Operator

Good day, everyone, and welcome to today's program. [Operator instructions.] It is now my pleasure to turn the conference over to Lee McEntire.

Lee McEntire

Good morning, everybody on the phone as well as the webcast. Thanks for joining us this morning. Before I turn the call over to Brian and Bruce, let me remind you we make forward-looking statements today. For further information on those, please refer to the website and our SEC filings about our forward looking statement information.

So without further ado, let me turn it over to Brian, our CEO.

Brian Moynihan

Thanks, Lee, and good morning to all of you, and thank you for joining us to review our fourth quarter results. As we talked about over the last several quarters, we've been on a journey to simplify our company, and we've talked to you about our some consistent areas of focus: capital generation, reducing our costs, managing the risk down, addressing the legacy issues, and driving business growth overall.

Each quarter, you have seen the progress our teammates have made and the momentum is becoming more evident. On the first page, slide two of the deck, you can see the annual comparisons that will show you the progress over the last couple of years.

First, we've improved the balance sheet. Our tier one common capital has grown 16% this year, liquidity and time to required funding have further strengthened. The strength in capital and liquidity allowed us to begin returning capital through share buybacks to shareholders in 2013.

Another area of our early focus has been rightsizing our expense base. We have been meeting the goals of our cost programs each year. While we've made progress on those each quarter, there is still significant progress when you look over the last couple of years.

After reporting expenses and excluding a goodwill impairment of $77 billion in 2011, we've worked that number down to $69 billion in 2013. As we've been clear with you, we expect additional cost savings in 2014 as we continue to execute on both our new BAC and our legacy assets and servicing initiatives.

We've also focused on addressing our legacy mortgage issues, and although we still have work to do, we have made progress. On our credit costs and our provision costs, we've seen tremendous results as net loss rates in our portfolios are at levels not seen in nearly a decade.

As a result of all this work, earnings have improved significantly, but we still have not approached the true earnings potential of Bank of America. So as we move to slide two, let's talk about recent results in the business on a business by business basis.

We've been delivering solid growth in activity and relationships across all the groups of our customers and clients we serve. Let me highlight a few of those for you. Deposit levels continue to reach records each quarter. While this growth has been occurring in balances, the rate paid has been declining to what we believe is low against our peers, at 8 basis points in our consumer businesses.

Our operating costs, which we focus on heavily, of our deposit business has declined to just 200 basis points now. Driving this improvement is the work we've done to optimize our delivery network in our stores in response to customer behavior changes across time.

Banking center over the counter transactions continue to go down, but ATM, online, and mobile transactions continue to grow. We understand this, and we observe this in our customers, and we're working with them to capitalize on arguably the largest and best-positioned branch network in banking.

However, branches to remain a critical component of everything we do. We have about 8 million customer visits a week, the kind of traffic we really appreciate, and most retailers would give their right arm for.

Meanwhile, as that traffic comes in, the customer behavior continues to shift to ATMs, online, and mobile, and that's given us the opportunity to be more efficient and at the same time continue to deliver innovative products to our customers.

When you move to our mass affluent customer base, we've seen deepening across the customer relationships. Merrill Lynch Brokers assets continued their strong growth. We've invested heavily in a sales force for what we call our specialist sales force, and that's grown to 6,700 people in 2013.

Looking at what that sales force has been able to do, this year we opened 350,000 new Merrill Lynch accounts, 125,000 new small business deposit and card accounts as well during 2013.

As we move to our industry leading global wealth investment management business, we continue to break records on top line profitability. We just recorded the best year in the company's history for wealth management results. We have more customers and clients doing more business with us, and now we manage client assets of over $2.4 trillion.

In our global banking business, loan flows have been very strong, now growing for six consecutive quarters. Investment banking is coming off a very strong year, and a very strong fourth quarter. We once again maintained our number two position in fees overall, and grew market share year over year.

As we look at our trading business, our global markets business, we've been really pleased with the success we've had in equities over the past year, and that's helped offset some of the industry challenges facing the larger FICC business that we have.

Now, both remain very important customer facing businesses for us. They face some tough regulatory changes as the rules have changed about what the scope of activities is over the past couple of years, but the team, under Tom Montag, has been managing those changes well.

Importantly, we ranked for the third year as a top global research firm. All in all, we believe, if you think back, 2013 was a significant year for the progress this company has made against all the focus areas I mentioned earlier. As we look to 2014, we are well-positioned as a company to meet our customers' needs by delivering the whole company to every client, and every customer, and winning in the marketplace.

With that brief introduction, I'd like to turn it over to Bruce to cover the numbers in the quarter. Bruce?

Bruce Thompson

Thanks, Brian, and good morning everyone. I'm going to start and go through the fourth quarter results, starting on slide number four.

We earned $3.4 billion, or $0.29 per diluted share, this quarter. Total revenues in the quarter on an FTE basis, were in line with the third quarter of 2013 at $21.7 billion and were $22.3 billion if we exclude the negative impact of FVO and DVA as a result of the significant credit spread tightening we saw in our credit spreads during the quarter.

Our revenues benefitted from increased net interest income, strong investment banking and wealth management fees during the quarter, and were partially offset by lower equity investment gains. Total net interest income of $17.3 billion increased from the third quarter of ’13 as a result of increased litigation costs, which were $2.3 billion during the quarter.

If we back those litigation costs out, and back out $1.4 of the foreclosure lookback expense that we saw in the fourth quarter of 2012, our expenses during the quarter declined $300 million from the third quarter of ’13 and $1.4 billion from the fourth quarter of 2012. Asset quality continued its improvement and resulted in provision expense of only $336 million.

I would also mention two additional items that impacted results during the quarter. As I mentioned, FVO and DVA were $618 million, and we also recorded discrete tax benefits of approximately $500 million during the quarter that were driven by tax items that were related to non-U.S. operations, as well as the resolution of certain global tax matters.

On slide five, you can see that our period-end balance sheet came in at $2.1 trillion, below the prior quarter, on lower trading assets versus that third quarter of 2013.

Ending loans declined $6 billion due to the decline in residential loans in our discretionary portfolio. Outside of residential mortgages, client and customer lending reflected good commercial and seasonal credit card growth that was offset by expected declines that we have within our runoff portfolios.

Period-end deposits grew $9 billion from the record levels that we saw during the third quarter of ’13.

Moving down the page, tangible book value improved to $13.79, as the full benefit of earnings was partially offset by a negative move in AOCI as a result of higher rates. Tangible common equity increased to 7.2% during the quarter and during the quarter we repurchased 92 million common shares for roughly $1.4 billion.

The last thing that I would mention on this slide is, despite the earnings of $3.4 billion, our return on tangible common equity, at 8.6%, remains lower than we would like it to be, but we continue to make very good progress on this front.

On slide six, you can see our Basel I tier one common ratio of 11.19% increased from the third quarter of 2013. If we look at Basel III, on a fully phased-in basis, we remain above our 8.5% 2019 minimum requirement under both the standardized as well as the advanced approaches.

Let’s first look at the advanced approach. Under that approach, tier one common capital increased from the third quarter of ’13 to more than $132 billion. Our Basel III risk-weighted assets remained steady at $1.3 trillion, and our common ratio improved slightly from the third quarter of 2013 to 9.96%. Under the standardized approach, our estimate of Basel III tier one common ratio improved a touch from the third quarter of ’13, and remained slightly above 9%.

If we turn to the supplementary leverage ratios, based on the proposed U.S. requirements that are expected to take effect in 2018, as of the end of 2013 our bank holding company leverage ratio improved from the third quarter of ’13 and continues to exceed the proposed minimum of 5%. Looking at our primary bank subsidiaries, BANA and FIA, they also continue to both be in excess of the 6% proposed minimums.

The last point I would make on this topic, the BCBS published final supplementary leverage rules over the weekend, and while we do note some improvements from the original proposal, we’re still evaluating the exact impact to us.

If we turn to slide seven, funding and liquidity, our long term debt ended the quarter $6 billion lower, which further improved our funding costs. Global excess liquidity sources during the quarter increased $17 billion to $376 billion, and was driven by our strong deposit flows.

The time to required funding at the parent company increased to 38 months, and as we look at 2014, we have $31 billion of parent company maturities during the year. And once again, we would expect the issuances to be below that number as we both reduce as well as smooth the maturity profile of that debt footprint.

The other thing I would mention is that we do expect to see some additional issuance within our banks this year, given the applicability of the new liquidity rules and how they apply to the bank’s subsidiaries.

If we turn to slide eight, net interest income, our net interest income on an FTE basis was $11 billion, which was $520 million over the third quarter of 2013. The fourth quarter of 2013 did include $210 million of positive benefits in market related adjustments driven by lower premium amortization from slower prepay assumptions on mortgage-backed securities as long term rates rose 30 basis points from the end of ’13 to the end of ’14.

Our net interest income, excluding those adjustments, was $10.8 billion, representing a $241 million increase from the third quarter of ’13. Roughly two-thirds of that improvement was driven by trading-related net income and the balance, once again excluding market-related adjustments, was driven by lower long term debt levels and, to a lesser degree, higher deposit levels and lower rates paid.

Net interest income in those benefits were partially offset by lower consumer loan balances and lower yields. As a result of these different factors, our net interest yield, excluding market-related adjustments, improved from 2.4% in the third quarter of 2013 to 2.51% in the fourth quarter of ’13.

