuff.

John McDonald - Sanford C. Bernstein & Co., Inc.

So just higher loss content due to the mix of the home equity?

Brian Moynihan

Yes. Remember, it's dominant part home equity here for this kind of party whereas you get the private label, it's all, really all firsts.

Charles Noski

That's right.

John McDonald - Sanford C. Bernstein & Co., Inc.

And then as a reminder, in terms of Basel and dividends, as a reminder for us, you said that you feel like you can get to the 8% Basel 2.5 and III. Just over what time frame was that? And is that assuming kind of no phase-in? Can you just remind us of what you're looking at for your outlook there?

Brian Moynihan

What we said to you was 8% Tier 1 Basel III common at year end 2012. That's the goal under the Basel III standards with no -- and then -- and so we're there above the standards, depending on the SIFI buffer discussion that would be phased in over time. But our goal is to hit that at the end of 2012.

John McDonald - Sanford C. Bernstein & Co., Inc.

Okay. And have you said anything about where you think you'll be on that by the end of this year?

Brian Moynihan

We had not said on the Basel III level, but as Basel 2.5 becomes effective, we would be above 8% under those standards at that point, I think is what we said earlier. But we have not sort of given you pro formas, and we'll continue to look at doing it.

John McDonald - Sanford C. Bernstein & Co., Inc.

Okay. And Brian, is there any comment you can make regarding the dividend, the Fed process? Any specific areas where they were looking for more clarity where they wanted to see things get clearer before saying yes to your dividend increase request?

Brian Moynihan

We didn't ask them for an increase until the latter part of this year because we knew we had to get the work done I mentioned earlier around continuing to get the systems integrated, the risk management down and frankly, taking care of some of the issues like we took care of this morning, clarity there. And so we continue to make progress in that, and that leads to -- but that's really -- the core issue is us getting a lot of -- getting the work done that we promised them to do in the context of implementing the risk management standards of the company. They've been in agreement with us, our work plans all the way along. And it's their process, and how we can resubmit and stuff is up to them. But on the other hand, I tell you that we have a clear path that we know what we need to get done, and we're doing the work. And that's why we knew we had no chance and told you back in

January, we're not going to ask for anything in the first part of this year because we knew we had to get this work done, and they knew we had to get this work done.

John McDonald - Sanford C. Bernstein & Co., Inc.

Okay. And the last thing here, could you explain again, you might have said it, that the greater disallowance of the DTA in your regulatory capital ratios, what drove that?

Charles Noski

Well when we acquired Merrill Lynch, the regulators gave us a three-year look forward period. I think last year it was two years, now it's one year. In terms of the amount of, in effect, allowable DTA that we can include in our regulatory capital calculation.

Brian Moynihan

This is so you don't make the same mistake I keep making. I keep thinking we're making is, this has nothing to do with the tax position. This is purely what you can count in regulatory capital. And they went back -- during the height of crisis remember, they widened the standard because the reality of earning streams. And now we've gone back to the pre-crisis standard, but the actual tax position is a separate level.

Charles Noski

Which is one year. We're not losing any deferred tax benefits as an enterprise. It's what you can count in the regulatory capital calculation.

John McDonald - Sanford C. Bernstein & Co., Inc.

Okay. Carrying forward from the merger, carrying forward?

Brian Moynihan

Yes, and this was all contemplated in all those tests and everything we had.

John McDonald - Sanford C. Bernstein & Co., Inc.

So no -- you don't see risk of this happening again? It's kind of done?

Charles Noski

No, we're down to the one-year look forward period, which is the more traditional one.

John McDonald - Sanford C. Bernstein & Co., Inc.

Okay. One more -- can I ask one more quick thing here? On the expenses, Brian, do you have a longer-term target, and is that something you eventually think you'll talk about, whether a $75 billion expense base or a $70 billion or a $65 billion is kind of the right number for the company? You baked something into the Investor Day when you talked about $45 billion to $50 billion like pre-provision earnings. Is that -- as you go through this expense initiative and efficiency, you'll talk a little about what you think the right expense number is?

