Operator

Good day, everyone and welcome to today's call. [Operator Instructions] Please note this call is being recorded. [Operator Instructions] 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 Bruce Thompson 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. 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 with that, let me turn it over to Brian

Brian T. Moynihan

Hi. Good morning, and thank you for joining us. Today, we reported net income of $6.2 billion or $0.56 a share after preferred dividends. There were a lot of moving parts that impacted numbers, and we'll get to those through the discussion here. In addition, our earnings benefited from our own credit spreads widening. It related to fair -- positive fair value adjustments and DVA gains. Those items, Bruce will cover along with the other significant items in the rest of the presentation.

Our core revenues continued to be adversely impacted by a challenging environment, as low interest rates and the European debt crisis persist. It is especially evident in our fixed income trading results for the quarter.

As we think about the third quarter, I think of 3 core areas. One of the areas is the continuation of the master strategic repositioning of our franchise. Another of the areas is the core operating platforms progress that we made in the quarter in each line of business. And the third area is the focus on the slow economy, and its impact on how we're going to run the company going forward. So let's first talk about the first area, the strategic transformation of the company.

During the quarter, we made steady progress repositioning our business to focus on our core customers and clients. We finalized the reconfiguration of our Credit Card business that we began in 2009 to focus solely on U.S. core credit card customers, exiting non-U.S. portfolios such as Spain and Canada and now exited the U.K. We also sold off some of the financial institutions platforms in the United States which enabled competitors to offer cards to compete against us.

In our mortgage area, we've exited our correspondent, previously exited our wholesale channels, which when you put all together focuses solely on a direct-to-retail channel. This is a position which enables to serve our core customer base and do it on a basis consistent with driving our franchise. In addition to repositioning those businesses, we've taken all our consumer businesses from our core consumer business through our Wealth Management businesses and put them under our new co -- one of our co-CEOs, David Darnell, to drive those businesses on a customer and client-focus basis.

During the quarter, we also sold half our interest in CCB, lowered our private equity investment substantially and made further progress on noncore assets dispositions.

As we move from a strategic transformation of the company to the line of the business, we continue to see momentum in our core lines of businesses. We extended approximately $141 billion in credit for the third quarter. Our average deposits continue to grow. Our average commercial loans increased in all our regions, although our consumer loans are still declining mainly in the noncore areas. Our net checking accounts grew for the third consecutive quarter and attrition remains low.

We're seeing good progress with initiatives to grow through adding financial services advisers in our branches and Small Business Bankers in our broad consumer areas. We're seeing steady progress in our Wealth Management businesses, U.S. Trust and Merrill Lynch, where we continue to add advisors and push forward in these market leading areas.

We continue to see solid performance on our commercial and corporate lending businesses, including Global Commercial Banking and Global Corporate Investment Bank. In addition, we retained our second place position in investment banking and produced solid international customer growth in that area.

Our credit quality and delinquencies continue to improve, while reserve coverage remains at high levels.

As we think about the third area we're focused on, how to manage in a slow or long-term recovery, we're doing everything we can to continue repositioning the earnings of our company as we look forward. We continue to focus on driving growth in select areas, very select areas, but we're also focused on reducing expenses. Expenses remain elevated in large part due to nearly $2 billion in quarterly operating expenses at Legacy Asset Servicing. We hit our peak and headcount in July across the entire company, and are now managing down across all areas.

LAS is at its peak staffing level, showed more of that overall staffing reduction should come through the bottom line. Our New BAC efficiency initiative is making progress. During the quarter, we completed a Phase 1 evaluation and now we're implementing, and you'll see the results as we come through the fourth quarter. The Phase 2 evaluation begins this month, and it will bear strong fruit.

With that, let me turn it over to Bruce to go through the financials.

Bruce R. Thompson

Thanks, Brian. And good morning, everyone. If I can ask you to flip to Page 5, and we'll start on the income statement. As Brian referenced, we made $6.2 billion for the quarter or $0.56 a share, and these numbers were affected by several significant items that I'll walk you through and go through in more detail as we get into the presentation. The quarter did include a credit mark on structured liabilities under fair value option that resulted in a positive mark of $4.5 billion as a result of our credit spreads widening, and as you look at our financials you'll see that in other income.

Keep in mind that mark, whether it be positive or negative, does not impact regulatory capital ratios such as Tier 1 common but does affect GAAP capital.

The widening of our credit spreads also generated a DVA gain of $1.7 billion related to our trading liabilities within our Global Banking and Markets business, and I'll get into more detail on that later in the presentation.

Our equity investments had a net $1.4 billion in gains, driven primarily by 2 sale transactions and a write-down. As Brian referenced, we did sell half of our investments in CCB for $8.3 billion in proceeds. That generated a pretax gain of $3.6 billion. X our sale of China Construction Bank, equity investments would have been a negative $2.2 billion.

As we move to net interest income, we had 2 areas that negatively affected net interest income. The first was hedge ineffectiveness, a negative $600 million as well as a negative $400 million associated with the acceleration of amortization of premiums on securities during the quarter.

If we move down to the income tax expense line, it reflects a charge of $782 million related to the revaluation of deferred tax assets in our U.K. business that we mentioned last quarter, as a result of the July enactment of a 2% reduction in the U.K. corporate tax rate. If we take the other items on this page, and add both the positives and the negatives, the other adjustments totaled a loss of $800 million, and I'll touch on these different aspects as we get through the presentation.

If you flip to Page 6, and look at the balance sheet, you can see that assets are down Q2 to Q3 while deposits grew moderately during the quarter. Other items I would point to in the quarter, you saw a $33 billion reduction in risk weighted assets that contributed to the improvement in our Tier 1 common ratio. We reduced long-term debt by approximately $28 billion and as we look at tangible book value per common share, that increased $0.57 to $13.22 at the end of the third quarter.

Asset quality continues to be very strong. Our allowance at the end of the quarter was approximately $35 billion, which is roughly 3.8% of total loans, 1.74x annualized charge-offs, and we saw $1 billion reduction in our nonperforming loans and leases.

If we flip to Page 7, and look at funding and liquidity, as we've talked about over the last couple of quarters, we continue to proactively reduce both our short-term and our long-term debt. During the third quarter, we reduced short-term unsecured borrowings by approximately $15 billion to immaterial amounts at both the parent and the broker-dealer, as we repaid our commercial paper and eliminated the master notes program at the broker-dealer. In addition to the reductions in short-term debt, long-term debt also came down by approximately $28 billion, as maturities continue to outpace issuances.

