Operator

And welcome to today's teleconference. [Operator Instructions] It's now my pleasure to turn the program over to Kevin Stitt. Please begin, sir.

Kevin Stitt

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

These factors include, among other things, changes in economic conditions, changes in interest rates, competitive pressures within the financial services industry and legislative or regulatory requirements that may affect our businesses. For additional factors, please see our press release and SEC documents.

Also joining us this morning will be Neil Cotty, our Chief Accounting Officer. And with that, let me turn it over to Brian.

Brian Moynihan

Thanks to all of you and good morning. We know this has been a busy week for all of you and thank you for joining us on a Friday. Before Chuck takes you through the quarter, I was going to give you some perspectives and provide some thoughts about the economy and the priorities we have for 2011. I'll stay mostly with the key-takeaway slide on Slide 4 and touch on a couple of other slides, and then turn it over to Chuck to begin on Slide 9.

As we think about 2010, we came in to the year with a focus on continuing to clean up the issues left over from the crisis, while continue to driving the franchise forward. Finishing integration work in Merrill Lynch and Countrywide and continue to simplify our business model. During the year, we made progress in many of these items. In the area of credit, our improvement has been strong. Charge-offs have now improved for seven consecutive quarters and yet there's still room to improve here. We continue to see improvements in delinquencies at this quarter and of the last few quarters. The underwriting changes we made in 2008 across all the products with Credit Card, Home Equity and First Mortgage are performing better than we would've expected when we made those changes in those years. This ought to hold us in good stead as we move towards 2011 in terms of credit.

On the credit side, we released reserves of $7 billion during 2010, and while we know this is not core earnings, it helped offset some of the cost of representation and warranties about $7 billion, no litigation costs and other matters during the year. But even without release, our reserve coverage ratio of 1.6x annualized charge-offs is the highest this company's had in many, many years.

We also identified the non-core loan portfolios and began to work those off out of the company. As we showed you, that's about $130 billion at the start of the year, now it's down around $100 billion. Now the good news on the loan side as the franchise is driven forward, we are starting to see stability in the core loan balances that we want to carry-forward for this company. We've even seen some modest growth with some of the areas. Our utilization rates, for example, and our commercial rate was stable in the fourth quarter from quarter three and that bodes well for 2011.

As we think about capital, we ended the year with questions around it especially given the fact that the new Basel Rules are starting to emerge along with the other changes in adopting Basel II and the fed market risk rules, et cetera. We told you at the beginning of the year we need to hit targets of 5.5% to 6% tangible common equity ratios and 8.5% to 9% tier 1 common ratios under Basel I by year end in order to have the capital to run this company. This represents the view that we have that the risk capital we need to run the company. We achieved both of those goals this year.

We've also started early to make good progress to mitigating the changes that are going to come about in both capital and risk-weighted asset measures that will come with the new Basel Rules. This gives us strong confidence that we have a clear path meeting all these rules as are adapted in staying above regulatory minimums during the next couple of years as they come through. And even during that period, we have the ability to pay dividends and do stock buybacks over time as approved by our regulators.

During the year, we also focused on our franchise. And what we mean by focused, we sold non-core positions and businesses, 20-some units overall, netting $19 billion proceeds, at the same time fulfilling the commitments to our TARP repayments and streamlining the franchise and focusing on the three core customer goods and the core products for them. In addition to that work, we redesigned the consumer account strategy to deal with the new regulations that came in 2009 and 2010. As you read in the press, we patterned our new account structure to mitigate the revenue loss from these regulations and still provide strong customer choice. By providing that choice and the changes we've made, we've seen dramatically lower attrition and complaints and account closures on our consumer businesses.

From the shareholders side, our stock did underperform, and our returns on equity returns and returns on assets are not where we want them and continue to be affected by one-time events. But during the year, we did successfully grow our tangible book value per share by 15% and we look forward to driving that forward in the future.

By far, the biggest legacy issue we continue to deal is on the mortgage side. On Pages 7 and 8, we highlight some of the changes that Chuck will talk about, some the rep and warranty put-back issues later. But let me summarize on the key elements. As we entered the year 2010, a lot of the operational work is around the modification area and building up the teams due to foreclosures. As we move through the year, discussions around representations and warranties started dominating the discussions.

This year we took a total of $7 billion of representation and warranty cost that offsets the revenue and significant portion of our mitigation expenses here was also due to mortgage issues. We are pleased to put the GSEs behind us this quarter as we announced on January 3. We'll continue to focus our efforts in protecting our shareholders regarding these matters as we deal with the other counterparties involved in representation and warranty and put-back issues. When we think about modifications, our efforts continue to build. We did 285,000 modifications during 2010, including 76,000 during the fourth quarter alone, the most in the industry. We completed our review of the foreclosure practices. The process is working. And we've restarted the efforts cautiously. We'll continue to face regulatory and other scrutiny here but the work is proceeding and we are very focused on doing this right for all the parties involved.

During 2010, we also completed a milestone of $2 billion of merger integration work. The next quarter will actually complete the final touches on the Merrill Lynch integration. And for the first time in many years, we'll have no integration work to do in this company. What that gives us the ability to do is turn that energy and focus to managing our efficiency in the company towards simplification, including that, we'll be taking our four deposit systems during 2011, 2012 to one deposit system and many other like activities. Our expense levels are not where we want them right now. They are higher because of debt collection and other costs related to legacy issues. But if you think about what we've been doing in managing expenses, we continue to invest in the franchise while managing through the post-crisis issues.

To help you think about that, think of the headcount in the company. During the year, our headcount has up by about 3,000 people. We dedicate almost 13,000 additional people to the mortgage issues and foreclosure modifications and collection areas. We've invested 2,000 people in growth areas, about half in the wealth management in other areas in the United States and about half outside the United States. That means the rest of the franchise is effectively down about 10,000 to 12,000 people. So we continue to manage cost while we deal with the legacy issues and invest for growth and that's how we'll continue to run the franchise during 2011.

While the work was going on and sort of repositioned the balance sheet capital in the franchise, the core business has continued to progress. First, our job is to drive the integration as franchise to bring the combination which can do better than anyone of our business as a standalone business could do. If you look at the Appendix, Slides 33 and 34, you can see some of the evidence there.

Our Card business turned to an operating profit this year from a $5 billion loss last year. Our deposits performance was challenged by the lowest straight environment and the regularly changes as improving customer scores and our share deposits continue to grow on the retail side even giving effect to our disciplined pricing strategies. Our deposits now cost $1 trillion of Bank of America for the first time.

Our Wealth Management business has seen strong growth, both in assets under management flows, assets under management deposits and we see long stabilized net business. We've made good progress in hiring financial advisors, wealth management bankers and other client base and teammates. The group has produced a solid profit, including record revenue, in the fourth quarter of 2010 and still has lots of great opportunity ahead.

Our Global Commercial Banking business, our minimum market and small business banking business recovered strong earnings and returns this year as credit normalized and our market-leading position showed their strength.