Brian Moynihan

I think we gave you an efficiency ratio target of getting back down to 55%. And you can see across the quarters, this efficiency ratio was bouncing all over the place right now, 58% second quarter, 100%, I think, the third quarter, 92%, 75%. But it's because of one time's in and out. Remember we're getting hits to revenue on these rep and warranties are actually revenue offsets not expense. But the goal is we can see that as that just settles and that pushes you down in the 60s and with the -- all the work we're doing over the next couple of years, we're pushed down to 55%. We expect this efficiency ratio because you got to be aware that as revenues rise, we want to deploy the expenses to continue to build this franchise. So we want to make sure we're matching the chances in our international capabilities, the chances to grow small business bankers, the chance to grow more financial advisors to serve clients. We do not want to cut back on that while we're taking the expenses out of places that need to have them taken out.

Operator

And we'll go next to the side of Mike Mayo with CLSA.

Michael Mayo - Credit Agricole Securities (USA) Inc.

A few clarifications. So what did HPI do over the quarter? What had you expected? And what do you expect going forward?

Brian Moynihan

As far as HPI going forward, we expect gradual improvement over the second half of the year, further deterioration next quarter, but not dramatic. But a gradual improvement over the balance of the year is where we're at. As far as the deterioration in the first quarter, it's on a three-month lag, but off the top of my head, I want to say, we had about 1½% for the quarter.

Michael Mayo - Credit Agricole Securities (USA) Inc.

I'm sorry, that's what it went down?

Brian Moynihan

That's correct.

Michael Mayo - Credit Agricole Securities (USA) Inc.

And you had expected I guess to be stable or so?

Brian Moynihan

Well what you did -- I mentioned the three-month lag so we had some catch-up because of the fourth quarter.

Michael Mayo - Credit Agricole Securities (USA) Inc.

Okay. And then as it relates to the dividend, I'm still not crystal clear on exactly what happened. You said all along, you didn't expect the dividend increase until late this year. You go ahead and submit a capital plan with the dividend increase and the Federal Reserve comes back and says, "You're denied." I guess I just don't understand the procedure aspect.

Brian Moynihan

I think the procedure aspect ought to lead to the people who designed – the Federal Reserve designed the process, but we asked them. And I think the idea of them approving something six months in advance of when we've done the work we need to do, I think that's what they basically said, keep doing the work and go on. And that's why I think it's a little bit hard to explain, but in our dialogues with them, the idea was to get the work done, and then we get the approval. If we get the work done right, and continue to approve the company's prospects during the first half of this year, the process they designed and the answer they gave us was what we disclosed. But I think the team -- my dialogues with the team and they've been with us all the way is to get the work done, and then we'll be ready to get approved. But they weren't going to approve it in advance of that work being done.

Michael Mayo - Credit Agricole Securities (USA) Inc.

But you can still get your dividend increase by the year end. What...

Brian Moynihan

We don't know what the process will be for resubmission, but as soon as -- when we figure that out, we can tell you.

Michael Mayo - Credit Agricole Securities (USA) Inc.

But would you say there's still a chance for a dividend increase by the end of the year?

Brian Moynihan

We should pull back, Mike, and make sure. I said that we got to get the process down instead. But if you step back, what we've tried to make clear to you guys is for '11 and '12, this is a modest dividend idea because we have to get to that 8% Basel III Tier 1 common level, which requires us to maintain most of the capital. And then after that, we're in a position to start returning the capital. But all the capital that we accumulate is in our changed book values on the balance sheet, and then it's going for the benefit of shareholders. We're not using it to do anything else. So I think whether we get the dividend in the second quarter, third quarter, fourth quarter, first quarter, whatever, next year, this year, I think what we're trying to be clear to you is that we need -- we're doing the work we need to do. We've been repositioning this company, improving it. And as soon as we and the regulators and the process is set, we'll let you know where we stand.

Michael Mayo - Credit Agricole Securities (USA) Inc.

Last follow-up on that. But you will resubmit a capital plan that would at least propose the dividend increase by the end of the year? The question's whether or not it would get approved?

Brian Moynihan

The capital plan is a two-year -- look, we have all the submissions in at two years, and we'll resubmit that when the process allows you to.

Michael Mayo - Credit Agricole Securities (USA) Inc.

All right, then separately, as far as the peace dividend, you said several times over the call in a couple years, in a couple years. You have a new process in place to take a look at expenses. I'm just wondering if we'll see a little bit more of the efficiency pick up over the next couple of quarters. I know a lot of it's depending on credit. But aside from credit, what confidence can you give us that you have an eye on expenses quarter-after-quarter even after acknowledging the International Small Business FA investments?