These reductions of $43 billion were the primary drivers of the $39 billion decline in our excess liquidity sources to $363 billion. When you think about that $363 billion, unlike others, realized debt does not include approximately $194 billion in additional liquidity that's available to our banking entities via pledging assets to the Home Loan Banks in the Fed discount window. As we think about time-to-required funding at the parent, it increased to 27 months during the quarter from 22 months at the end of the second quarter, as we generated substantial parent-company liquidity and debt maturities after 2012 or lower.

As I think everyone is aware, Moody's downgraded our credit ratings late in the third quarter based on their beliefs around potential government support. We obviously disagree with those actions in that we believe that their views of unsupported credit ratings do not sufficiently reflect the significant progress we've made, improving our capital and liquidity positions, shedding legacy and noncore assets and managing our risk down.

That being said, we had worked hard over the course of the last 9 months to be prepared to the extent that we did receive a downgrade and feel very good about the way that we minimized the potential impact. Most importantly, since the downgrade, we have not seen any change in our global excess liquidity sources.

Moving to Slide 8 and looking at net interest income. As we've spoken about before and as we think about getting ready for Basel III, we're obviously very focused on managing interest rate risk across the company and minimizing OCI exposure in higher-rate environments and managing the duration of our securities given the low level of rates.

On an FTE basis, net interest income was down approximately $754 million for the quarter. That decrease was driven primarily by 2 factors. Asset hedge ineffectiveness of $400 million and the acceleration of amortization of premiums on securities of $500 million due to the faster prepayment expectations on mortgage securities.

Importantly, if we back out these 2 adjustments, our net interest income was actually up as the positive contributions to net interest income from lower debt balances as well as reductions in our rates paid on deposits more than offset the reductions that we saw from consumer balances and yields.

As we look forward to the fourth quarter, and we assume that rates stayed within that same range that they are today, we would not expect to see any meaningful impact on net interest income due to asset hedge ineffectiveness or premium adjustments.

I'm going to move through Slide 9 quickly, which just reflects the divergence that we've seen within our commercial -- or excuse me, our Consumer Real Estate Services business from the balance of our businesses and get to the actual segments themselves on Slide 10.

If you look at Slide 10, you can see that the Deposits business had net income of $276 million, which was down $148 million from the prior quarter, driven principally by lower net interest income, which was partially offset by increases in our noninterest or fee income category. Average deposits are up significantly from the third quarter of 2010 and down very modestly at 1% due to seasonal reasons from the second quarter of 2011. As I mentioned before, the rates paid on our consumer deposits declined from 29 basis points during the second quarter of this year to 25 basis points in the third quarter. Importantly, this was a third consecutive quarter where we saw positive net new checking accounts during the quarter.

We move to our Cards Services business. The Cards Services business generated net income of $1.3 billion during the quarter, which was down about $675 million from the second quarter due primarily to higher provision expense and lower revenues which were partially offset by declines in noninterest expense. The decline quarter-over-quarter in net revenues was driven by the portfolio sales that we accomplished in the second quarter and realized gains from those, as well as the NII impact from lower yields and loan balances.

As we look at provision, provision did increase by $735 million from the quarter. I think it's important to note that we actually saw charge-offs decline $403 million or 17%, and that was more than offset by lower reserve releases of approximately $1.1 billion. Importantly, despite some of what we've seen out in the economy, we've continued to see very strong credit performance within our Cards Services business, and we show you here that the different delinquency categories continue to improve Q2 to Q3.

From a low-level balance perspective, average loans did decline by about $3.8 million -- excuse me, $3.8 billion quarter-over-quarter due principally to higher payments, charge-offs, portfolio divestitures and the run-off of the noncore portfolios that we've spoken about before. The actual core portfolio was up very modestly during the quarter. As you think about purchase volumes, if we adjust for our portfolio divestitures, card purchase volume was up 5% from the third quarter of last year.

The last point I would make on this page is that we have continued to see growth within the new card area, with new card accounts growing 17%.

As we leave this page, I do want to note though that the sale, as you look at this data, that the sale of the Canadian Card business and with the intention to market the European Card business, that the results of those 2 areas have been removed from this data and moved to all other, and the prior period results were restated to reflect that.

Just to remind you with the sale of our Canadian Credit Card business, which has about $8 billion in receivables, we would expect that sale to close during the fourth quarter of this year. The impact of that on Tier 1 common intangible common equity will be positive when the transaction closes.

If we move to the Global Wealth and Investment Management area, net income of $347 million during the quarter was down $159 million from the second quarter of '11 as lower revenue and as we faced -- or had lower revenue and higher credit costs. On the revenue side, the decline in revenues was due to lower interest rates and lower transactional revenue but, importantly, was partially offset by Record Asset Management fees driven by continued inflows into long-term assets under management.

The decline in client balances during the quarter was driven almost entirely by lower market levels in the stock market. As we look at Deposits, Deposits were, basically, flat during the quarter, despite the fact that we reduced the overall rates paid on our GWIM deposits by 7 basis points during the quarter.

Lastly, this was the 9th consecutive quarter that we saw increases in client facing associates, and we added a net 475 financial advisers during the quarter.

Moving to Slide 13 in Commercial Banking. Net income for the quarter was down $331 million to $1.50 billion, primarily due to lower loan loss reserves and some small revenue declines. The revenue declines were due to lower net interest income, as well as the absence of a gain on the settlement of a portfolio that we saw during the second quarter. Importantly, expenses were down quarter-over-quarter, as the business continues to manage costs tightly. And also during the quarter, we saw a fairly significant increase in average deposits as they grew by $7.4 billion quarter-over-quarter.

Loans were generally flat during the quarter. We saw continued decreases in our Commercial Real Estate. Commercial and Industrial loans were generally flat, and we saw auto loans increase by about $1.2 billion.

The last point I would make within the commercial sector is that we do continue to see very strong credit quality. Our reservable credit size exposure declined from $27 billion at the end of the second quarter to $22.8 billion at the end of the third, and our nonperformers declined from $7.6 billion -- or excuse me, $7.4 billion to $6.6 billion during the quarter.

If we flip to Slide 14 in our Global Banking and Markets area. You can see that the results reflected a loss of $302 million, driven by decreased sales and trading activity, lower Investment Banking fees and the U.K. tax rate change during the quarter that I referenced in my opening remarks, partially offset by our DVA gains.

As you look at the sales and trading revenues, you can see that they declined to $2.8 billion, a $1 billion decline from the second quarter, primarily driven by our FICC business due to the adverse market conditions that we saw during the quarter. As I mentioned earlier, our results included DVA gains of $1.7 billion in the quarter, as our credit spreads widened throughout the quarter versus gains of $121 million in the second quarter of the year.