In our global banking and markets area which with large corporate investment banking and the trading and capital market activity, we maintain our number 2 position on Investment Banking business throughout the year. Our investment banking fees from third parties were the highest this quarter they've been since we merged with Merrill. Our sales and trading revenue team had a solid year but we have varied results by quarter, going from a high of $7 billion in revenue to a low of around $3 billion. We're satisfied with the year in total but we need to work at the ups and downs and Chuck will take you through some of the details on that later on.

But as we think about 2010, we made progress. We stayed with the lines of balance sheet and capital and you can see that on Slide 6 and some statistics on the balance sheet statistics given there. We did loss $2 billion for the year 2010 and $1 billion in the fourth quarter, both of those numbers we are disappointed with, but with the year came large ins and outs and they're all new and driven by legacy issues which we continue to put behind us, $12 billion in after-tax goodwill impairment, $7 billion in representation and warranty and put-back costs as a counter to revenue, $3 billion in litigation expense, nearly $2 billion in emerging restructuring charges and other charges like that and those of course were offset in part by the $7 billion in reserve releases and $3 billion in asset sales.

We clearly need to continue to reduce the ins and outs and what the core franchise performance comes through for you, our investors. As we look to 2011, the priorities are clear. We are going to make progress of putting the mortgage operational issues behind us, meaning modifications, foreclosures and related process improvements. On the representation and warranty and put back area, we're going to continue to make progress only if we can do it on a basis consistent with our shareholder interest. But our best guess is this will take a longer period of time, perhaps a few years. We're going to drive the core customer businesses, integrating this powerful franchise we leave to each customer. We are going to drive our expense management during the year, ensuring that we get the expenses out of here as we continue to recover in the mortgage and other credit-related costs. And importantly, we're going to deliver on the growth opportunities on our franchise, be it wealth management, the asset customer base and the consumer area, the investment banking and in the area, all 29 states and abroad and we'll continue to invest in those businesses as we did in 2010.

As we look to 2011, we see the economy continuing to recover. All the key metrics we see in our customer base that we monitor externally like you do, including the credit demand, consumer spending especially spending among middle-class and affluent clients, the debt burdens at households are caring, the asset quality portfolios, all of those are pushing ahead. We still face, however, the realities of high sticky unemployment in this country and a slow and stagnant recovering in housing and modest overall U.S. growth.

In this context, we'll continue to drive towards delivering shareholder returns by continuing to grow our tangible book value per share as we materialize in recovering the franchise. We continue to believe we're in a position to modest-increase our common dividend in the back half of 2011, but of course we need our regulators' approval to do so. So we still have a lot to do.

But at the same time we have the best franchising industry, with number 1 and 2 positions in every product area, largest customer client base in the industry. We can't and will not lose our focus on levering this franchise as the economy improves for you, our shareholders. We have a clear strategy, to serve three customer groups with our core financial needs in the best way that any provider can do. We have a well-defined operating principle which we've laid out for you that enables to meet that strategy and we continue to execute against them. 2010 was the year we repaired the balance sheet. We built some of the capital ratios and reserve ratios and also tough but necessary decisions as we focused on cleaning up our legacy issues. But as the economy continues to improve and we continue to execute, I have every confidence the franchise will keep moving to the performance it's capable of. Finally, I want to thank our 290,000 associates. The tireless efforts they made during 2010.

And I'll turn it over to Chuck starting on Slide 9.

Charles Noski

Thanks, Brian, and good morning, everyone. As you can see on Slide 9, we reported a net loss of $0.16 per share for the quarter. Our results reflected the non-cash and non-tax deductible write-down of $2 billion or $0.20 per share of goodwill associated with our Home Loans and Insurance business that we discussed on January 3. Excluding this goodwill impairment charge, earnings were approximately $750 million or $0.04 per share after preferred dividends. Results for the fourth quarter reflected the positive and negative impact of several items which makes for a difficult comparison this quarter.

If you turn to Slide 10, we've listed some of the larger items. Representations and warranties expense from the fourth quarter was $4.1 billion, of which $3 billion was associated with the GSE settlements we have previously described. The credit mark on structured liabilities under the fair value option resulted in a negative adjustment of $1.2 billion, reflecting the tightening of our credit spreads compared to a negative adjustment of $190 million in the third quarter and as reported in other income.

Asset sales during the quarter included our partial ownership in Blackrock, reducing our ownership from 34% to 7%, the sale of our rights to participate in CCB secondary offering and the sale of the majority of the Global Securities Solutions business. We had $872 million in security gains during the quarter. We already touched on the goodwill impairment charge. Excluding fees paid to external legal service providers, litigation expense for the quarter was $1.5 billion, primarily related to our consumer businesses including the Mortgage business.

Merger-related and restructuring charges were $370 million, loan loss reserves were reduced by $1.7 billion in the quarter versus $1.8 billion in the third quarter. And finally, we had a tax benefit of $2.4 billion, primarily reflecting the pre-tax loss before the goodwill impairment charges, the release of a capital loss carryover valuation allowance of about $1.2 billion, and normal tax preference items.

Turning to Slide 11, you can see that four of our business segments made money in the fourth quarter. Deposits lost money due to increased litigation costs this quarter and was also affected by the full impact of REG E and continued low interest rates. Global Card Services benefited from improving credit quality and reported $1.5 billion in net income. Global Wealth and Investment Management had a very good quarter, earning $332 million, due primarily to a near-record quarterly revenue levels driven by market activity, strong long-term client flows and a shift to the mix of assets towards higher margin products. Home Loans and Insurance were significantly impacted by legacy costs, including the goodwill impairment charge, reps and warranties expense and litigation costs. Our first Mortgage Banking business however, excluding these costs, was profitable in the quarter. Global Commercial Banking earned more than $1 billion this quarter as credit quality continued to improve and has delivered stable revenue through the cycle, reflecting strong client retention. Global Banking and Market showed continued solid results in investment and corporate banking, offset by a difficult trading environment in global markets.

Let's turn to net interest income on Slide 12. Net interest income on an FTE basis was $12.7 billion, essentially flat with the third quarter. The impact of low rates and lower consumer balances, excluding residential mortgages, were offset by positive hedge income of $250 million, increased balances in the discretionary portfolio and a reduction in long-term debt. Our average earning assets for the quarter were up $20 billion, mainly due to growth in consumer loans and securities. Cash declined due to a shift in liquidity mix from cash to liquid securities in addition to a net reduction in our outstanding debt. Consumer loans increased due to retained mortgage originations. Commercial loan demand stabilized in the quarter. And as we said earlier, average commercial loans, excluding real estate, were up 1% from the prior quarter.

Although we were flat with the third quarter, we expect net interest income to decline over the next couple of quarters. In the first quarter of 2011 in particular, we expect net interest income to drop from fourth quarter levels due to fewer days in the quarter, continued declines from our loan run-off portfolios and an anticipated reduction in hedge results. We expect to see stabilization in net interest income sometime in the second half of the year. We're also on track to lower our long-term debt footprint by 15% to 20% by the end of 2011 relative to third quarter 2010 levels.

Slide 13 shows you that both average loans and deposits were up for the quarter. Deposits remains a good story of growth as wealth management clients continue to do more business with us and commercial customers continue to prefer to hold rather than invest cash.