As we move into 2014, I do want to remind you that the first quarter includes two less interest accrual days, so the Q4 ’13 base of just below $10.8 billion, excluding the market-related adjustments, all else being equal, would start at roughly $10.6 billion for the first quarter of 2014.

Our asset sensitivity position remains positioned to benefit from higher rates, particularly from the short end of the curve.

If we move to expenses, as I mentioned earlier, noninterest expense was $17.3 billion in the fourth quarter of 2013 and included a $2.3 billion charge for litigation expense. Litigation expenses increased $1.2 billion from the third quarter of ’13, as we continued to evaluate our legacy exposures, largely RMBS litigation, which led to additional reserves.

Excluding litigation, total expenses were $15 billion during the quarter, which compares favorably to the $15.3 billion in the prior quarter and $16.4 billion in the fourth quarter of 2012.

Our legacy assets and servicing costs, once again excluding litigation, declined nearly $400 million from the third quarter of ’13 and were below $2 billion this quarter, as we previously guided. This drove the $300 million improvement in expenses adjusted for litigation in the quarter.

As we continue to reduce the delinquent loans serviced over the course of 2014, and reduce operating costs, we expect the fourth quarter of 2014 LAS cost, excluding litigation, to be roughly $1.1 billion.

Move for a moment to new BAC, the benefits from new BAC in the most recent quarter were offset by a small seasonal uptick in costs when comparing to the third quarter of ’13, and when comparing to the fourth quarter of 2012, our new BAC savings are partially offset by roughly $300 million of increases from revenue related costs on higher global banking and markets and GWIM revenues. We remain on track to achieve the expected $2 billion of new BAC cost savings in mid-’15 as these initiatives wind down near the end of 2014.

If we move to the number of full time equivalent employees, we ended the quarter at 242,000 employees, a decline of more than 5,000, or 2.3%, from the third quarter of ’13, and that was split pretty evenly between staff reductions in LAS and the production side of the mortgage business, as volumes declined, and to a lesser extent we reduced staff associated with our branch optimization.

Before I leave expenses, I do want to remind you all that the first quarter typically includes the annual cost of incentives for retirement-eligible associates, and once again we expect, in the first quarter of 2014, that number to be approximately $900 million, which is consistent with what we saw in each of the first quarters of 2012 and 2013.

If we move to slide 10, on asset quality, you can see that credit quality once again improved nicely. Net chargeoffs declined to a reported $1.6 billion or a net loss ratio of 68 basis points.

The quarter did include $144 million of chargeoffs related to clarification of regulatory guidance on accounting for TDRs in the home loans portfolios. If we exclude that change, net chargeoffs were approximately $1.4 billion or a 62 basis point net loss ratio and improved $250 million, or 15%, from the third quarter of 2013.

Delinquencies, which are obviously a leading indicator of net chargeoffs, declined again as well. Our fourth quarter provision expense was $336 million on the back of this steadily improving consumer data, resulting in a reserve release of $1.1 billion, excluding the regulatory guidance change.

As we move into 2014, we continue to see credit quality improve.

Let’s now move into a discussion of the businesses, and I’m going to start on slide 11, with consumer and business banking. Within this segment, we delivered improved earnings for both the previous quarter as well as the prior year’s quarter.

Net income of nearly $2 billion in the fourth quarter of ’13 is up 11% from the prior quarter and 36% from the fourth quarter of 2012. Stability in revenues, lower credit cost, as well as expense reductions driven by network optimization drove the improvement in both periods.

If we take a step back and review customer activity during the quarter, we saw our average deposits grow steadily and rates paid down to 8 basis points. Our brokerage assets increased 7% from the third quarter of ’13, and are up 26% year over year on both improved market valuation as well as account flows.

Our consumer card loans showed seasonal growth this quarter, as well as continued strong issuance, with 1 million cards issued during the quarter.

I would note that our fourth quarter of ’13 balances reflect the reclassification of roughly $1 billion of an affinity portfolio that was moved to loans held for sale, and we would expect seasonality to move these balances lower in the first quarter of 2014.

Our risk-adjusted margin on credit cards is now back above 9%, driven by seasonal spending and improved credit quality as net chargeoffs and delinquencies continue to improve.

Our expense levels during the quarter do include approximately $112 million of litigation costs and that masked the benefit of our delivery network optimization as mobile banking usage continues to increase and we continue to consolidate banking centers.

Let’s move to slide 12, consumer real estate services, which as you all know represents only 8% of the company’s revenues. In our supplemental information, we report two separate components of this segment, one focused on loan origination and the other focused on servicing and legacy issues.

As we signaled last quarter, our first mortgage retail originations of $11.6 billion were down 49% from the third quarter as the amount and level of refinancing opportunities slowed given the rising rate environment. Lock volumes declined 37%, leading to lower core production revenue. We continue to reduce our production staffing levels to be consistent with these lower volumes that we’re experiencing.

Our rep and warrant expense was $70 million during the quarter and declined by roughly $250 million from the third quarter of ’13, which benefited mortgage banking income.

One item I do want to mention from the appendix of our slide deck is on page 20, regarding represent and warrant exposure. We did receive increased levels of private label claims, but it’s important to note that the vast majority showed no evidence that the claimant reviewed the individual loan file ahead of the submission, and that obviously impacts the overall claim quality and therefore the process for claims resolution.

The other primary revenue component in this segment, servicing revenue, declined $54 million from the third quarter of ’13 as a result of our smaller servicing portfolio. From a cost of servicing perspective, our number of 60-plus day delinquent loans dropped 73,000 to 325,000 units at the end of 2013, and as a result of this, once again our LAS expense ex-litigation declined nearly $400 million during the quarter to $1.8 billion.

Global wealth and investment management, on slide 13. This represents 21% of our company's revenue and our wealth management business achieved records for net income in both the quarter as well as for full year 2013. Within this segment, both Merrill Lynch as well as U.S. Trust maintained their strong leadership positions, managing a total of $2.4 trillion in client balances.

Revenue approached $4.5 billion in the quarter, increasing 7% year over year and 2% on a linked quarter basis. And I would also note it's the fourth consecutive quarter in which the pretax margin was above 25%.

Our asset management fees once again achieved a new record during the quarter, driving the revenue improvement from the third quarter of 2013. Our client engagement remains strong, and market levels are providing an additional tailwind.

Our long term AUM flows for the quarter were $9.4 billion and $48 billion for the year, nearly doubling the 2012 production level. Ending deposits also grew nicely again, and our ending client loan balances of almost $119 billion reached record levels as we continue to see very good activity in both consumer real estate as well as our security based lending.

Turning to slide 14, global banking, our fourth quarter earnings of $1.3 billion showed good growth over the third quarter of '13, with strong investment banking results, but are down from the fourth quarter of 2012 due to higher provision expense.

Provision in the year ago quarter included reserve releases while we built reserves in the fourth quarter of '13 associated with the commercial loan growth that we've seen. While we're on credit quality, I would note that our net chargeoffs within the banking segment for the quarter were only $7 million versus $132 million in the fourth quarter of '12 and $35 million in the third quarter of '13.

Our expenses reflect effective cost control, but also reflect increased related to revenue related compensation for investment banking. Our investment banking fees this quarter across the company were a record $1.74 billion, up 9% from the fourth quarter of 2012 and 34% from the third quarter of 2013.

Based on [Dealogic], we did maintain our number two position and fees with an 8% market share, and in addition, during the quarter we ranked number one in Americas investment banking fees with a 10.7% market share.

During 2013, we advised on 10 of the top 20 announced M&A deals, and as we move into 2014, the pipeline remains strong.

If we move to the balance sheet, average loans increased $8.8 billion from the third quarter, with solid C&I growth, particularly in large corporate and healthcare, along with growth in commercial real estate. Our average growth did outstrip our $2.3 billion end of period growth as we funded several deals near the end of the third quarter of ’13, which benefited the overall average balances.

We see solid customer demand for loans as we head into 2014, but would note that competition is particularly aggressive for middle market loans.

Lastly, on banking, our average deposits increased almost $20 billion from the third quarter of ’13 as our customers continue to show strong liquidity.

If we switch to global markets, on slide 15, ex-DVA, we earned $341 million in the fourth quarter of ’13, consistent with the fourth quarter of ’12, but down $190 million compared to the third quarter of ’13 after we exclude the U.K. tax charge. Higher revenue in both comparisons was offset by litigation costs, mostly associated with RMBS securities litigation.

Sales and trading revenue, once again ex-DVA, was $3 billion, 19% above the fourth quarter of ’12 and in line with what we saw in the third quarter of ’13.

Our fixed sales and trading revenue were up roughly $300 million or 16% compared to the fourth quarter of 2012, as the strength we saw in our credit and mortgage businesses more than offset slowness in both rates and commodities. Our fourth quarter of ’13 did include roughly a $200 million benefit from recoveries on certain legacy positions within the FICC business.

Our equity sales and trading area finished a very strong year. Revenues, although down 7% from the third quarter of ’13, were up 27% over the fourth quarter of 2012 as we continue to benefit from the repositioning of this business over the past 18 months.

We gained market share and improved our performance in each of the different product lines. Expenses, excluding litigation, showed very good cost controls and small increases, in line with revenue improvement.

Our average trading-related assets are down $54.3 billion, or 11%, from the year ago period and are generally flat with the third quarter of 2013.