As you look at the individual components within our FICC business and if we back out DVA, what we saw was a relatively strong performance by our rates and currencies business that was down 14% quarter-over-quarter while we had small losses in our structured credit trading, certain other credit trading and our fair value option loan book. Also keep in mind during the third quarter as a result of winding down our proprietary trading business, revenue in that business decreased from $434 million in the first half of this year to 0 in the third quarter.

If we move from FICC to the equities business and once again back out DVA, cash equities performed relatively well, being down only 7% quarter-over-quarter while the primary declines in our equities business were due to equity derivatives.

If we move from the sales and trading to the banking side of the business, Firmwide investment banking fees, excluding self-led deals, were $942 million, down 44% from what was a very strong second quarter due to both market uncertainty as well as declined in global fee pools. That being said, I think it's important to note that we did maintain our #2 ranking globally in that investment banking fees.

If we move to loans and deposits, loan balances did increase nicely by $10.7 billion during the quarter, driven primarily by growth in domestic and international corporate loans and international trade finance. Average deposit balances were up 4% to $121 billion, as corporate clients continue to increase liquidity in an uncertain market environment. We continue to chip away at our legacy positions, those declined 3% to $16.6 billion, led by reductions in auction rate securities as well as CDOs.

We also saw a significant declines in our VaR during the quarter. Our daily average trading VaR once again 3 year at the 99% confidence interval was down $65 billion -- or excuse me, $65 million on a linked-quarter basis.

If we move to Slide 15, I want to highlight here how our mortgage model is changing. As we all know, Countrywide had a large scale platform that allowed for high volumes of origination but the mortgage market has declined, and we're obviously being required to hold much more capital against our MSR asset.

As many of you have seen, we recently announced our plan to exit of the correspondent Mortgage business, which we would expect to complete by the end of the year. This business is clearly not consistent with the focus on our core customers and will require us to carry the MSR assets on an unleveraged basis under proposed Basel III capital requirements.

By exiting, we will not add to the MSR and importantly over time, the current MSR asset associated with the correspondent business will run off. Also during the quarter, we sold certain pieces of our MSR and we would expect to continue to do so going forward.

Within Legacy Asset Servicing, our operating costs remain high. That being said, we did see a 6% decline in the size of our portfolio within legacy asset during the -- from the second quarter to the third quarter, and we're obviously working hard to continue to reduce that. Importantly, the focus within the Mortgage business will be to be the secured lender of choice with our customers while continuing to manage down expenses to deliver on this goal.

If we flip to Page 16, and look at the Consumer Real Estate Services business. I'm going to ask you to focus on the right side of the results given the large number of adjustments that we saw during the second quarter of this year. On an adjusted basis, you can see that from the 2 quarters, that the net loss improved from $953 million in the second quarter to $601 million in the third quarter, primarily due to lower credit loss provision as well as improved net interest income, partially offset by less favorable MSR hedging results. Home Loans did produced a modest profit in the quarter, while the Legacy Asset Servicing side recorded a loss from elevated expenses.

As we look at production income, first mortgage production was down 18% due to primarily to us shrinking and, ultimately, getting out of the correspondent and wholesale areas. Importantly, our core production income was flat relative to the second quarter, as improved margins more than offset lower lock volumes.

You can see in the bottom left, as far as the selected charges, reps and warrants were $278 million for the quarter, litigation of $290 million and assessments and waivers of $350 million.

If we spend a minute on the MSR during the quarter, you can see the MSR asset decreased significantly from $12.4 billion to $7.9 billion due primarily to declines in interest rates. And you can see the cap rate on that asset went from 78 basis points at the end of the second quarter to 52 basis points at the end of the third quarter.

A couple of pieces of sequential data on Page 17, as we look at the Legacy Asset Servicing area. You can see that our 60-plus delinquent first mortgages declined 4% from roughly $1.211 million to $1.158 million. Our pretax loss, x notable items, improved from a loss of $2.2 billion to $1.4 billion due primarily to the higher net interest income as well as lower provisions. The other point here is that we have had to add several thousand people to satisfy our obligations to do the mortgaging and with some of the regulations that we're seeing in that area.

On Page 18, all other total revenue of $6.3 billion, you can see in the middle of the page that revenue was primarily driven by the fair value adjustment on our structured liabilities, the gains on our sales of debt securities, as well as equity investment income. One of the things that I do want to highlight during the quarter that we accomplished, you can see that our Global Principal Investments area, which was primarily the legacy private equity portfolio, was reduced from $10.8 billion to $6.9 billion. And as you look at our total equity investment exposure, it came down by roughly 40% during the quarter from $44 billion to just under $27 billion, which, clearly, should look to minimize some of the volatility going forward. And once again, just want to highlight that the Canadian Card and the U.K. Card business had been moved to this segment during the quarter.

From an expense perspective, on Slide 19, you can see noninterest expense decreased from $22.9 billion to $17.6 billion during the quarter. And if you look to back out our mortgage-related items during the quarter, we still saw a nice decline in our expense base, Q2 to Q3. If we look at headcount, while headcount was up very modestly from Q2 to Q3, it does not pick up 2,000 people that we've notified that will be leaving the company and are still in that number. And obviously, as we go into the fourth quarter and we look to execute on New BAC, we look to make continued progress on that front.

As we think about New BAC, on Slide 20, let me just spend a minute on this. Obviously, as we've gone through the low rate environment, unemployment where it is, an economy that's not growing at the like -- at the pace that we would like, it does provide some headwinds from a revenue perspective. The one lever that we obviously have to offset that is the expense side. And as Brian referenced in his opening remarks, we're in the process of completing our initial planning related to Phase 1 of New BAC, and we'll move into the second phase of New BAC later this month.

As we talked about in the presentation a few weeks ago, we completed 6 mergers over the last 5 years. That added approximately 150,000 new associates. This growth in our expense base obviously provides a lot of opportunities to streamline and reduce costs going forward. That why New BAC makes sense and why it's attainable.

To summarize what we detailed for New BAC in September, we divided our expenses into 2 categories, controllable costs and other direct costs. In Phase 1, we're focusing on our consumer businesses, along with small business banking, tech and ops and support areas. Based on our analysis, we have a goal to achieve $5 billion in cost savings or about 18% of the expenses associated with these areas. As I said, our Phase 2 evaluations began this month and we expect to complete them in April of next year.

As you look at Phase 2, be careful to extrapolate what we believe will accomplish in Phase 1 to Phase 2 because the headcount in Phase 2 is about 50% of Phase 1 and some of the businesses in Phase 2 already have low efficiency ratios such as the commercial banks. We'll obviously update you on Phase 2 during the first part of next year.