On Slide 14, you can see that period end loans from the end of September were up approximately $6.5 billion due to growth of almost $17 billion partially offset by net charge-offs and decreases in our run-off portfolios. We have a slide in the Appendix that details our run-off portfolios for you. The $17 billion increase in total loans was driven by residential mortgages, primarily FHA-insured originations as we use some excess liquidity and C&I loans offset by a slight decrease in commercial real estate.

Turning to Slide 15. Card revenue was up 7% from third quarter results due to 12% increase in interchange income. Increases in retail spending were 4% versus the prior quarter and 5% versus the prior year. These increases helped drive the increase in interchange income. And on the managed basis, Card revenue was relatively flat from a year ago despite the impact of the CARD Act.

On Slide 16, we show service charges were down $176 million from third quarter levels to $2 billion which is the number we targeted for you two quarters ago. The decrease was due to the approximately $275 million impact of Reg E this quarter after becoming effective midway through the third quarter. So now that the full impact of Reg E is embedded in our results, you can use this quarter's results as a base going forward. Remember though that the full impact from both Reg E and the CARD Act wasn't reflected in the quarterly results and service charges in Card revenue for the first three quarters of 2010.

Other regulatory impacts that will affect service charges in 2011 are the Durbin amendment which is scheduled to occur in the last half of the year. We expect this would cost us approximately $1 billion in revenue. We won't know the expected impact on debit card at interchange though until late April, so we hope to update you on that during our first quarter earnings call.

While expect to mitigate some of the impact over time, we do expect the impact of mitigation efforts will be modest in 2011.

Mortgage Banking revenue on Slide 17 decreased from the third quarter, as a result of higher reps and warranties expense which includes the impact of the GSE agreements and additional accrued liabilities. MSR performance net of hedges was $257 million this quarter, an increase of $347 million compared to the loss last quarter. Although production volume in First Mortgage at $85 billion was up from the third quarter, production revenue was down due to lower lock volumes and production margins. The capitalization rate for the consumer mortgage MSR asset ended the quarter at 92 basis points versus 73 basis points in the third quarter. Given the direction of interest rates since Thanksgiving and the redeployment of some of our salesforce to assist with our distressed customers, we forecast production levels will be lower over the near term.

Turning to Slide 18. You can see the total reps and warranties expense in the quarter was $4.1 billion, up $3.3 billion from the prior quarter. Much of the increase was the result of our recent agreements with the GSEs. The liability we have accrued on the balance sheet increased approximately $1 billion to $5.4 billion as the $4.1 billion representations of warranties expense was partially offset by approximately $3 billion in charge-offs and other activities.

As you can see, our unresolved repurchase requests totaled approximately $10.7 billion at year end. This amount includes $1.7 billion of demands contained in the communication from private label securitization investors. We believe these investors do not have the contractual right to demand the repurchase of loans directly or the right to access loan files. The inclusion of these claims and the amounts reflected in the chart does not mean that we believe these claims have satisfied the contractual requirements that would permit them to direct the securitization trustee to take action or that they are otherwise procedurally or substantively valid.

Outstanding claims were reduced by $2.3 billion driven by the resolution of $8 billion of claims during the quarter, including $4.9 billion as part of the GSE agreements. Monoline claims outstanding continue to grow as the monolines continue to submit claims and are generally unwilling to withdraw these claims even when they have given evidence refuting the claims. The increase in rescissions in approvals in the fourth quarter were substantially impacted by the agreements with the GSEs.

We've included slides in the Appendix that update the information we presented earlier this year on our GSE experience.

On Slide 19, we provided additional information around our experience with non-GSE counterparties which would encompass whole loan sales and private label securitizations, including those where monolines have insured some or all of the debt.

On Slide 37 on the Appendix we break down our non-GSE experience, much as we did for the GSEs. As you could see on Slide 19, from 2004 to 2008, $963 billion of loans were sold into private label securitizations or through whole loan sales where we believe we have originated reps and warranties exposure. We broke out the originations for you by both legacy entity, as well as product to give you a bit more clarity on the portfolio.

Through December 31, repurchased claims received on the 2004 to 2008 vintages totaled $13.7 billion. $6 billion on those claims have been resolved and as you can see, resolution success and rescission rates are much higher with private investors versus the monolines. The losses under result claims were approximately $1.7 billion. Of the remaining outstanding claims, $5.8 billion have been reviewed and declined for repurchase.

Moving to Slide 20. Of the $963 billion of original principal balance, 22% have defaulted or are severely delinquent. 58% of defaulted or severely delinquent loans made at least 24 payments prior to default or delinquency. As we have indicated previously, in those instances where we have had meaningful and consistent repurchase experience with counterparties such as the GSEs in certain monoline insurers, a liability for reps and warranties has been established for asserted and unasserted requests to repurchase current and future defaulted loans. With the exception of certain monoline insurers, we have not had meaningful and consistent repurchase experience with other non-GSE counterparties. We do evaluate all of the certain claims received from all parties in establishing our liability.

However, as we and others in our industry have noted, analysts and other market participants have developed their own estimates of possible exposure for Bank of America and other institutions. Although the non-GSE claims experience remains limited, we expect additional activity in this area going forward and it is possible that further losses may occur. We received a number of investor inquiries following our GSE announcement earlier this month regarding the extent of such possible non-GSE exposure. In addition, in connection with our planning process, we evaluated various possible alternative scenarios. We've developed a preliminary estimate of a possible loss range using a variety of judgmental assumptions. That estimate suggests a possible upper range of loss that could be up to $7 billion to $10 billion over existing accruals.

As a reminder, there are significant legal and procedural hurdles that counterparties would need to overcome before we believe any of these amounts could become probable. We would expect resolution of these matters to be a protracted process which could take years to conclude.

As you could see on Slide 21, for example, there are substantial differences between the reps and warranties provided to GSEs and those provided in private label transactions. Until we have meaningful repurchase liability with these counterparties, we do not believe it is possible to determine that the loss is probable and accordingly to accrue for any such loss. As we have previously described to you, where we conclude that a valid breach of reps and warranties has occurred, we will act in a responsible manner. On the other hand, where we've concluded that the valid basis for repurchase does not exist, we will vigorously contest such claims and defend the interest of Bank of America and its shareholders.

Okay, now back to earnings on Slide 22. As I said earlier, our activity with wealth management clients resulted in revenue approaching record quarterly levels which is where we generate the bulk of the investment in brokerage revenues. Investment in brokerage revenue was up $155 million or 6% from the third quarter due to both higher asset management fees and brokerage income. Asset management fees were a record $1.4 billion and brokerage revenue was approximately $1.5 billion. Total client balances grew $69 billion to more than $2.2 trillion during the quarter as a result of market activity and strong flows in the deposits and long-term asset management products.

Sales and trading revenue on Slide 23 of $2.6 billion, which includes both net interest and noninterest income, decreased approximately 43% from the third quarter although higher than last year by 17%. The decrease in sales and trading was partially from seasonal declines but a few other factors standout. We had a softer trading environment as rates backed up, negatively impacting some of our risk positions. This also caused clients to exit bond funds with money flowing in the cash or equity funds putting pressure on prices. We've experienced this significant tightening of credit spreads during the year and to a lesser extent, during the fourth quarter.