On slide 16, we show you the results of all other. Profitability this quarter, compared to the third quarter of 2013, declined as the tax benefits this quarter that I described earlier were more than offset by lower revenue and less reserve release.

The revenue decline from the third quarter of ’13 was driven by lower equity investment gains. If you recall, we sold CTB shares during the third quarter of ’13 as well as more negative FVO valuations. The expense within all other includes $250 million of litigation in the fourth quarter of ’13.

And lastly I would note we expect an effective tax rate of approximately 30% in 2014, absent any unusual items.

Before we open it up for questions, let me make a few comments on the quarter. Capital and liquidity have never been stronger. On the revenue side, customer activity drove stronger core business results. Our consumer banking saw modest improvement on card income and service charges after troughing in early 2013.

Our global wealth and investment management business had a record year. Our global banking had a record year as well, with higher investment banking fees and stronger lending activity. And our global markets business is performing well against the market opportunities that they’re seeing.

We kept our cost initiative work on track, and credit improvement continues its track towards historic lows. We also made significant progress in 2013 in continuing to resolve legacy mortgage matters with the more significant ones being settlements with Fannie Mae and Freddie Mac on GSE rep and warranty issues, MBIA in the monoline space, and the Luther Maine State class action suit in the private label area of RMBS litigation.

And with that, let’s go ahead and open it up for Q&A.

Question-and-Answer Session

Operator

We’ll take our first question from John McDonald with Sanford Bernstein.

John McDonald - Sanford Bernstein

I was wondering, in terms of the core net interest income, you mentioned that the seasonally adjusted starting point for the first quarter would be 10.6, but it sounds like you expect that to keep grinding higher with the debt paydowns and rates being a little bit higher on the long end. And the $300 million that we saw this quarter, is that a good representation of the pace that core NII could grow at?

Bruce Thompson

I think if you look at what we saw during the quarter, we had a series of benefits for the quarter. If you look back at our tables, the margin that we saw within some of the repo and other global markets lending activity was up nicely.

As you mentioned, we benefited from the continued reduction in the long term debt footprint, which was clearly a positive. And we had a little bit of benefit, even if you back out FAS 91, on the debt securities lines. So I think those three things were clearly favorable. We'll have to see with respect to the markets margins, as well as just overall rates, where we go in the first quarter of '14 relative to '13.

I would be careful to assume that you're going to see $300 million type improvements in the NII as we go forward on a quarter to quarter basis. But over time, with the work that we're doing, we would expect that number to continue to grind upwards, all other things being equal.

John McDonald - Sanford Bernstein

Any material change in your interest rate sensitivity overall, Bruce, to long rates and/or short rates?

Bruce Thompson

I would say that whenever rates move up, you tend to widen out a little bit as maturities extend in the mortgage space as rates move up. So you always have a little bit of that in a rising rate environment, although given where rates are, we think we're largely through that. And the only other thing from an absolute liability management perspective I would note is that as it relates to both managing OCI risk as well as managing to LCR, you saw it a little bit in the fourth quarter, and you'll see it a little bit more going forward, that we are purchasing on the margin some additional treasuries given the treatment they have under LCR.

John McDonald - Sanford Bernstein

And then I was wondering if you or Brian could speak at a high level about how you approached this year's CCAR. Are you looking to grow your buybacks off of the $5 billion common request from last year? And do you feel that you've improved the earnings enough and consistency here to start moving the dividend up yet?

Bruce Thompson

We're not going to comment on specific items with respect to the CCAR request. I think we've been pretty consistent as we came into 2013 that we were focused on increasing the core profitability of the company. And as you look at the last couple of quarters, from an EPS perspective, we think we've done a good job of that. You can see the capital build that we've had, and you can see the reduction in the legacy exposures that we've made. So we feel like we did a good job of preparing ourselves for CCAR this year, and we're obviously working hard as we go through the rest of the process between now and mid-March.

John McDonald - Sanford Bernstein

And then last thing is you mentioned, Bruce, the 8.5% return on tangible, and, you know, hope that that goes higher over time. Your ROA was 64 basis points. I guess what kind of goals do you have for ROA and ROE over the next few years, and any thoughts on timelines that you hope to get there on?

Bruce Thompson

As we look out over the three years, I'd say it's more of the same for us, but you can see a tangible common equity ratio that's just over 7%. The three metrics, if we assume we stay at around that 7% level, we were above it in the fourth quarter, but if we stay at that level, we're looking to get to the point where we're returning 1% on assets, which translates into a 14% return on tangible common equity. And those are the types of levels that we see ourselves looking to achieve over the course of the next three years.

Operator

We'll move next to Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley

One on the NIM discussion that we were just having. When you look at what happened with the yield and the cost of funds, it looks like you're getting a little bit more competitive on non-resi consumer. And just wondering how to think about how you're looking to shift, either the loan growth going forward and how you're thinking about that loan yield relative to your cost of funds in an environment where NIB probably doesn't grow as much as it had been in the past, maybe your cost of funds is flattening out, or potentially increasing a little bit.

Bruce Thompson

I'm not sure exactly which piece you're looking at, Betsy, but if you go back to our earnings supplement, which is back on page 10, I think it's interesting that you can see from the third quarter of '13 to the fourth quarter of '13 that our yields on residential mortgages did increase about 6 basis points to 3.74%. And the other interesting thing is that we have started to see and be able to do more home equity type business with our core customers. I think it's interesting, if you look at the yields on that portfolio, they were up 20 basis points to just under 4% for the quarter. So as we look at the yields and the rates that we're able to get, I think we're competitive in the market and we've been able to see some slight increases within the rates that we're able to earn.

Betsy Graseck - Morgan Stanley

Sure, it's an interesting mix shift, because you've got a little bit of a shrinkage going on obviously, with the legacy resi still coming off, yet the yields there are increasing. And on the non-resi consumer, you've got some yield compression happening, but your loan growth, at the margin, is inflecting more positively. Cost of funds looks like it's probably settling out here and potentially even going up a little bit. NIB average balances were still up Q on Q, but the period was down. So that's kind of the full context of the question.

Brian Moynihan

You've got the [unintelligible] going through, or the pay, on both sides of the rate question, and then we continue to see deposit pricing, liability pricing came down, the contribution of noninterest bearing size in the balance sheet continue to go up.

But just focusing on the production, what's really going to happen across the last several quarters that we're seeing stabilization in some of the balances, and the runoff portfolio impact gets smaller and smaller from some of the noncore portfolios they're getting rid of.

But in the fourth quarter, for example, our direct auto, which in 2013 our direct auto business - not our indirect, but our direct-to-consumer auto - was up 55%. The home equities in the fourth quarter were up almost 100% over the prior year's fourth quarter. Year over year, they're up 60%. The card, we had about 19% more production in the fourth quarter of '13 versus '12. And the business banking, small business area, we're seeing production up.

So we're building the basics that are producing the balance growth. And the pricing spreads are holding. It's competitive [unintelligible], middle market and things like that. So I think it all serves us well, largely having run off stuff that may have yielded high, but may have high credit cost content, you've got to remember, and we're replacing it with stuff that's good in core and a great credit quality. And so we're seeing a shift a little bit from the commercial loan growth, which was really more positive to where the consumer loan growth was starting to stabilize and come along.

Betsy Graseck - Morgan Stanley

When do you think you get that inflection point in loan growth? Clearly it's a function of legacy, basically not weighing on the loan growth overall. When does that inflection point happen?

Brian Moynihan

If you look at the various portfolios, I think in card we've kind of seen it. As Bruce talked about, we got a sale. I think in home equity, you've still got a ways to go, because remember, we've got about 40% or so of our home equity is still in the noncore portfolio. And then I think in the commercial side, you've seen the straight growth, whether it's large corporate or commercial middle market. So I think that would be the overall summary. I think it sort of came through from the corporate activity, moved faster to the small business activity, and then the consumer activity, but we're stabilized in most of the portfolios, and growing.

Betsy Graseck - Morgan Stanley

And then just turning to the mortgage for a moment, on LAS expenses, did I hear you right that you are looking for LAS expenses to be at about $1 billion at year-end? Is that correct, on a quarterly basis, 4Q '14?

Bruce Thompson

Yeah, we called it roughly $1.1 billion.

Betsy Graseck - Morgan Stanley

Okay, so that's an uptick, right, from what you had been saying before, sub $1 billion by year-end?

Bruce Thompson

Yeah, that's correct. It's about $100 million higher than what we had said before. And I think the work that we're starting, take a step back, that we got through roughly $400 million during this quarter, which was a little bit better than we would have expected to do. So we felt very good about that.

And if you look at the number of 60-plus day delinquent loans, it came all the way down to 325,000 loans. So what we're going to be working on over the course of the next 90 days is a little bit of a reset of that expense base, so that we can continue to drive that number down. That $1.1 billion doesn't reflect that, but given the work and the activity levels, we need to go back and do some more work on that.

Betsy Graseck - Morgan Stanley

So $1.1 billion by year-end ’14. Is there still runway in ’15 to bring that down further?

Bruce Thompson

We’ve been consistent that we would expect and look to end 2015 at roughly $500 million a quarter.