If we move down to page of the expenses that relate to sold our liquidating businesses, our goal is to obviously wind those down over time. And finally, in other expenses, most of these are fixed, although we expect to bring down merger charges and expect to work towards goals of reducing litigation settlement-related costs and waivers and assessments over the next few years.

If we move from the businesses to credit and the trends that we've seen in credit. As we look at consumer credit trends on Slide 21, we continue to be very pleased with the progress that we're making. If you look at consumer credit trends quarter-over-quarter, you can see continued declines in net charge-offs, 30-plus performing delinquencies, as well as our nonperforming loans and foreclosed properties. You can also see that provision expense was roughly $3.5 billion for the quarter and included roughly $1 billion of loan loss reserves. Our allowance for the consumer businesses was over $30 billion at the end of the third quarter, 4.9% of total loans and 1.7x our annualized charge-offs.

The last point on consumer credit that I would make is that this is the first time in several quarters where we've not had evaluation reserves for our purchase credit impaired portfolios.

Flipping quickly to Slide 22, you can see that our 30-plus performing past dues in residential mortgages continue to decline during the third quarter, and our Home Equity was roughly flat.

On Slide 23, we highlight our nonperformers in both residential mortgage, and Home Equity improved modestly during the quarter.

On Slide 24, as we get to our commercial credit trends, credit continue to perform very well within the commercial books. We had nice declines in our nonperformers, as well as our reservable criticized. Our total provision, which was a benefit of $59 million, included a reserve reduction of $670 million during the quarter. And once again, on the commercial side, roughly $4.8 billion of an allowance, 1.6% of coverage of assets and just under 2x annualized charge-offs.

Moving from credit to capital. You can see here, we show our Tier 1 common equity and Tier 1 capital ratios and the progression and progress that we've made. Importantly, we increased each of these measures by between 45 and 50 basis points during the quarter. And as you think about these numbers, realize that they are now higher than where we were at the end of the first quarter before we took the roughly $20 billion in charges that we took during the second quarter. In addition to building our common equity, these ratios also benefited from reductions in risk weighted assets of about 2.4% or $33 billion during the quarter.

Flipping to Slide 26, we show both tangible common equity and tangible book. They were both up nicely during the quarter, in part due to the positive fair value marks, which I do want to remind people, can reverse themselves when spreads tighten. The tangible common equity ratio did close the quarter at 6.25%, up 38 basis points, and tangible book of $13.22 was up $0.57 or 5%. The tangible book value also reflects the impact of the drop in the market value of the CCB shares that we hold as of the end of the third quarter of this year.

The last comment I would make is the progress that we continue to make as we look to move and meet our objectives on Basel III. You'll recall during the last quarter, we gave guidance that we had a target of reduction of risk weighted assets on Basel III of $200 billion to $250 billion. As we looked and got through the quarter, we've now identified all of the assets that we need to move or mitigate to accomplish that. And during the quarter, we worked through more than half of those reductions during the third quarter. And as a result of that, we continue to be very comfortable with our phased-in -- our fully phased-in guidance of 6.75% to 7% at the end of 2012 -- yes, excuse me, at the end of 2012.

And with that, we'd like to go ahead and open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to Glenn Schorr from Nomura.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Curious, inside your commentary in NIM compression. How much is the securities book at the Investment Banking impacting that on a quarterly basis?

Bruce R. Thompson

It's really not much at all. If you look at what's in the investment bank, it's flattish. So it's really the 2 items that I highlighted, Glenn.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Okay. Cool. And then maybe just to comment, it's been kind of quiet on both the foreclosure settlement front and the private label putback cases. I think we're due any day now to hear about the status on a judgment on the MBIA case. I wonder if you can update, there's 3 different pieces there, and I think they're weighing very heavily on investors' minds. So I'm wondering if you could give us any update there?

Bruce R. Thompson

Sure. I think if we start with the MBIA case. You obviously have read what we've read, that there were presentations made, I guess, it's been several weeks now, and we continue to wait for and get feedback on that. I think one of the important things that we need to mention as we think about MBIA, this is obviously the case that they're bringing in and talking to us about reps and warrants. And as you look within our numbers, you can see that there are significant counterparty that we believe at this point owe us a fair bit of money and we've marked -- that's marked pretty heavily within our books. As you think about the Attorney General-DOJ settlement, which you've seen, obviously, there continues to be a lot of noise and a lot of discussions on that. But there's really not much new to report from our perspective on that. And then as you think about the mortgage putbacks, I guess, quiet is a relative term but I think obviously, the big piece and what everyone is still waiting to hear back, is to some of the different presentations and objections that have been made on the Gibbs & Bruns case. And I'd say at this point, you know as much as we do on that front as well.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

On the putbacks themselves, if you look at -- excuse me, if you look at the -- it's kind of leveled off at this high pace, so it's good that they're not picking up. Has the FHA got more involved or are they putting back loans? And are they increasing the dialogue? Because it seems that way in certain spots.

Bruce R. Thompson

Yes, I think if you look at our numbers and the claims, you're really not seeing anything from FHA materially reflected in those claims. And you continue to -- obviously, you see some of the same noise about some of the discussions on FHA putbacks. But it's not something that's been material within the numbers we've shown.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Okay, last one, quickie. In the Home Equity book, can you give us a bigger than a breadbox-type number on how much of the book is interest only or due to start amortizing principal soon?

Bruce R. Thompson

Why don't we get back to you with that exact number. I think, clearly, a chunk of it starts in the 2013, 2014 timeframe, but why don't we get back to you [indiscernible].

Operator

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

Matthew O'Connor - Deutsche Bank AG, Research Division

A couple of questions. First, just to clarify in the net interest income and NIM outlook. I think if I heard you correctly, if rates stay where they are right now, do you expect the NIM or net interest income dollars to be relatively stable in 4Q?

Bruce R. Thompson

We would clearly, with the assumptions that you just gave, we would expect the net interest income to migrate back towards the second quarter level, that's correct.

Matthew O'Connor - Deutsche Bank AG, Research Division

Okay. So it's actually up versus the reported 2Q -- or 3Q level because you don't have the onetime hits from hedging or amortization?

Bruce R. Thompson

That's correct. And we obviously, as I talked about in the funding and liquidity, continue to reduce the debt footprint that we have which provides us a benefit as well.

Matthew O'Connor - Deutsche Bank AG, Research Division

Okay, that makes sense. And then separately, as we think about the cost savings program, or the Phase 1 that will generate about $5 billion of savings, you did mention some severance and tech charges in the release. And I was just wondering if you have an estimate of what those might be and the timing of that?