Certain sectors such as European debt experienced spread widening. We've also been focused on the impact of the new Basel capital rule and the impact to the amount of capital retracted to our markets business. Over the last couple of quarters, we've been focused on reducing the higher capital intensive assets and as well our exposure to shorter-term funding agreements.

FICC was impacted the most from these items, decreasing 49%to $1.8 billion with lower results in credit, rates and commodities products. Equity revenue was down 19% to $789 million from the third quarter as an increase in cash business commission revenue from inflows was more than offset by a decline in market volatility and client flows impacting equity derivatives. We didn't have any major impact from legacy assets in the quarter while we continue to reduce our exposure to auction rate securities, CMBS and monolines.

In investment banking on Slide 24, our overall fee ranking remain solid as we were ranked at a strong number two globally and number one in the U.S.

Investment banking revenue increased 16% from the third quarter and was on par with the great fourth quarter from a year ago. Results were driven by increases in all areas namely M&A, debt and equity capital markets.

Let me say a couple of things about expense levels on Slide 25. Total expense, excluding the goodwill impairment charges in the last two quarters, increased $2 billion from the third quarter. Expenses this quarter included higher litigation expenses as I said earlier. Personnel expense compared to the third quarter is up approximately $400 million, reflecting the build out of strategic hires in certain businesses including international, as well as certain severance and benefit-related expenses. Higher levels of headcount and expense in home loans and insurance were related to default management staff and the other loss mitigation activities in that business. Reiterating what Brian said earlier, our expense levels, excluding goodwill charges, are up from 2009 levels for several reasons, including additional headcount to address legacy mortgage issues. For 2011, we expect our expense levels to remain elevated as we work through these issues and continue to invest in the franchise.

Moving to asset quality trends on Slide 26. As they did throughout most of the year, delinquencies, excluding FHA loans, net charge-offs and nonperforming assets, continued to improve.

On Slide 27, improving credit performance in almost all portfolios drove the decrease in net charge-offs. Net charge-offs of $6.8 billion decreased $414 million compared to the third quarter. Consumer net charge-offs were down $252 million, even with a $330 million valuation adjustment on certain mortgage loans, reflecting improvement in card and home equity. Commercial asset quality also improved as net charge-offs dropped 15% from the prior quarter with the biggest drivers being small business and commercial real estate. Reserve reductions included $1.1 billion on U.S. card, along with releases in commercial real estate, small business, direct and indirect consumer and commercial. On our $36 billion purchased credit impaired consumer book, which is comprised of discontinued real estate residential mortgages and home equity, we increased the reserve $828 million to reflect an adjusted outlook for home prices.

Even with the decline in reserve levels, the ratio of allowance for loan losses to annualized net charge-offs was essentially flat compared to the third quarter at roughly 1.6x and is up from roughly 1.1x a year ago. And thinking about our credit costs in 2011, we think provision expense should continue to edge down through the year as charge-offs continue to move lower primarily in the consumer businesses. We expect loan loss reserve reductions will continue as long as portfolio performance and the economy continue to improve and our other credit metrics weren't lower reserves.

That concludes my prepared remarks for this morning. As you may know, we've scheduled March 8 to have our Investor Day in New York, so I look forward to seeing all of you there. And with that, let's open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And we'll take our first question from the side of Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley

I wanted to talk a little bit about the risk gone, the mortgage and the cleanup that you mentioned and Brian at the beginning of the call. You've indicated that you could range private label $7 billion to $10 billion based on your assumptions. Why not take a large reserve against that and kind of be done with it in the next quarter or two?

Charles Noski

Betsy, I want to be very clear for you and everyone on the line as to what the range is that we gave today. This is a possible range, not a probable range. It could be as low as zero theoretically, up to a high end of the range that we think could be $7 billion to $10 billion based upon an array of different assumptions and judgments, none of which we've seen in evidence through current behavior either in the portfolios or by the counterparties. So we really, as I said, we really don't have a basis to make an accrual. We had a lot of interest from investors asking us to help understand what we thought about a possible exposure in the future. And until we can meet the accounting criteria to judge this is probable, we really don't have a basis to make an accrual. And certainly, we expect there will be additional provisions in future quarters. We don't think they're going to fall to zero. But we really don't have a basis. This is an array of alternative scenarios we did during our year-end planning process coming into the new year to try to size under various kinds of scenarios what might happen. But it doesn't even begin to rise to the level of probability that would allow us to do in the accounting nor do we frankly expect that we would lose that amount.

Betsy Graseck - Morgan Stanley

You do have some private label experience though, right, that you've paid out on. What's the reason for why that experience you've had so far isn't sufficient?

Charles Noski

Actually, Betsy, most of that other repurchase experience was with whole loan investors and that's rather episodic as it relates to private label investors and securitizations, that has been extremely modest.

Betsy Graseck - Morgan Stanley

And the litigation reserves, the litigation cost that you had in the quarter, should we take that as a run rate for the foreseeable future or is there any color you can give us as to expected volatility in that line?

Charles Noski

I think you should probably expect that we'll have some provisions there. They were both -- as I mentioned, the provision in the quarter was in our consumer businesses so it was more than just mortgage. And so there will be -- you saw in the Deposits business for the quarter that we reported a loss. Without the litigation provision associated with deposits that business would have been profitable in the quarter. But I think it's hard to think about a run rate for litigation expenses. Again, those will be based on the facts and circumstances and the judgments of our attorneys each quarter about the status of our overall litigation portfolio. Although, certainly a disproportionate part of our litigation portfolio is in the former Countrywide space.

Betsy Graseck - Morgan Stanley

And then last on FICC, in broad strokes, could you give us a sense as to how much of the FICC decline was due to either actively managing down due to Basel III, passively allowing things to roll off because of Basel III in DBA or just the market being difficult?

Charles Noski

I would say, it would be largely the market being difficult and the lack of client flows. But certainly, as we look to manage our balance sheet more effectively, and think about the new capital rules, that has also had an impact.

Betsy Graseck - Morgan Stanley

Is there any DBA in there?

Charles Noski

No, I think that's in other income.

Betsy Graseck - Morgan Stanley

And you outlined how much that is?

Charles Noski

Maybe a small amount. But the big adjustment is the fair value option adjustment on the Merrill Lynch structured notes.

Operator

We'll go next to the site of Paul Miller with FBR Capital Markets.

Paul Miller - FBR Capital Markets & Co.

Did you guys give -- have been giving out guidance on core pre-tax, pre-provision numbers? Because that's one of the numbers that we really like to look at. And I think numbers have tend to be all over the street. Can you help us out a little bit on how should we be looking at those numbers?