Betsy Graseck - Morgan Stanley

And then just lastly, on the litigation reserving, you called out the $2 billion litigation reserve for the mortgage business, highlighted that that reflects a lot of the litigation risk you think you have. The question we get from people is how many more quarters of this should we build in going forward? Because you do still have some lumpiness in the lawsuits that you face.

Bruce Thompson

That’s always a tough quarter. I think what I’d say is that there was obviously a lot of new learning that we saw during the fourth quarter of this year, and as a result of that, we adjusted the reserves for the legacy exposures to reflect that which we learned. And as we’ve said, it was largely with respect to RMBS litigation. And beyond that, it’s just a number that’s difficult to predict.

Operator

Our next question comes from Matthew O’Connor of Deutsche Bank.

Matthew O’Connor - Deutsche Bank

We’re seeing some peers that came out yesterday actually increasing liquidity and long term debt levels to meet the LCR. I think you guys are starting at a higher point maybe than they were, but just give us a sense of maybe where you are for LCR under the current proposals. And as we think about kind of the net impact of long term debt running off at the holding company, increasing at the bank, how does that all shake out on a net basis this year?

Brian Moynihan

I’ll let Bruce talk you through it, but we’ve got to remember how we got here, which is just, you know, with the legacy set of companies put together, they had debt structures that were built for their company and their industry without the core funding that we have. So we’re coming down to a level most of our peers were below, and they may be coming up a little bit. So you've got to remember that whether it's [unintelligible] or Merrill Lynch, the funding structure was so different.

So we had like $400 billion of long term debt we've been bringing down, and the size of the balance sheet shrank. We started off at about $2.5 trillion and we're down to $2.1 trillion. So I'd be careful about comparing where they're going versus where we're going based on this, just because what we had is different from what they started with. And then Bruce can talk about what we think from where we are now going forward.

Bruce Thompson

As we look out, I think at the parent company, as we look at, and with our understanding of the LCR ratio, we are in the 100% area as it relates to LCR. So at the parent you can look at us being where we need to be based on 2017 levels.

The one area that we will look to do more in, and I highlighted it, is to further build and take out more term financing within the bank levels to look to build that. So I think we're in great shape at the parent. We're in great shape at the banks, but you will see us doing a little bit more bank financing activity to be able to meet those requirements. And if you look at where we've financed it at the banks, there's no incremental cost for that that's different than what we've communicated before.

And the other thing I would just point out, on the overall debt footprint and the cost of it, is with the work that we've done on the balance sheet, and with where our credit spreads are now in the market, we will be refinancing our debt at lower rates than the debt that's coming off of the books as it matures.

Matthew O'Connor - Deutsche Bank

And with the parent being around 100% right now, any sense of how much cushion you want? I think some banks are running at maybe a 15% cushion. Some banks are still trying to get to where you're at.

Bruce Thompson

I think to project a cushion three years out, I think we clearly are going to run at a cushion. We're going to run the company. So this is not an issue. But until we get out to 2016 and 2017 and understand the exact composition as well as any puts and takes that we're seeing, it's probably a little bit premature to talk about a cushion. The focus has been to get to the 100% at the parent immediately, so it's not an issue to discuss.

Matthew O'Connor - Deutsche Bank

And then just separately, we saw out of JPMorgan yesterday a one-time valuation adjustment on certain derivatives. And just wondering, is that applicable to you? Or have you been absorbing it over time, or still to come?

Bruce Thompson

It's obviously applicable to anyone that has an uncollateralized derivative book. So it is applicable to us. I think that clearly the industry view and how you account for FVA is still very much evolving. JPMorgan obviously came out today with their adoption, and as a company, it's something that we continue to evaluate.

I think the important thing to remember, when you look at this, and I'm sure you know this, is just that this is a question of do you take a reserve for something that you earn back over the average life of your uncollateralized balances? So it's not something that changes the core economics of the activities that we're doing.

Operator

Our next question comes from Glenn Schorr of ISI.

Glenn Schorr - ISI

On the balance sheet migration over the past year, cash and equivalents up 19%, repo; trading assets and derivative assets all down say 10-14%. Is that a function of some of the sluggishness on the trading side during the year in the market, and it's just a reaction to what's out there? Or is this your intent to get on [size] for SLR and LCR?

Bruce Thompson

I would say that as we look at, and what we've said is from an LCR and an SLR basis, given that we're at the levels at the parent and then with respect to the supplementary leverage ratio at the banks, given we're at the levels that we need to be that phase in between 2015 and 2019, there's not anything directly related to those given that we're in great shape with respect to those.

What I would say is that as we move forward and as we look at the bank level and some of the rules, you will see us, on average, carrying a little bit more cash at those levels. And you saw that as you look at the year-end numbers.

And as it relates to the different repo activity and the like within the global markets business, you continue to look to manage and balance what's the size of that book, how it affects the overall size of the company, and the yield that you're able to achieve. And I think that was one of the things, as some of these different regs come out, that we feel good, that if you look at the repo book we were up 7 basis points from an average yield perspective Q3 and Q4.

So those are numbers that are going to ebb and flow, but I would say directionally we feel very good about where balance sheet is.

Brian Moynihan

Our approach has been, as these rules come out, to put ourselves in compliance, or whatever the right word would be, immediately, not wait so that we didn't have it hanging over us. You know, could you get to the LCR, could you get to the supplemental leverage? So we just said position the balance sheet.

But what I'd say is, as you look at the company's sort of constitution in terms of business mix and balance sheet mix at the year-end '13, we're very comfortable with that. So there will be ebbs and flows, loans will grow here or maybe market [we'll use] a little more balance sheet on a given quarter.

But Tom and the team have done a good job at sorting being able to face against the customers and maintaining our strong market position in all our businesses, investment banking, sales trading, fixed income, and equities both, while at the same time bringing the balance sheet year over year down. But we're completely comfortable with it being in the size range it is now, and expect it to stay roughly in there. So I don't think we'd see massive changes in how the company looks to comply with rules, because we're already in compliance.

Glenn Schorr - ISI

And global markets, the trading in absolute numbers and relative to some peers is pretty good. The question I have is if you look at the return on capital or the return on average assets, it's pretty low. I'm curious how much litigation cost dented that? Because I know it dented it, we just can't say exactly how much. And are these metrics we should be looking at on a consistent basis? They're in the supplement. I'm assuming they mean something, I just don't know if the capital allocations and the asset allocations are fair things to judge on.

Bruce Thompson

I think as it relates to the capital allocations, that they clearly are, and one of the things that, if you look back in the footnotes, that we highlighted, is we will refresh those allocations in 2014 and continue to have more capital pushed out within the businesses. As you look at the returns within the markets business, I think you need to adjust for two numbers when you look at those. The litigation number within the markets business was north of $600 million for the quarter, and then you had another $200 million during the quarter for DVA. So when you look at the returns, you need to adjust for those two numbers and realize that in the fourth quarter you're looking at what's seasonally the slowest quarter.

Glenn Schorr - ISI

Final one is in mortgage. I think there was a bit of a hiatus as you're getting things battened down. I think you picked up about 100 basis points market share since then on the retail side. Just curious for an update on how the fourth quarter looked, and then your thoughts on going out in terms of intentions to continue to push that share higher.

Brian Moynihan

I think if you look at it, you can calculate the statistics, but we were down. We had two things going on during '13, in the second half especially, as the HARP volume started to fall off, because we sized our portfolio down in terms of total servicing size. So our HARP opportunity went down, and then obviously as rates went up, sort of mid-year out, the volumes dropped.

And so the third quarter the pipeline pulled through and helped us get $20-odd billion in the fourth quarter down to $11 billion. But if you look at it sort of the non-HARP share, we are pleased with the progress we're making, and we'll continue to, direct to consumer, grind that forward from where we are now to about $9 billion this past quarter.

And so I think we're fine. It's going to be a business that we shape to serve the customer, and the wealth management business does a couple billion in the quarter. It's a good, solid position. I would say in January, with the rates moving down a little bit and stuff, you saw another tick up of about 20-25% in application volume in our book already.

Now, I don't know if that holds, and how much is seasonality, because of the way Christmas and New Year's fell this year and things like that as we move through the month, but it immediately picked up over the last several days as rates moved a little bit in our favor. And the purchase volume has also moved up in January.

So we're looking for this business to start to grow again, but it obviously suffered both the rate effect and also the HARP effect in the fourth quarter.

Operator

We'll move next to Chris Kotowski with Oppenheimer & Company.

Chris Kotowski - Oppenheimer & Company

I wanted to come back to the debt footprint discussion, and just looking on page 11, you can see total average long term debt down $27 billion year over year. And at the same time, looking at page 7 of the presentation, the time to required funding expanded from 33 months to 38 months.

So I'm just curious, is there some other liability that is extending while you're bringing down the debt footprint? And how can we gauge for the year ahead? What I'm getting at is how can we triangulate on how much further room there might be in the debt reduction?

Bruce Thompson

I think the important thing, and if I understand your question, when you look at the time to required funding, there are a couple of components that go into that. There's the amount of liquidity that you have at the parent, obviously, and then what the debt footprint is over the course of the period of time that you're measuring it.

And if you look at what we've done, we've basically, if you looked at our company at the end of 2012, we had $70 billion of debt maturities that we needed to work through over the course of 2013 and 2014. And you obviously need to carry significant amounts of liquidity to be able to basically meet your time to required funding when it's that lumpy.