Bruce R. Thompson

Yes, I think, let me put that in 2 different buckets. The first is from the technology perspective. We're continuing to work through that. But clearly, the goal and what we're trying to do is to basically fund the tech and ops spending that we have within the context of the tech and ops run rate that you see in the numbers today. So the goal as we think about those numbers, will be to fund it within the context of the spending that you're seeing within the numbers here today. As it relates to severance and the disclosure we put out there, within the numbers that we reported this quarter, there was roughly $145 million of severance that we saw for activities as it related to employees that were more normal course. And I think as you look forward, we're obviously continuing to work through the final implementations, or the final implementation schedule. But from a severance perspective, I don't think you're going to see any big lump. It's going to be more, you're going to see it, as we work through and make certain decision with respect to certain actions.

Brian T. Moynihan

Matt, just to back up, the ideas in Phase 1, I think 25%, 30% of them had technology aspects to them in order to be. So there's a significant amount of non-technology effort there, and we will prioritize the non-technology to move it forward because the technology not only cost money and we'll do it within the run rate we have now but, secondly, it also takes time. So we're working on the implementation schedule, but the numbers that we quoted will be the impacts that we'll achieve in the savings net of the current run rate and technology that we have today.

Matthew O'Connor - Deutsche Bank AG, Research Division

Okay. And then just lastly, it might be too really for you to comment on it, but there was an article in the Wall Street Journal today, talking about a potential agreement in which banks would reduce the mortgage-related for borrowers that are underwater but still current. I'm just wondering if you had thoughts on that from a big picture point of view, and any numbers on how it might impact you?

Brian T. Moynihan

We have no comment on it at this one.

Operator

And we'll take our next question from the side of John McDonald with Sanford Bernstein.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Just one clarification on the NII. Bruce, is your outlook that, that could be back to the second quarter level because you're changing your strategy around the hedging of the NII and the OCI? Are you lightening up on what you're doing in the hedging or...

Bruce R. Thompson

No. It's not that we're changing the way that we're hedging at all. It's really, as you think about the 2 numbers, it's the absence of the ineffectiveness as well as the prepays that we wouldn't expect to repeat itself in the -- during the fourth quarter. I think importantly, if you think about where we are now and you just used the 10-year treasury as a reference point, at the end of September, the 10-year was at 1.90% and it's been bouncing around between 2.10% and 2.25% over the course of the last week. So think about those as the benchmarks as we made these comments.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And are you talking about the net interest income and the margin percent, or were you referencing one of the other when you talk about going back to the second quarter level?

Bruce R. Thompson

Dollars.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And then on trading. Given the trading, and FICC particularly was so bad this quarter, can you comment on how you're doing so far in the fourth quarter on trading? Have you seen things improve?

Bruce R. Thompson

Yes, I mean, I think as you'd expect it, if you think about months that we had during the third quarter, July, while clearly not at what we have seen during the early part of the year, July was a reasonably good month in the quarter. Obviously, the volatility in the credit markets were particularly challenging in August and September. And what I would say is, as we look at October to date, I would say October has been a fair bit better than what we would have seen in the August and September months.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And then on the AG settlement, the discussions about what was -- I felt like last quarter you mentioned that you were trying to build reserves for that. Obviously, no one knows what's going to come out of it, but in terms of any financial penalties that comes, have you tried to contemplate some reserve building for that?

Bruce R. Thompson

I think as we said when we took our charges in the second quarter, we did put up some reserves for that. There's really been nothing firm that has come out during the third relative to the second quarter. So those reserves for that item on the books of the third quarter are the same as they were at the end of the second.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And that shows up in your litigation reserves and we don't know the balance of that, is that correct?

Bruce R. Thompson

That's correct.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And the final thing was on the assessments and waivers, those went down this quarter. Those have to do with foreclosure delays. What's the driver of that, and why did they get better this quarter? And what do you see for the next couple of quarters on that line?

Bruce R. Thompson

Yes. I think that, that number is obviously fluid. If you go back, we took $230 million during the fourth quarter, given that we had a sense that they were coming. And if we just go back and look, we had $550 million, down to $485 million. So we're seeing it trending down. And obviously as we get through the foreclosure pipeline quicker, we would expect that to continue to decline. So looking forward, we clearly expect the fourth quarter to be better than the third quarter as we look forward. And it's just that you can never predict exactly where you're going to be given we don't have perfect visibility to when foreclosures happen. But clearly, we'd expect the fourth quarter to be better than the third.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And then the final thing for me was just on the GSE putback behavior. You mentioned that the behavior continues to change. I assumed this is Fannie Mae, since you're kind of done it at least on the Countrywide side with Freddie. What's been changing about the behavior? And why is it tough to predict from here?

Bruce R. Thompson

Yes, I would just make a couple of comments. I think that what we've seen is that they have thrown over the wall some vintages, in amounts in vintages, that are older than what we've seen. Unlike many others, we have certain contract with Fannie that speaks to a normal course of doing business, and we'll obviously process and push through those that we think that were due and fight those that we don't think are due based on the contract we have with them.

Operator

And we'll take our next question from Jefferson Harralson with KBW.

Jefferson Harralson - Keefe, Bruyette, & Woods, Inc., Research Division

I was hoping just to ask a broad question of pre-pre, pretax, pre-provision expectation. Originally, I think we're talking about $40 billion to $45 billion a year would be in a possible range. A lot of things have changed since then, we've had a lot of divestitures. I guess how do you think about pre-pre, the level this quarter, versus where you can get to and how do you get there?

Brian T. Moynihan

I think, keep in broad strokes, that when we talk about, we were talking about an environment where that we all thought would happen over the next couple of years where we could get back to a normalized -- more normal Fed funds rate of 1.5%, 2% at least. You would see interest rate structure moves and that obviously still has a heavy impact on us and the Fed has made it clear, they're going to keep it there for a couple of years. And that the second element is in this quarter we're down because, as someone point out earlier, the trading business was down and that at the margin cost us a lot of PPNR. When you think about how we move forward, the key there now is going to be is revenues are going to be more subdued as to get more cost out and we've outlined what we're doing in the New BAC and other matters to get there. And I think you'll see that play out as we go quarter-by-quarter here. The other thing that you pointed out is the PPNR contribution, the Card business was obviously high in that math and we're selling part of that. The net profit of that is lower, but it will have an impact on the PPNR. So as we sort of go through this quarter, and get to look at it, we'll share with you an update on that probably in the first quarter of next year, along with the fourth quarter results. But think of the way we get there broadly as a more normalized interest rate environment for several billion dollars a year. The cost take out, just Legacy Asset Services being almost $2 billion a quarter now. And operating cost, not the charges or assessment, just pure operating costs. And that coming out and then the rest of the cost structure and then how that gets us there. Offsetting, we got Durbin still to come, and a few other things and then some of the divestitures.