Brian Moynihan

Let's take a look at the headcount across the last few quarters. This quarter on a period-to-period, we're 0.3% change on 288,000 people. If you look at that, that's 700 total human beings, 2,700 adds in the home loan investment to work on that we geared up during the quarter to continue to work on that. 2000 down the rest of the company, including net of all the investments we made. So we're managing to head down in the places. Barbara, as we've talked about earlier, just announced on the production side of the mortgage company, we're down 3,500 people. 2,000 of them are contractors, we obviously would take the contractors first. So as you think about, we're managing these expenses down as we speak, but running through the expense lines of litigation expense and other things, which throw it out on a given quarter, $1 billion round numbers and some of those items this quarter. So those will come down quickly once we sort of get through some of the stuff. The headcount we're bringing down, which is the number one thing we can control and drive to. While we're making investments, we added many small business bankers, 200 FAs and things like that. In the same quarter, we're overall heads, we're flattish, and we added 2,700 people. So we're working on it every day. We're not waiting for the white smoke to rise from this process, and we continue to drive at it. The 50 branch closings in the quarter, the 2.60 on the all-in cost of all the call centers already online, total deposits and I challenge you to ask anybody in the industry if they're close to that. I was talking to somebody who told me they were at 4¼, 4½. It's a thing to scale in this business, but we keep driving at that, that's down 4 basis points. If everywhere we can, we continue to work on expenses, what we're now allowing as core of the process that will help us accelerate that.

Michael Mayo - Credit Agricole Securities (USA) Inc.

And then last question, the syndicated loans are hot recently. What were your fees from being an arranger on syndicated loans? And how much did the syndicated loans help your loans in Global Banking?

Brian Moynihan

We'll get back to you on that. I don't know. We are one of the leaders in that business, and have always been.

Charles Noski

Given the time constraint, we will allow one more question.

Operator

And we'll take our final question from Vivek Juneja with JPMorgan.

Vivek Juneja - JP Morgan Chase & Co

A couple of questions, just on trading. Tom Montag talks about being down 15 to 20 at the Investor Day. Can you give a little more color as to what happened in March that you've done a little bit more than that? Which categories changed? And secondly, on IB, it seems like your market share and volumes has moved up faster than fees. Can you -- it seems like a couple of big deals you got into other. Can you talk about what's going on in fees in that respect?

Brian Moynihan

As you think about it, the 15%, 20% down that Tom talked about of the $8 billion, obviously, was still in the quarter. You had to see what took place in March and there's been some stuff in and out. But on the other hand also, as we went through March, the DVA and other things, which was fairly significant, would have been taken the last month of the quarter. But overall, if you think about from the fourth quarter, the first quarter, we doubled the fixed income revenue and the equity revenue, I think, went up by 40%, 50%, 60%. So we've had a reasonable rebound. When you go to investment banking fees, I only count what people pay us, so the lead tables, having had that group for a couple of years, I talked to them about when somebody pays us, I know I've got cash, that's the interesting part of the business. And I think we did about $1.5 billion, steady with the fourth quarter last year, which had some good activity up from $1.2 billion last year, first quarter. And we continue to have a strong and robust pipeline. And if you've seen some of the offerings going out on the IPOs and things like that, and we expect us to be continuing to improve those fees. But we got $1.5 billion in fees every quarter. For the last eight or nine, we've been second based on fees received and expect that. And I guess that will continue.

Vivek Juneja - JP Morgan Chase & Co

And on the trading side, Brian, if you just break that down a little bit by products versus rates, FX derivatives, securitized trust, can you give some color as to how you did on that year-on-year linked quarter and in terms of March, what got weaker? Which category?

Brian Moynihan

We'll get Lee or Kevin to fill some of that in for you. But in broad stand, the place that we're -- still need to make improvement in the Commodities business. That's one of the difference between us and some of our peers and

-- but on the other hand, we've done a good job in the rates and currencies and other areas. So it's really one of the big differences, just gross dollar amount between us and others is our Commodities business is just smaller and not performing so well. And so we'll – Lee can fill you in on some of the details, but overall, that's one of the big, easy identifiable differences.

Brian Moynihan

Thank you, everyone, and look forward to seeing you next quarter.