What we've done is between the debt that we repaid this year as well as the activity you saw when we tendered for debt several times in 2013 for debt that was maturing in 2014, was to knock down those maturity profiles. So you're asking a very good question, which is over time, what you should expect us to be able to do is continue to move the parent company funding down. And as we flatten out those debt maturities, we'll be able to do that and not have nearly the impact on time to required funding, because the maturity profile will be much flatter.

Chris Kotowski - Oppenheimer & Company

And then as a follow up, looking at your 10-K and 10-Q, you give us a very nice breakdown of the debt by parent company versus Merrill versus BofA

NA, and your parent company looks like, at least between year-end and September, like it was relatively flat. And the declines in the long term debt came primarily from Merrill Lynch, going from like $90 billion to $60 billion.

Does Merrill Lynch, as an entity, need to continue to pay down debt? Or can that essentially be all squeezed into other subsidiaries? And does that have an impact on the cost of funds?

Bruce Thompson

A couple of things. Keep in mind we told you when we reported third quarter earnings that the Merrill Lynch holding company that had previously issued debt before the merger of the two companies, that has been merged into the BAC holding company. So when you look at that debt profile, realize today it's one and the same.

So I think the important thing I would look at is on page seven, and what we do is we give you the actual what we consider parent company. And that parent company, back in previous quarters prior to ML & Co. and BAC merging, is a combined number. So if you look at those red bars on the bottom on page seven, that is the combined debt footprint of the two companies that is now one. And you can see that over the course of five quarters migrating down.

Operator

Our next question is from Jim Mitchell with Buckingham Research.

Jim Mitchell - Buckingham Research

Just a couple of quick follow ups. On your Basel III tier one common, the standardized versus advanced, you have I guess almost a 90 basis point difference. Some of your large bank peers are closer to a 10 basis point difference. Can you help us think about why you have such a large gap between the standardized and advanced?

Bruce Thompson

The first thing I would say is that generally we would expect that gap to narrow over time. But as you look at the actual content of it, I think the biggest reason that you have is just given the percentage in some of our commercial loan balances that we have relative to our peers, that under Basel III advanced, get impacted significantly based on the actual credit quality, where when you go to standardized, it's just 100%.

So I think the first thing is you do have some of that activity or difference between the two metrics. And then I would say that the second thing is that we still do have some assets that, under Basel III standardized, do get some fairly risk weightings that we will continue to work off over the next couple of years.

So there's no question relative to what we've seen out there we're a little bit wider. I think those are a couple of the differences. And as I said, I'd expect over the course of the next 12 to 18 months you'll see that gap tighten.

Jim Mitchell - Buckingham Research

So on the commercial side, as credit gets better, we should see that gap close, for that reason?

Bruce Thompson

No. The commercial credit getting better, that's not going to lead to it getting tighter, because under standardized, a commercial loan is a commercial loan. There's no benefit of credit quality. It's going to be more the runoff of some of the different positions that we have within the company as opposed to anything specific on commercial.

Jim Mitchell - Buckingham Research

And then just a follow up on your eventual ROE target, or a tangible ROE of 14%, when you're kind of discussing that target, is that assuming some help from interest rates being higher? Or is that without that help?

Bruce Thompson

As we look at 2015, 2016, we don't do anything besides just look out at the forward curve. So you do get a little bit of benefit at the very end of '15 and a little bit more so in 2016. So there is embedded some of that. At the same time, to the extent that we're not in an environment, in an economy, that's growing, and we're seeing some of that movement up in short term rates, if we're not seeing that then there are other actions that we're going to need to take within the company.

Operator

Our next question comes from Steven Chubak of Nomura Securities.

Steven Chubak - Nomura Securities

One thing that we did see over the past year is a pretty robust pace of DTA consumption, which certainly helped boost your capital ratios. I know when contemplating DTA utilization, the mechanics can be quite complicated, but how should we think about the potential level of progress as we enter 2014 as your earnings profile continues to improve?

Bruce Thompson

As we work through 2014, a fairly healthy percentage of what would show up in the tax provision line will not reduce our regulatory capital. And as we go out in ’15 and beyond, how quickly the balance of that goes is going to be a function of profitability. But what I would say is that as it relates to working through the DTA, and it is a complicated calculation, that we should get a very large amount of what we pay in taxes back in regulatory capital during 2014.

Steven Chubak - Nomura Securities

And then just thinking about some of the profitability targets you highlighted, such as the 14% tangible ROE, what are you guys assuming in terms of capital return over that potential horizon?

Bruce Thompson

Unfortunately, I can’t answer a way around we’re not going to give any more guidance on CCAR than we’ve already given.

Operator

Our next question comes from Paul Miller from FBR Capital Markets.

Paul Miller - FBR Capital Markets

On the origination side, you did talk a little bit about that you’re improving your retail side, but the refis have gone down. You’re down to like 4.5%. Where do you see your market share? And where do you think you can take your retail market share? And also, what do you think about non-QMs? I know some banks have come out and said they will start doing some non-QMs. I didn’t know where you stand on that.

Brian Moynihan

We think that ultimately, if you look at our market share and other product capabilities, given the ebbs and flows of the rate environment and, you know, faster refis, lower refis, whatever’s going on. We have a 10% or 13% deposit share, we think, in consumer deposits. We have a higher percent in cards, etc. Home equity is bigger. We should be pushing towards upper single digit level in mortgage.

It just will take time, because we're rebuilding that process, which was not geared toward serving the core customers and just doing it, and the team's been doing a good job of building that fairly steadily. And the purchase volume percent I think is in the 30s this quarter. And so we're getting there.

So that's our goal. It will just take us time, and we'll drive that. But in terms of the direct to consumer production, I think we're second largest now, and we plan to keep driving that.

On the non-QM and things like that, we'll meet the needs of our customers by using our balance sheet, because remember, we do a lot of mortgages today through our wealth management business and stuff. And so we'll work through the rules.

But for the standard products, obviously, for the general consumer and the Fannie eligible, Freddie eligible, FHA type products, we'll be following all the rules and making sure they go through the standard process to get them off the balance sheet and into the securitization process. But in terms of putting stuff on the balance sheet, I think we meet the needs of customers, and we've been doing it for years.

Paul Miller - FBR Capital Markets

And on the jumbo loans, I know a lot of the institutions are going after the jumbo product. You don't break out your jumbo product, but is that an area of focus for you guys? And if it is, what types of yields are you getting on that product?

Brian Moynihan

Inherently, when you have one of the largest wealth management businesses as a focus, so of our production about 20-odd percent comes from the wealth management business, and the yields on the product are competitive. We have to compete in the market, so it's a market-driven business.

Bruce Thompson

It obviously depends on the product, you know, floating versus fixed. But you're clearly seeing credit spreads on a floating basis for some of those customers and the spreads of 100 to 150 basis points from a floating rate perspective.

Paul Miller - FBR Capital Markets

And is there any update on the state of New York, where they stand with approving the Bank of New York settlement of $8.5 billion? Do we know when that's going to come to a conclusion?

Brian Moynihan

We do not. There's no update at all besides the fact that the trial's over, and at this point you know what we know.

Operator

Our next question comes from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch - Credit Suisse

A couple of things. In the mortgage business, I noticed that it looked like the revenue stream from the LAS servicing actually went up from the third quarter. Is that something that will remain at that level? Or does that come down with the servicing assets?

Bruce Thompson

I think you need to look at, within legacy assets and servicing, I know it's completely counterintuitive, but recall that the reps and warrants is a [contra] revenue line item. So we had the lower rep and warrant provision for the quarter, was the big delta.

Moshe Orenbuch - Credit Suisse

In terms of the card business, you talked about the 1 million plus accounts and you've kind of done that both third and fourth quarter. Just talk a little bit maybe more generally about the strategy there. Are there any things that you're doing to kind of maintain or increase that? And also kind of on the other side, are there other affinity portfolios that your partners are going to ask for back as we go into '14?

Brian Moynihan

I'd say on the affinity side, we basically repositioned that business as a loss for three or four years, and I think we're kind of where we are at this point. The strong affinity partners we have that have done well, we continue to support them and continue to drive production there.

Think about the Cash 123 product, the balance rewards, and the travel rewards products, core products that we continue to drive. And the production of those products continues to be up significantly year over year, and that's what's driving us from a couple of years ago maybe 700,000 cards a quarter maybe up to a million-ish now per quarter.

And so that is good, because it is our core branded product with a great product for the consumer and they use it. And so what you're seeing as you look at some of the detail we give you in the supplement and stuff, you'll see that the average spending is going up, the average spending per card is going up. And so that, obviously, is more efficient and is an indicator that you're becoming the primary card in the wallet for customers.

With that, though, one of the drags is the spend rate. We're in the low 20s on payment rate. In other words, the people who are paying us and not carrying balances, because of the affluent customers. So that's a little bit of drag. But they charge enough that you can make it through the interchange. So we're very comfortable with the business. We spent three or four years on positioning.

But the good news is with the credit quality that we've seen from originations [unintelligible] and things like that, we're getting the 9% risk adjusted margin. So we've ended up with the right spot, where we're getting production growth, i.e. more cards, with our direct customers, with a good strong margin. And we like that.

Then you might say, well, why don't you push it harder, because it's returning so well? The issue is to do that you have to go to places where I think it's not our core strength. And so you should expect us to just grind forward on that.