Operator

And we'll take our next question from Brennan Hawken with UBS.

Brennan Hawken - UBS Investment Bank, Research Division

So yesterday, a competitor highlighted that they were seeing some signs of troubles in TDRs. So I was hoping you could maybe give some color on what you guys are seeing in these credits and what's your view of mods?

Bruce R. Thompson

TDRs on the consumer side or on the commercial side?

Brennan Hawken - UBS Investment Bank, Research Division

In mortgage consumer.

Bruce R. Thompson

I did not see the specific reference, but we've not seen any issue with respect to TDRs, quite frankly, either on the commercial or the consumer side.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. And then maybe can we get a little more color on the FICC results, x DVA. Clearly, it was weak and you highlighted some weakness in structured and credit but maybe we could dig in a little bit more? Was there a big headwind from inventory marks? And quarter-over-quarter, what sort of percentage change in the flow business did you guys see?

Brian T. Moynihan

Let me -- let's start back from the broad perspective, I'll let Bruce take you through some of the numbers. But if you think about the last time we had -- last year second quarter, we had sort of an outsize move in terms of FICC versus the competition. And largely, remember, that we have a very strong business in the origination side, the leverage finance side, the capital market side which then helps feed our business and that business freezes up when the market freezes up. So we had a freeze up in the second quarter 2010 when Europe was going and Greece was going a little bit sideways and then it happened again in August and September. That being said, the team did a good job of managing the risk, kept the risk down, and Bruce will take you through some of the numbers. But we did have some marks and moving some positions and things like that. But overall, they ended up making some money. But overall, the job is to stay out of the way of risk and they did a good job of managing that. So Bruce can take you through the details, but remember because our heavy issuer side business and in the leverage finance and other areas, this is a business, when it slows down, we lose a fair amount of revenue, not only from origination side and capital markets but also as it plays through the trading platform. Bruce?

Bruce R. Thompson

Yes. I think that the first thing I would say, as I referenced, that the rates and currency business on a relative basis, performed better than the others. And if you look through the individual categories within the fixed income business, whether it be Structured Credit Trading, whether it be our Credit Trading business, whether it be our Mortgage business, and then the other thing that we have that's a little bit different than our competitors is that we have our fair value option loan book that also shows up in the fixed income area. You would have seen all of those 4 areas get beat up a little bit. But as it relates to any legacy positions or any significant losses that were incurred, we wouldn't have seen that. The other thing that's out there that I know there's been some things on is just about some of the underwriting in the pipelines of assets that people have. Our team actually did a very good job in that they hedged on the front end some of the commitments to distribute and any changes in that were very, very modest in the quarter. So I think kind of going back to what Brian said, we tend to be very much driven by the new issue business. It was slow. So within those credit trading areas, they were slightly negative but nothing really material in any one business that merits calling out.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. All right. That's really helpful. And then just a last quick one. Any change to the home price sensitivity that you guys laid out last quarter?

Bruce R. Thompson

The only, I'd say, the only thing that's -- nothing material from a home price sensitivity that would change. The only thing that I would say is that if you look out with where consensus is, we're now factoring into our models and what we put through the P&L was home prices looking to be down about 2.6% from where we are now until the end of 2012, which is slightly more negative than what we had when we reported last quarter, and that's reflected in the numbers that we've shown.

Operator

And we'll go next to the side of Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch - Crédit Suisse AG, Research Division

I know this isn't part of the first phase of the New BAC but, obviously, it's another quarters gone by where your trading, core trading levels, are significantly below the $4 billion or $4.5 billion that you kind of aspired to. How do you think about the cost structure of that business at this stage?

Brian T. Moynihan

So you're correct, and part of that is that -- so Tom has began reducing headcount and we'll do that in advance of doing the work on Phase 2. So think about 2 aspects to it. One is sort of a, for lack of a better term, a capacity reduction that he's gone through now. And during the quarter, as we've already talked about, we reduced headcount in some of the trading and Investment Banking and areas generally around the world and in the U.S. He'll continue to make those moves as we move towards the Phase 2. The Phase 2 is it takes the work and change it, so the first reduction will occur before that, and Tom has made some of those changes and we'll continue to make them. But we agree with you the market is going to be and the economy is going to be such that the revenue is going to be below, and we're going to continue to take down the cost structure. Now one of the easy things in this business versus other businesses, so much of its variable comps which comes down easier but, ultimately, you have to reduce the heads and the infrastructure, and Tom is going through that right now.

Moshe Orenbuch - Crédit Suisse AG, Research Division

Okay. Kind of a separate topic related to kind of the consumer side. We've kind of discussed your actions in terms of the overdraft fees and the point-of-sale, and now you've kind of adjusted pricing. Can you talk about what your expectations are for kind of the size of the consumer bank, post all of that? I mean, have you kind of put that in thought, as to will it shrink and by how much, and how does that work?

Brian T. Moynihan

Well, I think if you think about the Consumer business, generally, the high-net worth businesses as we continue to grow, continue to grow advisors, continue to grow headcount, and when we come into the Consumer business, if you think about the 2 broad customer groups that we talked about, our retail customer group and our preferred customer group. And preferred customer group, we continue to add resources there. Preferred includes small business, so we've added financial services advisors to help capture the investment side opportunity. We've added more personal bankers. We've added more Small Business Bankers. And all that has generated significant revenue growth. On the retail business, it's more about optimizing the cost structure. And we've been, there, we've been taking action on the branches as we've shown you. I think this quarter another 25 or 30 branch reductions, the last quarter was 60. We continue to reduce that. So it's not small in terms of deposits and so on, in terms of the checking accounts, that keeps growing. But it's smaller in terms of infrastructure and cost structure, we're at 240-odd basis points of operating cost per deposit which we think leads the industry, and we'll continue to drive it down. So if you think about it from a core sort of checking Consumer business, optimizing the cost structure underneath the customers we have, and then growing in the areas that we can and with the investments and penetration of, then on the product side, the Cards and the Mortgages. Mortgages on a direct-to-retail basis is where we're going, those numbers are in the data, you can see how that will be. And then Card, absent the U.K., et cetera, is kind of at the stability level from the core U.S. book. Now we still have some run-off portfolios in there that were from before that we're running down, but from a core U.S. book, we're relatively stable, so it will sort of be that size. And that will give -- so that's sort of the 2 product sides of it.

Moshe Orenbuch - Crédit Suisse AG, Research Division

I guess, Brian, what I was just trying to get at is the increase of the fees. Do you have a sense as to how much or how many of those retail customers you're kind of willing to let go?