Brian Moynihan

We have not given guidance on PP&R and there are a couple of reasons. But the main one is that with a credit card business you can lead yourself to, and we talked about this in a few earnings calls ago, you can leave yourselves to a number when we had $30 billion, $40 billion of credit card charge-offs that the PP&R is fine but you're always going to have the charge-off rate of some magnitude in there. And that then could lead in conclusion that it will go into zero and it won't because the cost to goods sold in credit card is part of credit card costs. So I think Chuck gave you various -- as he went through his presentation, various points of view about net interest income and it would sort of continue down as the interest rate environment and we had a good hedge quarter on that and that helped this quarter as it flattens and comes down and will flatten in the middle of next year and come back up. Expenses I think we gave as guidance for this. In terms of PP&R, we struggle a little bit. I know that, that's a number that you track closely but we struggle a little bit of how you guide people on it overall but also important how it really plays into the context of the company that has a large credit card portfolio.

Paul Miller - FBR Capital Markets & Co.

Just one really quick follow up on Betsy's question is how much exposure do you have to the whole loan sales in the private label? In other words, you haven't disclosed how much you've sold out there? I think you disclosed last quarter what you've paid out on private label. I didn't see that disclosure this time around. I might have missed it.

Charles Noski

Let's see, I think if you went looking in the Appendix, probably your best sense of the non-GSE portfolio would be back on Page 38, Paul. But I don't think we've cut back at all on the disclosure we've given you with respect to the performance of these individual portfolios and the actions with counterparties.

Paul Miller - FBR Capital Markets & Co.

But I was wondering, do you actually disclose how much you sold in whole loans to private label? Because I know we get some inside mortgage finance, we can get the overall private label exposure. But what's the exposure in the whole loan side? Because that's what you've been paying at, at this point. Am I correct?

Brian Moynihan

We'll get to that. It's disclosed but we can get you that.

Charles Noski

We'll get you that, Paul. I don't think that's here in our slides today.

Operator

We'll go next to the site of John McDonald with Sanford Bernstein.

John McDonald - Bernstein Research

Another clarification on the private label. Chuck, in the illustrative scenario of the $7 billion to $10 billion, when you say over existing accruals, I just want to clarify, which existing accruals are you referring to, is that litigation reserves or the rep and warranty reserve?

Charles Noski

It's both the rep and warranty reserves and the associated litigation reserves.

John McDonald - Bernstein Research

So there's some contemplation of private label losses in both of those?

Charles Noski

We really, frankly, it's the entire portfolio. So if you look back on Slide 38, which shows the original principal balance I talked about earlier of $963 billion, how much remains unpaid and what we do is potentially at-risk. Our estimate contemplates that entire population because we believe we pretty well have taken care of GSEs already. But primarily it's monolines, it's private label, it's whole loan sales, it's all of that.

John McDonald - Bernstein Research

And where do the litigation reserves stand at year end?

Charles Noski

John, we don't disclose the amount of our litigation reserves -- the balances. We'll talk to you about provisions but we're not going to share that.

John McDonald - Bernstein Research

In terms of the SCAP-tested, do you know if it's upper range illustration that you gave today what the federal accept as the adverse scenario outcome for the component of the SCAP?

Charles Noski

John, certainly, it's one of the 19 banks that participated in the process, we provided a whole array of information to our regulator. But I think that's viewed as supervisory information. I don't think we could really comment.

John McDonald - Bernstein Research

Could you give anymore color on what kind of magnitude of a drop in NII we might look for in the first half of 2011 or how much the hedge results helped in the fourth quarter?

Charles Noski

I think I mentioned that hedge results to the fourth quarter was a benefit of about $250 million. We'd love to continue that but anticipating that we don't have that level of help in the first quarter 2011 is probably a good guess.

John McDonald - Bernstein Research

That all of that goes way?

Charles Noski

I think certainly a substantial part of it.

John McDonald - Bernstein Research

And then also just on the expense that you talked about. What adjustments should we make to the fourth quarter expense level to get to a sense of what the run rate is going into '11? Could you help us with that just kind of think about the expense run rate.

Brian Moynihan

I think, John, in respect to Chuck give his perspective, I think there is a big lag expense run rate and if you look at Page 25 you can sort of see you've got two broad concepts. One is some of the one-time expenses, the extra litigation, higher level litigation in the quarter and things like that, year-in cleanup, professional fee and things that typically happen in the fourth quarter. So that's sort of one thing that you can neutralize. You can look over the quarters and smooth some of that our and think about that as a run rate question. But the second is the attention of personnel to work on the bad credit in a mortgage and that's why I tried to shape really a little bit. So during 2010 we added 13,000 people dedicated. We otherwise would need but they're working to help, dedicated to the task of helping on the mortgage cleanup. That's going to be elevated all through '11. It will take us '11 but probably half way through '12 before we sort of really get on downward side of being able to get through all that work and so those costs will stay in. So I think Chuck said overall, we don't think expenses are going to stay at these levels. And as they go up on comp or something like that, that's going to be revenue-related which should be good news. But the core expense run rate is sort of there and then as we work through this year and we'll be able to start to take it out as the mortgage activity, in particular in other activities like that start to subside.

Charles Noski

John, remember there's a spike in the first quarter from FAS 123 which is when we pay the equity compensation and some of that has to get recognized upfront because of some of these.

John McDonald - Bernstein Research

Just back on the private label, can you give an update on the status of discussions with the group that sent out letter in October, the PIMCO Blackrock group. Is there a late January deadline for resolving that? And will we know when that's over?

Brian Moynihan

There's no real news on the discussions and there was an extension that was filed at the end of January, and we continue to talk to people but we haven't changed our posture. we're not doing anything. It's not going to be in our shareholders' best interest but we always want to talk to everybody in the world to make sure we understand where they stand.

Operator

We'll go next to the site of Matt O'Connor with Deutsche Bank.

Matthew O'Connor - Deutsche Bank AG

If I could circle back on the FICC revenues. And I guess just bigger picture as we think about implementing all the changes for Basel III, what do you think the longer-term impact is versus a more normal run rate? And maybe I'll just throw a lot there, maybe annual level of FICC revenues were in the $10 billion, $12 billion range, Basel III would reduce that by 10%, 20%, or you think you can offset over time. Just any thoughts on what the near and longer-term impact could be.

Brian Moynihan

I would say that we have been taking out what we would -- think about three in both and other things. We've been downsizing our -- we took our prop business down and it's actually almost done and we've done earlier this year. But overall, the rest of the impact is relatively modest. And I would not put the fourth quarter into Basel III and those types of things. I think it just was a tougher quarter in terms of client activity and tougher quarter in terms of market. And it's not any one area, we looked -- across the board we just had lower revenues and a lot of part of December nothing happened. So I wouldn't be focused on that. I think we're still comfortable with the average type of run rates we talked about, $4.5 billion, $5 billion in total revenue in sales trading platform that you can see if you look back. And we continue to size the business appropriately that way. Tom has made the changes there. So I wouldn't say that Basel III is going to affect us. We're going to run it tightly. We're going it run the balance sheet tightly, it's more because the economics involved than anything else. In this quarter. I'd really struck it up to in sort of a malaise and a tougher market quarter.

Matthew O'Connor - Deutsche Bank AG

The $4.5 billion to $5 billion of sales and trading, that's quarterly level including both equity as in fixed income?