Moshe Orenbuch - Credit Suisse

Following up on the DTA question, how do you think about, and how do you believe the Fed thinks about, that DTA consumption kind of as part of a CCAR submission?

Bruce Thompson

I think the interesting thing is that as you move forward and you look to test under Basel III, NOLs are not eligible as capital under Basel III. So there's good news and there's bad news. The bad news is you don't get to count it, the good news is that it eliminates the likelihood that you have a difference relative to the way somebody else looks at your deferred tax position. So given that CCAR is based on the way regulatory capital works, that's how the deferred tax assets flow through. And once again, under Basel III, you don't get to count NOLs.

Moshe Orenbuch - Credit Suisse

So you're saying they do consider the capital generation as opposed to just your earnings?

Bruce Thompson

I can't comment on the way the Federal Reserve looks at that, but our belief is that's correct.

Brian Moynihan

The point would be this year you're sort of in transition, but as you go forward and the expectation is you move to Basel III, it becomes sort of a nonelement and it's out of the calculation already.

Operator

We'll take our next question from Guy Moszkowski with Autonomous Research.

Guy Moszkowski - Autonomous Research

Question on how we should think about the fact that last year your capital return really included not just the buyback authorization of shares, but also the redemption of the preferreds. So you could add the two numbers together and say, $10.5 billion out of last year's CCAR. Is there some conversion factor that we should think of for the preferreds in terms of saying what the 2013 baseline really was?

Bruce Thompson

As you look at the preferred that we redeemed, the yields on those preferreds were between 8% and 9%. And once again, I'm not going to speak for the Federal Reserve, but I think most people looked at that and said… at least the way we looked at it was that we look at the heavy content of tier common that we have, and you look at preferred that's 8% to 9% after tax. And I think most people would look at that and say it makes good corporate finance sense, and it's a good thing for Bank of America to retire those.

Given the work that we've done on the balance sheet, you can see that the majority of what we have left from a preferred stock perspective is priced at competitive rates. So I would be very careful to thinking of and including that preferred stock redemption and assuming that it was evaluated as common stock.

Guy Moszkowski - Autonomous Research

Right, but is there a factor that you use in thinking about what it would convert into in terms of the capital return?

Bruce Thompson

No, because it was straight preferred stock. It had no conversion features whatsoever.

Guy Moszkowski - Autonomous Research

I've had a number of clients ask me the question this morning about the significant increase in the yield on the securities portfolio, just from the third quarter to the fourth, and obviously long rates are up a lot. But is it just that, or can you link that to the couple hundred million dollar benefit that you were talking about in terms of the market related impact?

Bruce Thompson

No, you're absolutely correct. If you adjust for the FAS 91, the delta Q3 to Q4, the increase was only 2 basis points.

Guy Moszkowski - Autonomous Research

And I know you said that on the SLR, with the Basel add ons, you're still evaluating that. But JPMorgan was out saying yesterday that their estimate was that it probably only increased above and beyond the NPR. Sorry, decreased their leverage ratio by about 10 basis points. Are you thinking similar order of magnitude? Or are you really not in a position to comment at all at this point?

Brian Moynihan

I'll make a couple of comments on that, and you know, we've got teams, as you can imagine, culling data and spending a lot of time with it. The couple comments I would make is that the changes that were made from prior BCBS rules to the new rules, as it relates to both the credit conversion factor as well as the netting for securities financing transactions, clearly are less punitive than what the original BCBS proposals were.

I would say on a very preliminary basis, as we look at it, I would say that we think that the impact to us is a little bit more than what JPMorgan quoted. That being said, with our ratios above 5% at the parent, and above 6% at each of the banks coming into this, we feel like we're in very good shape with respect to compliance with the supplementary leverage ratio.

Guy Moszkowski - Autonomous Research

And then I guess the final question that I'd have for you, and it's along the lines of some of the ones you've been asked about, you know, further reductions in the long term debt footprint. Obviously there's been some speechifying by members of the Fed about not seeing banks reduce their long term debt levels much below where they are now. Is there some rule of thumb that you guys are using in the absence of any defined orderly liquidation or [bail] in capital definition yet as to what you would want your total long term debt plus tier one capital to look like as a percentage of risk-weighted assets that you're using as a guidepost to help you figure out how much long term debt to bring down?

Brian Moynihan

I'll let Bruce give you his thoughts on that from his perspective, but before we get to it, you've got to remember what I said earlier is our company has shrunk and our equity has gone up. So when you think about that, if you shrunk the company about $300 billion to $400 billion in size across the last three or four years, and your equity balance has gone up, and your deposit balance has gone up, what you're going to do to balance the balance sheet is take the long term debt footprint down. That is because we fundamentally got rid of a lot of businesses and assets and things that weren't necessary to do what we do today.

So there's just a difference between us and our peers who have been more organic in how they came together in the last few years. So I'd just be careful. Obviously we work with the Fed and all this redemption [unintelligible], like we can make the capital plans, and as you said liquidation authority and structure, but a lot of our reduction has come by shrinking the scope of the company and the $2.1 trillion and change from $2.4 trillion to $2.5 trillion. And that's going to allow us to sort of reshape and get rid of assets that were noncore and not yielding.

So I'll let Bruce answer sort of the rules, but remember, we started from a different place, because as someone said earlier, Merrill had a lot of debt, because they didn't have the deposit funding we did.

Bruce Thompson

We hear the same thing that you do. We hear the numbers quoted of very high teens that you need to be at from a common plus your debt footprint that's greater than a year. If we look at where we are today, from that metric, we're in the low 20s today, which as we compare ourselves to our peers is higher than where our peers are.

I think what you're going to see as we go forward, and I referenced this earlier, this is the last year of big debt maturities, where we've got north of

$30 billion at the parent that comes due. So I think what you'll see for us going forward is you'll see us issue less today at the parent than what matures at the parent.

As you get out to '15 and beyond, it tends to be much more a $20 billion a year type maturity profile. And the impact in '15 and beyond, assuming we continue to do what we should with the balance sheet, the impact in '15 and beyond is going to be more about the cost at which we're raising debt relative to the debt that we're retiring, whereas we do have one more year, which is this year, of shrinking the actual total amount.

Operator

We'll move next to Matthew Burnell with Wells Fargo.

Matt Burnell - Wells Fargo Securities

First I guess the bigger picture question and then just a couple of administrative questions. You've mentioned a couple of times your view about cards and the progress you're making not only in getting cards in the hands of your customers but also the use that your customers are taking with the cards in terms of charging more. I guess I'm just curious as to what your outlook is for actual balance growth over the course of 2014, presuming that we are in a somewhat better economic environment this year versus the last couple of years.

Brian Moynihan

A couple of things would drive that. If you look at the last three or four quarters, you can see that we kind of flattened out. Around the holidays you get a seasonal bump and it comes out, so Bruce said earlier that you should expect the card balances to come down in the first quarter just because of that. But if you look at it, it's been $90-odd billion in the U.S. business consistently.

What we did see in the latter part of last year is more usage on the credit side, which from a general economy perspective is actually good news, in that people were using the credit versus debit, and we look at the usage of our cards and what they're used for in a given quarter. So credit spending was up better among all the customer bases, in October and November and in December.

So I'd say we're set up, because we've gotten rid of the balances of the cards that we were running off, and that's really a very low percentage now, to have the thing stabilize. I don't think it will have large balance growth, because it will kind of work with our customers and what they're doing. And we have a substantial part of the people who pay us off. But the good news is, underlying, you have seen a little more credit usage fundamentally in the last couple of quarters.

Matt Burnell - Wells Fargo Securities

And then Bruce, I think you mentioned a couple of quarters ago that you were targeting a branch count for the company in round numbers around 5,000. You're basically there as of the end of this year. Is there potentially a push to get that number materially below 5,000, or at this point do you think you are where you want to be?

Bruce Thompson

When I referenced the 5,000, that was in the context of starting at just under 6,000 branches and the work that we were doing with respect to new BAC. I'd say that we continue to track towards that 5,000 number. What's probably a little bit different from what we saw in new BAC is that we've been able to actually sell some of those branches that are, for us, out of market to local banks as they look to build up their local presences, which I think is a good thing for everyone.

And as we look forward, I think there will be a condition evaluation that we have at this point as to the opportunity and the cost versus the benefit of the branches. But I would directionally think of us being 5,000, maybe a few less than that, before the end of 2014. And there'll be a continued evaluation that we'll have beyond have the ability to.

Brian Moynihan

We'd always focused people on the branch count because it was a fairly effective way to show how we were trying to do it. The reality now is as you look at the different formats, we're always putting new branches in the market, as leases run off, repositioning the branch, consolidating branches and adding these express formats that we're testing and stuff.

So the definition of a branch is changing in terms of what you would traditionally think. And so after period, which Bruce talked about, you're really going to be where the customer is leading you. But the branches are critically important, and you always use the example, in one market we were able to take four branches and put them in one larger one, have the Merrill team [unintelligible] commercial banking teammates, and the core personal bankers and teammates in the branch.

So we don't know exactly where this goes, because it will be dependent upon customer behavior, but what we do know is we have to dominate the physical side and the ecommerce, online mobile side at the same time, and that's why we're investing heavily in both platforms. So we have probably a half a billion dollars we put in the online mobile platform across the last three or four years, and we'll continue to invest at that rate.