Brian T. Moynihan

I think that we think that as you look at the customer base, when we look at the profile customers who have their entire banking relationship with us and those that don't, a lot of people can quantify, will qualify and do qualify not to pay the fees that we've been talking about because they have their whole relationship with us, or a large part of that relationship. So as you look at our sales process now, we're selling about 80% of primary checking -- what we call first checking or primary checking relationships, the core relationships. If a person deposits their paycheck, if a person carries their sort of nest egg, what they're saving on the run rate, all of that will help them qualify. So we're comfortable with the people having the relationship, being a card, a mortgage, and what they do to get out of the fee. The issue is when people split their relationship and use our convenience and our access and our 18,000 ATMs and our no foreign ATM fees and our online banking product and all that, and yet have their relationship elsewhere, that is tough for us to afford to provide, and we need to provide to all our customers to be competitive. And so the fees are to get people to bring more relationships that we're comfortable with that we'll end up in a good dynamic there.

Operator

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

Betsy Graseck - Morgan Stanley, Research Division

One follow-up on the NII and then a question on the mortgage. On the NII, you indicated that if rates stayed where they are today, you'd be back at 2Q levels of NII. That takes into consideration the prepays that are going to be coming, hitting you in fourth quarter. Obviously, there was reasonable amount of folks that haven't yet been able to close on their refi at this stage.

Bruce R. Thompson

Yes. It's a good question, I probably should have been a little bit more clear. Keep in mind that amortization amount that we took in the third quarter was not reflective of prepays that we actually saw in the securities. It was us adjusting our assumptions in the models to reflect the prepays that we think that we will see, based on the interest rate environment that we saw at the end of the quarter.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then assets, you're asset sensitive. Can you tell us how your asset sensitivity change q-on-q, or where you are now versus where you were at quarter end?

Bruce R. Thompson

With respect to where we went from, we do continue to be asset sensitive, but there's no question, I would not say that there was any material change from our level of asset sensitivity from the second quarter to third quarter, though.

Betsy Graseck - Morgan Stanley, Research Division

And that includes the planned long-term debt roll off?

Bruce R. Thompson

It sure does.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And can you give us a sense of how much long-term debt that you're planning on rolling off over the course of the next 3 or 4 quarters?

Bruce R. Thompson

Sure. If you look at where we are and focus on the parent company, the parent company has got, I believe, it's roughly $12 billion that rolls off over the next 90 days. And then as you go out over the course of the year, realize that we've got roughly $30 billion that rolls off, that's the big number during the second quarter of next year when TLGP runs off. So those are the significant numbers there. And then you would expect over time, given the liquidity that we have at the bank, that we will continue to run off the funding that we have at the bank as opposed to rolling it over, given the liquidity that we have at the company.

Betsy Graseck - Morgan Stanley, Research Division

Great. Okay. And that's all been prepaid, so to speak, with the cash balances?

Bruce R. Thompson

That's exactly correct.

Betsy Graseck - Morgan Stanley, Research Division

And then lastly on mortgage. Can you just give us a sense as to how the impact of shutting down the correspondent channel is going through flow through the P&L, and the time frame?

Bruce R. Thompson

Well, I think if you look at the P&L this quarter, and you look at -- and look at our comments that we've made with respect to volumes, we've started to see that during the third quarter. And clearly, the majority that will be gone off, or run-off at the end of the fourth. You should not expect to see any material change, though, in the overall P&L from correspondent, realizing that we're in the process of working through and taking out the costs associated with that and there can, obviously, at points in time, be a quarter lag in that. The most important thing that you're going to see with respect to our financials, though, in the correspondent, is that the correspondent business, when you originated a loan, it came with an MSR associated with it that, obviously, doesn't count from Basel III perspective. So what you will see is a slowdown in the new bookings of MSRs that come on the balance sheet as a result of exiting the segment.

Operator

And we'll take our next question from Matthew Burnell with Wells Fargo.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Just a couple of questions. First on Page 40 of the supplement, it looks like you had additions or higher levels of new nonaccrual loans in the third quarter, both in the consumer portfolio but also in the commercial portfolio. I'm just curious, if you can give us a little color as to what you're seeing in those portfolios? And how you drove down the NPA levels in both those portfolios on a quarter-end by quarter-end basis?

Bruce R. Thompson

If I'm -- so I guess that if you think, and if we look at the consumer NPAs, I'm not sure of exactly what you're quoting. We're obviously, at the end of the second quarter, our NPAs in the consumer side were 21.3, and they're down to 21 at the end of the third quarter, and we've seen a similar amount in commercial. I think as you look at the -- on the consumer side, obviously, the big thing that we're trying to do and that we've seen start up, is to work through the foreclosure pipeline and to get the foreclosure pipeline clear. And I would say on the commercial side, the only thing that we really saw of note during on the commercial side is that we did sell roughly $800 million during the quarter of a combination of criticized and nonperforming commercial real estate loans for the quarter. So that would have affected the number, but those are really the only 2 things that I would point to.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Okay. And then just a clarification. In terms of the TLGP debt that you said you had running off through the second quarter of next year, that $30 billion, does that include, is that -- does that include the $12 billion that you mentioned rolling off of the 90 days, or is that completely separate from that?

Bruce R. Thompson

It's separate. We've got roughly $12 billion between now and the end of the year. And the TLGP number that I think the total number maturities in the second quarter of next year are roughly $30 billion, that's separate and distinct from the $12 billion.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Okay. And then one final comment. There was a news report today, I guess, that came out on Bloomberg news talking about potentially moving some of the -- because of your downgrade that you mentioned in your prepared remarks, potentially moving some of the derivatives activity into the bank and out of some of the nonbank subsidiaries. Is there any additional color you can provide on that, given that it looks like from the regulatory data, most of the derivatives are already held, at least on a notional basis, already held in the bank?

Bruce R. Thompson

Yes. I don't -- I mean, we were a little bit surprised at the article. I don't think that what's reflected in the article is anything different from the normal course of dealings that we've had with our counterparties since Merrill Lynch and BofA came together. And we, obviously, continue to work with them on transactions within all of our legal entities.

Operator

And we'll go take our next question from Nancy Bush with NAB Research LLC.

Nancy A. Bush - NAB Research, LLC, Research Division

Two questions. You had 2 quarters in a row now of significant special items and there is a fair amount of confusion on the Street, I think, about what the core trends are. I know that we're looking at fourth quarter and fourth quarter is always special, but can you tell us any large items that may be on the horizon right now coming in fourth quarter? And when would we get to quarters that sort of look more like normal and sustainable?