Brian Moynihan

Yes, that's total revenue and capital market activities. it's going to bounce around. I mean, just look at the last four quarters, you can see a wide range. I think that's a little more pronounced this year especially because the loan quarter was so high. But I think if you look at it over time, if we don't get that kind of run rate, we're going to have to resize the business because that's what's needed to appear the right return.

Matthew O'Connor - Deutsche Bank AG

Just separately, I guess, on the whole kind of broader foreclosure issue for the industry, I personally am surprised that it's kind of lasted this long. It feels like there's a lot of incentive for everyone to figure out some sort of settlement and move on. I know when you're in discussions it's hard to talk about these things publicly. But any clarity you can give on maybe timing of putting this issue behind the industry or maybe what needs to happen to get people at the table to hammer out an agreement here.

Brian Moynihan

It's hard to reflect on that, there's a lot of groups involved and you've seen them talking to press about what's going on, and we won't do that. What I will tell you though is we did a thorough review. We identified what we needed to do to make sure that we could erase from anybody's memory that there is any lack of precision, integrity, discipline in the process and we've restarted the process based on that and we dedicated lots of people, lots of work to make sure that there'll be no question about it. Resolving the types of things you're talking about will take some time. But the key is that we've actually done the work, completed it, brought in the outside review, brought in the inside review and are back working on it and working through this very difficult situation for the borrowers. So that separates where the regulatory and other issues away from the activity of starting to progress and the answer to that is yes.

Matthew O'Connor - Deutsche Bank AG

And then just lastly with debit card, you're starting to have more banks come out publicly and says offsets. I think one bank said that they can offset it 50%, one bank said 100%, one bank's claiming it's illegal. Just any updated thoughts you have on that in terms of how this plays out when all is said and done?

Brian Moynihan

I think what we've said in the past still stands over time. We have to mitigate all of it because we have to get the returns of business back to what we need. But in the short term the transition and as Chuck said in his comments, we'll be slower just because you loss revenue instantaneously and it takes a while. But the key things we've done and you've seen in the press report is we have restructured our account structure and during the course of 2011 it's out in the pilot state. It will ultimately roll through the entire customer base over the next three or four quarters. And that allows us to -- we think in the right way to recover the revenue that will then in '12 and 13 is that the structure goes through. And so I think that's our -- that'd be our statement sort of -- that'd be our clarity on sort of timing. '11 is a transition year. '12 we start to recover and it will take a little time. And as interest rates rise, we have to remember that interest rates are multitude of effect on that business, the low interest rate environment, the value deposits, then the fee side in it over time. So if interest rates rise, we're going to have to have disciplined pricing at our structure and the team has done that to gather back some of it there too.

Charles Noski

Particularly with our scale.

Operator

We'll go next to the site of Ed Najarian with ISI Group.

Edward Najarian - ISI Group Inc.

My first question has to do with credit. I guess we saw obviously improvement in the charge-off ratio and in MPAs, but 90-day delinquencies were flat and we saw only pretty modest improvement in 30-plus-day delinquencies. So I'm wondering if you have any comments sort of on your outlook for the pace of credit quality improvement going forward. Looking at the delinquency trends it seems like it's likely to slow down relative to prior quarters. Any comments there?

Charles Noski

I think the pace is slow in prior quarters only because in the grand scheme we've gone from $12 billion, this is the high point, down to $6 million in pure charge-offs now. But we continue to see the delinquencies improved. The entry levels, what's going in, the raw rates are solid, what's coming in the card business and especially if you look at the core portfolios that we got the run-off portfolios and the not run-off portfolios and some of these businesses even that you look at them and it's very solid. So we are encouraged on the consumer side and what we've seen an early-stage delinquencies in all of the portfolios. But the pace of improvements will slow only because we had a long way to come from. And if when you look in the group of commercial, you can look at our criticized assets. You're seeing them start to come down when you see charge-offs and that bodes well for future credit costs obviously. So it's slower but it's relentless and it will continue to improve. and if you look at the vintages, what I was saying earlier, if you look st the vintages of the underwriting we did in '08 especially like halfway through '08 and out, we had a prediction for unemployment, things like that in card and mortgage stuff. It's been worsened out as nobody would predicted it right at the time. But our vintage is actually performing better than they've predicted in a worst economic scenario. And so our confidence is as we move each quarter, this will continue to improve. But the pace will be slower just because we have a long way to come from.

Edward Najarian - ISI Group Inc.

And then secondarily, just going back to Page 10 with all the one timers, we add that all back and get sort of a $0.17 core EPS level this quarter, excluding all those one timers, at annualized it's just $0.68. I guess the question would be given sort of that annualized core earnings run rate, and knowing that we've got some revenue headwinds on the way, you talked about lower NII and we know Durbin is on the way, is there any thought to launching somewhat of more broad-based efficiency improvement initiative over at least at some point over the next 12 months? I know you talked about the idea that credit-related operating costs and those 13,000 people would come out over time, but is there a desire to try to launch something more substantial in terms of efficiency enhancement or would you say there's just too much going on within the company right now to get into some kind of a plan like that?

Brian Moynihan

Let me, a couple of things. One is, in all our businesses we continue to manage it and reposition. so if you take our Global Banking and Markets business, the headcount for the year is sort of flattish but we have 1,000 more -- 800 to 1,000 more people working outside the United States and reduced inside United States and in Europe to fund that Asia growing, Latin America, the places. So we continue to reposition people even within the context of headcount being very, very flat. I'd say it's absolutely something we will continue to focus on. As expenses, we'll continue to focus on it across the company broadly. And as we shape the company more normally, I gave you the one group in mortgage, but it's actually broader. But let's just -- the additional people we put on in 2010 and then to we got mortgage, we got card business, we continue to get the dividend as you see the delinquencies in cost come down there. And then you've got in the commercial areas, we continue to collect and bring criticized assets down. And then overall, we got to bring the overhead and this company down and the team we're working on that and we'll continue to embed that as we go through the next several quarters. You're exactly right, we're still settling this company in. We've got to make sure that we've got all the things settled in. And then so the timing of that is as we move through this year, we'll get more and more aggressive on that but right now we have to be careful to make sure that we don't have any backwards movement in terms of some of the improvements in risks and controls and getting the mortgage foreclosure. So we're trying to balance that. But we know how to take out costs, we've done it many times before and we'll continue to do that. And so what we really ought to do is get strong operating leverage as revenues do improve and there's still some headwinds, we agree with you, but that trading revenue this quarter is down and it will come back up and if it doesn't, we'll adjust the size of that platform to make it up for it. But as revenues improve, the key is to continue to make get the expenses to sort of stay in the flattish category even as revenues are coming back up and that's what the team is working on. Some place like that retail area, in the consumer brand system, we continue to downsize. I think we've done 250 branches. We'll continue to work on that as customer change takes place. This is all over the area but we are doing more broad-based work and we'll continue to do that. But there is a balance here just making sure that we keep the stability and the strength moving forward in reality of where we are in the cycle and some of these collection issues.

Edward Najarian - ISI Group Inc.

So maybe a more formal plan is more like a 2012 event than a 2011 event?