And you can see the feature functionality return and the usage of that platform has grown tremendously. For example, in the fourth quarter of '13, % of all the checks deposited by consumers went through the iPads and mobile phones. That was up from 7% the quarter before. And didn't exist until basically the third quarter of '12.

And so that's what we're driving, because of customer convenience and usage. At the same time, we have 8 million customers coming into our branch, and the engagement rate for those customers is going up. And so the team is less about what number of branches, and more about how the distribution process works between phones and ATMs and mobile and branches and express branches, ATAs, which are tellers through the branch. And then we're deploying more people to sell in all those regards. And that's what we're trying to do.

Matt Burnell - Wells Fargo Securities

So presumably over the next two to three years, you could see the square footage of the total branch base come down potentially fairly dramatically given all the electronic delivery mechanisms that you just mentioned?

Brian Moynihan

Yes, dedicated to transactions, but the square footage dedicated to sales could increase.

Matt Burnell - Wells Fargo Securities

And then just finally, what was your percentage of mortgage volume this quarter that was dedicated to purchase? And how does that compare to the third quarter?

Bruce Thompson

32% was purchase this quarter. And I think it was 21% in the previous period.

Operator

We'll move next to Nancy Bush with NAB Research.

Nancy Bush - NAB Research

I think we all appreciate the tremendous progress you've made on increasing profitability at the company and getting things turned around, but there is a perception out there that you're going to have a gap up in profitability when short rates start to go up. Can you just give me your thoughts about that? Is that indeed a correct view?

Bruce Thompson

You know, in each quarter we look at our asset sensitivity on the balance sheet, and our constant metric that we look at is what does 100 basis points do to our net interest income, and obviously that flows directly to the bottom line. And at the end of the year, a 100 basis point move up was worth between $3 billion and $3.1 billion to us from a net interest income perspective.

So we clearly will benefit from short term rates. We obviously don't control that, and so I think the important thing is that, as we look at near term benefits that we have, we continue to have a lot of work to do on expenses in both 2014 and 2015, because we've got another $500 million a quarter of new BAC savings that will get implemented between end of '13 and end of '14.

And then with the guidance that we gave today, another $700 million a quarter to get out going into 2014 to where we end 2014. So we do look forward to those days of higher rates, but in the meantime, we've got a nice chunk of expenses to get out that we do not believe will impact the revenue generating ability of the company.

Nancy Bush - NAB Research

And just kind of to add on to that, do you have a sense, at this point - and this sort of goes back to the previous question - when rates do start up, given everything you've done in the deposit gathering network, how profitable will that be in the next cycle as opposed to, let's say, three or four years ago?

Bruce Thompson

If you look at page 11, where we give the profitability of the consumer business banking, and that's obviously the one that benefits the most by the short term rate rise, because the constitution of deposits is non-interest bearing, and it picks it up. And you can look at the returns there in the supplement. And you can see we're up to about $2 billion in after tax income and the returns clearly exceed the cost of capital.

And it will benefit, but in the meantime what we'll be doing is driving the cost structure down. In the deposit franchise, almost 300 basis points of cost to run the deposit franchise as a percentage of deposits, down to 200, in opening that up. So it will absolutely help that business. But meanwhile, it earned $200 million this quarter after tax, which is not bad either.

Operator

We'll go next to Eric Wasserstrom of SunTrust Robinson Humphrey.

Eric Wasserstrom - SunTrust Robinson Humphrey

Just one small question, also on the mortgage business. Doing the simple gain on sale mathematics, it looks like you had a rebound in your gain on sale sequentially, which is pretty consistent with what we've seen from others. But the magnitude looked much greater. It looked as if your gain on sale in the period was back to more or less year-ago levels, which doesn't seem intuitively right. So I just wanted to get your view on that.

Bruce Thompson

Yeah, there was one piece internally between the home loan space within LAS and what we have in all other. So if you adjusted that out, you're not seeing material changes in the gain on sale.

Brian Moynihan

The core production margins have come down and stayed pretty flat. Don't read into that that we're doing something different.

Eric Wasserstrom - SunTrust Robinson Humphrey

So just sequentially, you would characterize the margins as largely flat? Is that right?

Bruce Thompson

Yes.

Operator

We'll move next to Mike Mayo with CLSA.

Mike Mayo - CLSA

You said the banking backlog was up. Was that versus the third quarter or year over year? And can you quantify that?

Bruce Thompson

I think I characterized the backlog as strong at this point. And I would say it's strong both relative to the third quarter as well as to the year ago period.

Mike Mayo - CLSA

And which areas in particular?

Bruce Thompson

The interesting thing that we've seen coming into this is that the M&A business, and if you look at activity levels and just what's been announced over the course of the last week, that it does feel like some of the M&A deals that are being talked about are going to happen.

Obviously there are a number of them that are still being negotiated and may or may not happen, but M&A activity clearly feels like it's beginning to pick up and ramp up from what we've seen. You saw within the overall debt businesses very good growth both year over year as well as linked quarter, and I would say that that business as well as the market conditions continue to be quite strong.

And you then move to the equity side, the fourth quarter was obviously a very good quarter from an IPO perspective. And typically coming into the year you have a little bit less visibility on that, because a lot of that tends to happen after people wrap up their year-end numbers. But given overall valuations and what we're seeing, we're optimistic on the equity side as well.

So I think there's not one piece that we look at within those pipelines that don't feel pretty good. And the only thing I'd say as a cautionary note is that you are comping against a period that's the highest investment banking revenue period we've ever seen in the history of the company.

Mike Mayo - CLSA

And then switching gears, the wealth management margin, 26.6%, can you give that to us excluding U.S. Trust? It just helps with apples to apples comparisons with peers.

Brian Moynihan

U.S. Trust adds maybe 150 to 200 basis points. So that gives you a sense of it. But what drives our margins is what I said before. It's the holistic nature of the Merrill Lynch wealth management business. Because they have the wonderful classic investment business, but also they have a good deposit base and a good loan base, and all the work the team does there under John Thiel. But it adds about 150 to 200 basis points.

Mike Mayo - CLSA

And loan utilization in commercial and wholesale, where does that stand?

Bruce Thompson

Within commercial, it continues to be in the very low 30s.

Mike Mayo - CLSA

So no change?

Bruce Thompson

No change. The only thing that we are seeing that's a little bit of a change, and we've talked about it before, is if you look at the amount of funded commercial and corporate loans relative to our total commitments, that's been very much a focus of what Tom's looked at. And we've seen that migrate up to where it's just under 50%. So while we're not seeing line utilization as much, we are seeing, across our commercial and corporate books, that the funded commitments relative to total commitments has increased.

Mike Mayo - CLSA

And I wasn't sure, what is your net interest margin outlook for the next quarter or two? And you mentioned FAS 91 for the debt security yield. To what degree, if the yield curve has flattened a little bit here recently, do you get some of that back with that net interest margin?

Bruce Thompson

We talked about that, which drove the margin in the fourth quarter. I would say that across the board the margin was very strong in the fourth quarter. So you've seen numbers in the low 240s. You've seen it at 251. I would think about that being generally range-bound at this point in time with what we see.

Mike Mayo - CLSA

And with regard to new BAC, could you just repeat, how much do you have left, and how much do you think hits the bottom line this quarter. You spent a little bit more money for revenues, which I guess makes sense if you have the opportunity. But I just want to size that again.

Bruce Thompson

We've said that we've got $500 million to get through over the course of the next four quarters. And I would say that's going to generally be earned over time. So I wouldn't think of it being any more than 100 to 125 is generally the way that you'll see it phase in.

Mike Mayo - CLSA

I'm sorry, like $100 million to $125 million per quarter then, and that should hit the bottom line? Or you might look at reinvesting those gains?

Bruce Thompson

Well, we've committed to saying that our new BAC savings have to be net savings to the company with the caveat that to the extent that businesses are doing more revenues from where we started, that we'll pay out. And that's what we did see during the fourth quarter from both the global banking side, as well as wealth management.

Keep in mind, and I think this is important as you look at the first quarter, we've got two things that generally happen in the first quarter, one that we know does, and one historically the trend would suggest it does. I mentioned the FAS 123 that you have in the first quarter. We know that's going to be an incremental $900 million.

The other thing that historically has been true is that the sales and trading business, the first quarter historically is the most significant quarter within that business. So the incentive compensation, given that we accrue based on revenues, tends to be seasonally highest in the first quarter. And you add that, plus the $900 million I mentioned, and it's not an insignificant number.

So we, once again, feel very good we'll get the new BAC savings on a net basis over the course of '14. Just realize the first quarter has those two components.

Mike Mayo - CLSA

And then lastly, you mentioned the goal for an ROA of 1% over three years. And I just wanted to understand what you mean by that. Do you mean at the end of 2016 going into 2017 you look to have an ROA of 1%? Or do you mean the average over these three years?

Bruce Thompson

What we're referencing is as we look out over three years, at the end of the third year, that's where we would look to get to, which, given our current leverage profile, is around 14% on tangible common.

Mike Mayo - CLSA

Okay, so at the end of 2016, you look to have an ROA of 1%, with the forward curve the way it stands. And with those assumptions, what sort of change do you expect with the certificates of deposit or CDs, which are historically low for you and others? Do you have money moving out of CDs at that point, or not yet? You're around 15% of deposits. Historically it's around 35%.