Bruce R. Thompson

Well, I think if you, I mean, if you look at the adjustments and I think the things that are out there, the first thing I would say that we've seen is that you've seen, and you saw it in this quarter, a lot of pluses and minuses as it relates to asset disposition strategies and the like. And obviously, over the course of the last year and a half, as we've been working through those, it can lead to the numbers bouncing around. But Nancy, I'd ask you to go back to Page 18. And one of the reasons that we've been as focused as we have on the core and shedding assets, and you look at what we did with the private equity portfolio, is to start eliminating the chances that these types of both pluses and minuses come through. So we work -- from that perspective, we're just working with a lot smaller base than we've been. The second thing that I would say, that we've talked here to, are some of the things that affected net interest income. We obviously have spoken to where we are from a rate perspective, and to the extent that within a reasonable band of rates, we wouldn't expect those things to come through. The U.K. rate change, the way that it's set up will show up one quarter a year, and it's 1%. So you know what that is. And the last piece that's really where we're most focused, that's led to the majority of the noise is mortgage, and it was the reason that we split the business up between Legacy Asset Services, as well as the front end. We're working very hard to continue to work through the delinquent portfolio that we have and, obviously, we put a lot of reserves behind us. That being said, I think, given the questions that everyone asked today, there do continue to be some open items on mortgage. But we feel like we've done everything we can at this point.

Nancy A. Bush - NAB Research, LLC, Research Division

Brian, a question for you. I mean, you've said over the past several quarters that before you went back to the regulators and tried to gain greater autonomy over capital management, that you had to "do the work." And I'm wondering if you can just reflect on that right now and whether the majority of the work has been done and whether you're ready to make that request?

Brian T. Moynihan

I think we continue to follow the capital plan, Nancy, and we're doing the work. And I think with the -- we will have to make sure that we continue to make the progress in the next several quarters, including with the -- the economy not being what anybody would have thought of 3 or 4 quarters ago. So we are in progress. We're off making progress in the capital plan, and we'll continue to do that. And as soon as we know something, we'll tell you.

Operator

And we'll go next to Todd Hagerman with Sterne Agee.

Todd L. Hagerman - Sterne Agee & Leach Inc., Research Division

Just a couple of quick questions. First just in terms of looking at the European exposure, 2 questions. One, I know France is not a big exposure for the company, but could you just remind us kind of what your relative position there is in France? Any other collateral that you have with respect to the GIPS that you outlined in the supplement? And whether or not there was any incremental marks taken in the course of the quarter as it relates to Europe?

Bruce R. Thompson

Yes, let me start, if I could, with what we've seen in the GIPS because a couple of pieces of information you can see this through some of our different disclosures, but let me just walk through it. As you think about where we are, our reported exposure for the quarter was roughly $14.6 billion that we have, and that was down roughly $1.5 billion quarter-over-quarter. As you think about that number, realize that, that number has been offset or reduced by roughly $2 billion through different CDS and short positions that we have. But when you start at that $14.6 billion, realize that there are certain things that we've hedged that don't show up there. The first is, and you can see in our supplement, we've got $1.7 billion of CVA hedges, largely against our Italian exposure. So as we think about sovereign exposure in Europe, we feel very good. In addition to that, we are not able to count our FVO hedges that we have on our fair option value book with the way we report for FICC. That reduces the exposure by about $2.2 billion. If you take those two adjustments and think about where we are, that gets that $14.6 billion number down by several billion dollars. And I think as we've said before, we got after this at the beginning of 2010, so there's nothing material from a P&L perspective that you would have seen going through the income statement. If we move to France, what I would say there that we obviously do a lot -- not a lot in France, but we have a presence in France. I would say if you look at our exposure, we obviously have exposure to the clearinghouse there, which is pretty good exposure. The corporate lending that we do there, consistent with the strategy, is to multinationals that are not dependent within France. And then I would say, if you move to the counterparties and look at what we do with the different financial institutions there, it's a couple of billion dollars that we have out to the banks in the aggregate. And we manage that exposure very tightly, and manage it in a way where we don't have any real tall trees to any one institution. So I would say, as we look across not only to GIPS but also France and other countries that pop up, we feel very good about where we're positioned. And I think that the, as it relates to our book, we're more focused on -- is there a second derivative effect that comes out of what's going on in Europe as opposed to any concern with any of the exposures that we have.

Todd L. Hagerman - Sterne Agee & Leach Inc., Research Division

Okay. And so just a follow-up on that. You say nothing material in terms of P&L. I'm assuming less than that -- less than $500 million or so in the quarter?

Bruce R. Thompson

Much, much, much, much less than $500 million.

Todd L. Hagerman - Sterne Agee & Leach Inc., Research Division

Much, much less. Okay. And then in terms of France, did you mention any sovereign-related debt?

Bruce R. Thompson

We do have some sovereign-related debt there. I think we, obviously, watch it very carefully. It's inconsistent with the way that we hedge. And what we've done in Italy, if you'd see any real change in the perception of the country, we would adjust that. But I think it's, despite some of the rumblings from the agencies, it still is a AAA-rated country.

Todd L. Hagerman - Sterne Agee & Leach Inc., Research Division

Okay. And then if I could just switch gears quickly. In terms of FICC, and I know the preliminary draft of Volcker has just come out and it's a lot to digest, to say the least, but could you give us -- if I look at your trading inventory that you've disclosed, it came down a little bit this quarter. But I guess, one of the concerns from investors has been that has risen since the draft proposal, is really how it potentially might affect FICC for the commercial banks in particular. Any thoughts, preliminary thoughts, and just in terms of your business, again being levered towards FICC, and how that may change in the coming quarters, particularly as we think about the flow sale volume and inventory levels there?

Bruce R. Thompson

Yes. I'll make a couple of comments as you think about our FICC business. The first is that, since Merrill and BofA came together and you think about our FICC business, that the market shares that we have in the underwriting and distribution of securities that we've been consistently between #1 and #2. So the amount of -- given that position, what we do from the investor or from the issuer side and as a result, the need to make market from the investor side, I think, relative to others, we feel pretty good about where we are. Obviously, those regulations are still evolving. As I think others have said, the amount of compliance and regulatory costs that go along with that, while the cost may not be high, there's obviously a lot of work that will need to be done associated with those to ensure compliance, and we'll obviously work through those. But I think best that we can, given the nature of our business, at this point, at least, we'd not see a change materially.

Todd L. Hagerman - Sterne Agee & Leach Inc., Research Division

Okay. So again, Europe aside and what happened this quarter, at least in the near term, we shouldn't expect any material change in terms of the business?

Bruce R. Thompson

That's correct.

Operator

And I show we have no further questions at this time.

Brian T. Moynihan

Thank you, everyone. We look forward to talking to you next quarter.