Brian Moynihan

I was maybe not clear out there. But we have a formal plan every month when we do our business reviews. So it's not as mysterious as leading it out and we drive it.

Edward Najarian - ISI Group Inc.

Finally, you've alluded a couple of times on this, once on this call and then in the prior call to potentially raising the dividend at some point in 2011. And I guess I'm wondering A, like some other banks are willing to, are you willing to disclose what you think your Basel III based tier 1 common ratio is? We'd be interested in that. And given that and your discussions with the regulators, what gives you confidence that you can raise the dividend this year?

Charles Noski

On the Basel, what we have said is as each of the rules becomes effective at the end of this year, two in market-based risk rules and at the end of next year, three. At the day it becomes effective, with no implementation timeframe, we would have 8% or better in tier 01 common under the bank card rules. And so as you think about what we submit in these plans, you're submitting the standards of the current Basel I and the levels you have are end of things and we exceed those and then as we implement, we exceeded. So we have confidence what we've been done with the balance sheet now remains a balance sheet has reduced a lot of capital improvement for the year. And you can see on the slide earlier I mentioned in terms of Tier 1 improvement and things like that. So we put in plans. The regulators are looking at them as you know with everybody else. We did not contemplate something early this year, it's in the back half of the year. So it'd be very modest, but the idea is that it is consistent with the balance sheet to operating earnings, the work we've done this year to build Tier 1 Common ratio from 8.5, 8.6 this quarter, we feel confident that we got it. Now we still got to get through the approval and this was a bigger issue for us, three or four or five quarters ago but we cleaned up the balance sheet and restored the capital ratios to a point where it's pretty sizable and embedded in all of that is all the operating statistics and adverse scenarios and everything you've heard about. So we feel confident that we've asked for it, we'll see what happens with the regulators but it's because we've done a lot of hard work in 2010 selling businesses, reposition the franchise to get us there.

Edward Najarian - ISI Group Inc.

Can you tell me one more time, the 8% by the end of '11, what was that again?

Brian Moynihan

What we said is that as each of the rules becomes effective, remember there's more than just Basel III, there's Basel II. We are going -- the Basel II Rules, the market base risk rules and then the Basel III. As each of them becomes affected by Tier 1 common ratio under the rules as they become affected with no phase and periods would be above 800 basis points.

Operator

And we'll go next to the site of Chris Kotowski with Oppenheimer.

Christoph Kotowski - Oppenheimer & Co. Inc.

I'm trying to navigate between Page 20 and Page 38. And when you put a number like $7 billion to $10 billion out there, it's just kind of natural to ask how did you come up with that. And so I'm wondering is the concept behind it that your risk is primarily in the bucket that's less than 13 payments? And the $7 billion to $10 billion would be like a quarter to a third of that amount there. Is that the guiding operating assumption behind the $7 billion to $10 billion?

Charles Noski

Chris, unfortunately, the math is a bit more complex than that. I don't know if I'll be able to answer you. Certainly, it would be reasonable to think that the fewer payments that get made before a loan goes into default would suggest a high level of risk. I'd also refer you to Page 21 because as we did our array of different scenarios and looked at a set of assumptions and again these were guesses because we don't have any experience. But if you look at some of the significant differences between GSE and private label reps and warranty rights, we try to make different judgments around some of the criteria that you see on Page 21 to try to get a sense of what -- because those are important leverage points, materiality causation, disclosures, the rights to actually make claim presentations and the like, these are all pretty significant hurdles in our view and you've got to make some judgments about whether or not private label investors can aggregate and actually achieve and overcome those hurdles. And then you have to think about the performance and the characteristics of the portfolio on Page 38.

Christoph Kotowski - Oppenheimer & Co. Inc.

And then going back to Page 18, if you look at the new claim trends in the lower left, I noticed that there is an uptick in the pre-'05 claims and then the '05 claims and the '06 claims. And so it's early kind of pre-crisis vintages that seemed to be ticking up. A, is that a trend? And B, is that driven by the private label on monoline claims I assume?

Charles Noski

Yes, the private label claims that we have mentioned here, I'm not sure one quarter drives a trend, Chris. I think you need to appreciate. Certainly we've seen this with both the monolines and the GSEs is that they don't tend to follow a chronological order. So you and I might think first they'll do pre-2005, then they do 2005, and 2006 and 2007, that hasn't been our experience. We've had new claim submissions kind of all over the map. And so it's certainly something we are watching but this is certainly impacted in the quarter by the claims that are described in the footnote 1 at the bottom of Page 18.

Brian Moynihan

And the commentary to 1.9, that gives you some color as well.

Christoph Kotowski - Oppenheimer & Co. Inc.

And then just a little question, I noticed on the supplement Page 25, mortgage production revenues up from $70 billion to $81 billion, but production income was down. Is there a story behind that?

Brian Moynihan

Yes, Chris, we focused on the lost loan and the production is driven by the funding and that's just the difference. So production was up but the actual lost loans were down.

Charles Noski

And margins as well. As rates came up and we thought about how to be competitive. And frankly, Chris, we are not driving for market share in this business. We are driving for solid risk management and good profitable performance.

Operator

We'll go next to the site of Glenn Schorr from Nomura.

Glenn Schorr - UBS

So I hear you on the production revenue being booked when you lock a loan, can you give us an idea of how much of the pipeline you've got through between late third quarter and early fourth quarter. I guess the industry in general is down about 40% looking for first quarter. Is that in the ballpark of rate?

Brian Moynihan

We'll get back with you, Glenn. We don't have the number.

Glenn Schorr - UBS

And then I noticed that there is a higher revenue mortgages held on balance sheet. Is that a trend we expect to continue or is that just a temporary -- securitization marks aren't great, a little balance sheet growth, a little room as capital grows?

Charles Noski

I would say, Glenn, it's driven more by liquidity and the balance sheet management, interest rate risk management activities in our discretionary portfolio. So not necessarily view that as a trend. I mean we do look at the our liquidity and rates and the like.

Brian Moynihan

If you look 14 just in terms of core activities, Glenn, that $18 billion which includes the revenue which is on the balance sheet would be a $3.4 billion net increase, if you just took the residential as a whole discussion in the corner. So to address the corporate portfolio consumer stabilizes as we've said and continue to move forward and residential is more discretionary to what we do on a given day holding it except in our private banking and other areas where we hold those clients' loans because it's -- and we've always done.

Glenn Schorr - UBS

On the average balance sheet on 9 in the supplement, the yield on debt securities, first of all, the book went up and the yield went up a lot, all things considered given the environment, up 36 basis points. I'm just curious, is that just taken a little duration risk is you had to spike up in the 10-year?

Charles Noski

We can get back to you, but we're not taking any different duration risk than we've been all years. So I think it's probably just -- we'll get back to you with the exact answer.

Glenn Schorr - UBS

I'm not sure if you have disclosed it. But have you ever disclosed the average duration on the securities portfolio?

Brian Moynihan

I think we've given you a pretty broad description on that 10-K, Glenn, but I think from quarter-to-quarter we don't.

Charles Noski

Our strategy during the year is that to keep it relatively -- it's four, four and a half years.