Bruce Thompson

I would say the general expectation should be that that number is going to be at or probably move down a touch from where we are today given the performance of the core deposit franchise.

Mike Mayo - CLSA

And then on page 49 of the proxy, it mentions PRSUs, and they kick in with an ROA of only 0.5%, whereas you seem to be shooting for an ROA of 1%. How will your new expectations for the next three years translate into more formalized metrics or compensation? Is it more than simply a general target? How does it sink into the organization?

Brian Moynihan

I think the targets that we have for performance we'll put out in the proxy this year when the board goes through the process over the next several weeks. But I think in the past it's been based on getting us back to a level of profitability in the company, and that's what is reflected.

Mike Mayo - CLSA

And in very simple terms, if you look for a 1% ROA on $2 trillion of assets, you hope to be at kind of a $2 annual run rate in the later 2016?

Bruce Thompson

The one piece, and once again, we're not going to give it, is that if you're just doing that simple math, you've not made any assumption with respect to the change in shares. So once again, given that we're in the middle of CCAR, we're not going to comment on that. But you do have some benefit over time through share count.

Operator

We'll move next to the site of Derek De Vries of UBS.

Derek De Vries - UBS

I just had two questions. First, I think in the December conference you mentioned that there's been a 70% increase in referrals to wealth management from other parts of BAC. I'm just wondering if you could elaborate on that a little bit. Is that environment driven? Or have you implemented some specific programs? And then maybe just give us a sense of how meaningful those referrals have been at the net income level?

Brian Moynihan

We have a very stringent program that's driven in each market by our market presence teammates, where count the referrals that go in, we count the close rate and who participates and all that. And then markets are stack ranked, and we monitor monthly to see how they're doing and reward the people doing well. Then we set aggressive goals.

And this year, for 2013, they hit all the goals. Every market was in good shape. And so it is a fundamental way our teams operate in the markets together. When you get to specifically the things that work well for wealth management, you have the connectivity, when there are liquidity events, so called business sales, IPOs and things like that, where we bring in business, we'll look at, through November, and I haven't seen a final count yet, we had about 675 401k retirement plan closed sales in 2013. We had about 200 and some in 2012.

And that is driven through the Merrill retirement plan business that Amy [unintelligible] and John Field drive, and delivered between national teams and the financial advisors in the market. So that gives you kind of a sense of how this works. The dollars from that I think are in the $5 billion to $6 billion range, if I remember exactly.

So it's all those types of flows. And then several tens of thousands of customers come from the consumer bank into the wealth management platform, referred from the preferred teams. But that goes on, and those customers come into the branch that have asset bases that are consistent with Merrill Lynch and U.S. Trust service models. We move them in.

So it's a whole bunch of things, but it's tracked literally person by person to make sure it happens. But frankly, the teams like to work together and win in the market, and that's what you see when you go into our markets and talk to the teams that do it.

Derek De Vries - UBS

And then switching gears entirely, just talk about the leveraged finance business. I think when you look at the industry, you're seeing record [covenant light] issuance, and you're seeing some pretty favorable pricing for issuers. How do you think about this business over the next few years, both from a revenue perspective but also from a risk management perspective?

Bruce Thompson

The leveraged finance business is a very good business for us. If you look at historically we are number one or two in that business. And if you look at, on an overall basis, our debt origination both investment grade as well as non-investment grade, it tends to be an $800 million to $1 billion a quarter type revenue stream.

And we believe, particularly given some of the new capital guidelines and the competitive landscape, that we are doing better in that business than we have. From the risk management perspective of it, you've got two different components of it. You have the underwrite to distribute component to it, which one of the most notable changes I think has been, over the last couple of years is the risk gets distributed from the underwriter to the investor generally much quicker, even in the context of deals that have a lag time from the time that they're committed to where they're distributed. So that's a positive from a risk management perspective.

And then with respect to the hold pieces, we continue to be very disciplined with respect to the hold levels that we have on those deals. And the other thing I'd say is if you just look at mix of business now, relative to what you saw 12 months ago, a lot more of the leveraged finance business tends to be coming from corporate customers that are either privately held or public and as valuations have gone up, less of it tends to come from the private equity firms.

So it's a business that we think we're very good at. Our team has done a very good job of being mindful of the risk that's associated with it over the last couple of years, and it's a business that we're optimistic of.

Derek De Vries - UBS

Just to paraphrase what you said, you're very comfortable on the risk management side, and you've taken market share, it sounds like. But I don't think you gave an answer in terms of where you think the revenue outlook is for this business over the next couple of years.

Bruce Thompson

The revenue outlook I think in many respects, as we look out at the profitability, we feel very good about the outlook. And this is probably the business that most benefits from increased M&A activity, particularly on the corporate side. So to the extent that corporate M&A picks up, you would look to see this business continue to have favorable trends. The word of caution would just be that it is a market dependent business, and as you all know, periodically there are gaps in time where the new issue market, particularly on the high-yield side, does slow down, sometimes materially. But on balance, we feel very good about the business going forward.

Operator

And our final question comes from Andrew Marquardt with Evercore Partners.

Andrew Marquardt - Evercore Partners

Just wanted to go back to the retail branch banking strategy shift, and Brian you've been clear about this evolution of everyone having a branch in their pocket, and so not totally surprised about targeting shrinkage in branch count in '14 and '15. But to frame it out a little bit more, does that provide additional expense leverage beyond what you've kind of long been talking about on new BAC and LAS? Or is there an investment spend component that we need to be mindful of as well?

Brian Moynihan

Obviously, you're getting more and more to the core franchise, so the relative amount of movement we can make, and remember, couple that with we're investing in people and we're investing in technology to make it all work. We're always going to be working. That's our job.

But I'd be careful about assuming, beyond the new BAC cost that Bruce talked about, that there would be a lot of net after that, only because we are investing so heavily in the electronic space, which is still building in front of us.

But the theme is right. It's really how do you keep driving down the overall operating costs of all the platforms relative to the revenue stream and the deposit base, obviously, because that drives a lot of the revenue stream of the business. And so I wouldn't pull to the bottom line. But you can assume that we're going to be diligent in terms of managing that change and transition to help provide more investments, frankly, if we can.

Andrew Marquardt - Evercore Partners

And where do you think you are in terms of that investment cycle for mobile banking, in terms of deliverables?

Brian Moynihan

We've got a great product, and I think sort of a steady state. We spend, just overall, about $3 billion in change in annual technology development. And we expect that number to stay constant over time.

Andrew Marquardt - Evercore Partners

On an annual basis?

Brian Moynihan

On an annual basis, yes. Because we're rebuilding a system. But that's all built into the dialog that we had about new BAC.

Andrew Marquardt - Evercore Partners

And then separate but sort of related, on expenses, with new BAC, that's left to realize in LAS. How much of that? Should we have kind of a step function down on kind of the absolute level of expenses off kind of the core 4Q run rate of call it 15.5 type levels? Should we see by the end of '14, heading into '15, should we take out $1.5 billion, or are there other costs related to maybe investment spend elsewhere that we need to be mindful of?

Brian Moynihan

I think if you look at the chart we gave you, we try to isolate on the costs. You know, the bar chart on page nine. You can see that the red bars are sort of the core, take out the litigation, LAS. So you have to put some back, because there will always be some litigation. You have to put some back for just running the servicing portfolio. But we're shooting to drive in the numbers that take those numbers and then you have to grow them and be careful of the FAS 123 type of thing and which quarter you're looking at.

But our job is to keep driving toward that core expense base. And then it should grow, if we're growing revenues, the economy growth rate, 100 basis points above that, we'll grow expenses probably half of that. And that takes a lot of work to keep that expense down, because the people content reaches 50-60% of our expense base, and our people do a great job, and we'll pay them.

Bruce Thompson

And I would just add to that. On the LAS piece, we guided to roughly $1.1 billion at the end of the year. So with respect to the gray bar on page nine that Brian referenced, I would think of that 1.8 to 1.1 happening generally pro rata over the course of the year.

Brian Moynihan

And we've still got a lot of cleanup there. If you look at one of our peers who announced yesterday, you can see that they're probably doing their mortgage servicing expenses, maybe 30% to 40% of ours. And that's just because we're still getting through the higher [unintelligible] content portfolio. And it lags a little bit getting this stuff done.

Andrew Marquardt - Evercore Partners

And then Bruce, you had said in your prepared remarks that credit quality continues to improve into this year. Should we read into that that there's still meaningful credit leverage left to be realized in terms of reserve releases? Or are we closer to the end here in magnitude?

Bruce Thompson

I think you're closer to the end on magnitude, from a reserve release perspective. It's always a little bit hard to predict, obviously, because the reserve releases are a function of what's happening in the underlying credit. But generally, I would say that you would expect to see chargeoffs continue to decline, and you're obviously going to see the reserve releases, given the magnitude they've been, you're going to see those slow down as well with the one delta just being what's the overall loan growth that you're seeing.

Andrew Marquardt - Evercore Partners

And then just lastly, just to wrap up some of the Q&A on the CCAR capital deployment, just to be clear, it seems like one should not use the $10 billion combined preferred and common last year as a base. It really needs to be a $5 million at the baseline on common that you've got to prove for last year, and hopefully, we'll make our own assumption, but it seems fair to assume you could move upward in terms of deployment this year off that kind of base. Is that fair?