Brian Moynihan

Four or five years.

Glenn Schorr - UBS

Just a follow-up on your comments on the repricing efforts across the deposit franchise, you'd mentioned couple of states upfront and then over the next three to four quarters roll throughout the rest of the platform. This might be a simple question, but what things will you monitor to know if it's working or is this charging ahead and plan being put in place or do you watch for leakage and things like that?

Brian Moynihan

We monitor the customer reactions to the price points and the various things. I would say that the philosophy, the account structure, the five or six core accounts, I don't think will change. It will be what -- they can't balance minimums or the price point on particular elements. So as you think about it, think about it is a relentless push to get through and redo everything. The question whether you pay $9 a month if you want paper statements or $8 a month if there's a kind of thing will test in that. So it's more the price points around the structure and the acceptance. Now, remember one of those accounts in the new structures is the account which is 35% to 40% of the sales today that's been in the market fully in all the states now for six months or eight months and is very well received. And especially among the obvious people you'd point to, the younger people, people who are particularly happy to use the seller online platform we have, chat, text the whole nine yards.

Operator

We'll go next to the site of Mike Mayo with CLSA.

Michael Mayo - Credit Agricole Securities (USA) Inc.

The possible upper range of $7 billion to $10 billion, is that before or after tax?

Charles Noski

Before.

Michael Mayo - Credit Agricole Securities (USA) Inc.

So after tax would be maybe $0.45 to $0.65 to book value?

Charles Noski

Well our statutory tax rate, including state taxes, is, say, 37%.

Michael Mayo - Credit Agricole Securities (USA) Inc.

So if we think about it on a book value basis, this might hurt to give 10 billion shares to take 37% of the $7 billion to $10 billion divided by 10 billion shares would be a hit of around $0.45 to $0.65 to book value to clean up the issue. I just want to make sure I understand what you're saying.

Charles Noski

I think the thing to think about, again, we think this is a possible range we're trying to respond to some investor concerns about given the broad range of estimates that are out there, we try to bring some color to that. Again we think this happens over a number of years in terms of the resolution of this. But I'm not going to dispute your math given that it's a pre-tax number. It's after our accruals. We think it's going to occur over a number of years. We don't have a view as to where we will fall in that range. So we said it's probably more than zero that's why you expect to have some level of future provisions. We'll have to see and we just don't have enough experience in the portfolio to try to estimate anymore precisely the math.

Michael Mayo - Credit Agricole Securities (USA) Inc.

And can you confirm that this is tax-deductible?

Charles Noski

Excuse me?

Michael Mayo - Credit Agricole Securities (USA) Inc.

Are these costs tax-deductible?

Charles Noski

Yes.

Michael Mayo - Credit Agricole Securities (USA) Inc.

And then if you could elaborate on the statement, the fewer payments made before default, the higher level of risk. In other words, you said 58% of the non-GSE loans that defaulted made at least 25 payments. I just would like to understand the significance of that a little more.

Charles Noski

The only comment is and I mean this is a very rough assessment is that you would imagine to the extent that there are fewer and fewer payments between origination and default might suggest that those might be areas of particular risk when it comes to reps and warranties. I wouldn't read anything more into the statement than that, Mike.

Michael Mayo - Credit Agricole Securities (USA) Inc.

And then sticking to the same topic, Bank of New York on their conference call, they said that this is likely to be resolved in the next few weeks either it's settled, there's increased oversight, over you I suppose, or that an extreme scenario of the service would be replaced. Do you agree with those scenarios? And what's the timeline?

Brian Moynihan

We don't have any idea what they said.

Michael Mayo - Credit Agricole Securities (USA) Inc.

And then separate topic. Compensation was up 5% linked quarter and you didn't highlight any one-time items on Page 10. Is there anything unusual there? Seasonal, it seems like big comp quarter given the revenues.

Charles Noski

Remember, there was fourth quarter severance and some benefits adjustments across the whole associate population just from an accounting standpoint in terms of the comp to revenue statistics that investment banks that people like to focus on. We ended the year kind of in the mid-30s, I think perhaps 37%.

Brian Moynihan

And then also the revenues GUM were up quarter-to-quarter and that drives it to.

Charles Noski

And of course, remember with GUM that those are financial advisors, they operate and they get paid on a grid basis. And so as they have a more and more successful year during the year, they move to different measures in that grid that will award them for volume.

Michael Mayo - Credit Agricole Securities (USA) Inc.

What was the actual loan utilization numbers third quarter to fourth quarter? And how much did the increase in loan syndication's linked quarter contribute to your loan growth? And just a little more color behind your comment, Brian, that you thought things were kind of picking up.

Brian Moynihan

I gave the number for the middle market book, Mike. And it was around 31% in a stable third quarter and fourth quarter. That's not -- in the large corporate book, you have the things that you could hold the loan and settle down and things like that, the middle market book that doesn't happen. Because this is loans that -- side of the company from $2 million of revenues is up $1 billion, so it's more core activity. But if you separate all that out, what we're really seeing is in the November, October November, December timeframe versus the last eight quarters, you're starting to see activity starts to move forward and grow a little bit here and there. And we have real estate coming out from some of these books and stuff. So the activity is 31% stable. The activity in the core middle market, I don't think it's affected by that. That was more on a large corporate book and that would be in GCIB segment under GBM. So this is just core activity, Mike. And believe me, it's not robust and growing at x percentage, just stable and moving forward a little bit which is better than it has been in a while.

Operator

The next question from the site of Meredith Whitney from Meredith Whitney Advisory.

Meredith Whitney - Meredith Whitney Advisory Group LLC

My first is to Brian, as there's so much movement and so much really structural change in so many of your businesses, could you talk about your budgeting of talent and headcount. So the last couple of years you've moved people into the collection efforts and the foreclosure restructuring modification efforts. As credit quality starts to improve, where do you move those people? As it looks like U.S. FICC is under a structural change and so much of European FICC is under structural change, where do you move those people? Can you talk about that on a one-, two-, three-year outlook, please?

Brian Moynihan

Taking the basic businesses we operate outside of the United States which should be the Global Wealth Management business and the Global Corporate Investment Banking and the Global Markets business, in Asia, Latin America, and Africa and EMEA, we have grown headcount by 1,000 and overall headcount is flat in our GCIB, in our GBM, the Global Banking Market space, to give you a sense. So I'd expect those trends to continue, so we're always adding new talent out of the business schools and we hire a robust class at business schools and undergraduates, so we always do merit. But what we're doing is shifting the talent to where the bigger growth opportunity is while still maintaining our leading presence in the United States and all those categories. So that is a trend I think would continue. And then in the context that Tom has in the third quarter, fourth quarter once we're around a series of headcount reductions overall and then we're adding people back. If you think about our risk management organization, for example, we had also grow that outside United States to help make sure we monitor the risk and manage that business well. When you go in the GUM, the answer is pretty clear that we want to grow our financial advisor accountant and our wealth management bank account and our private banker account and we've done that by 500 to 600 people this year and with that you should expect that to continue. And I honestly would say that, that growth rate this year was somewhat disappointing to me. I mean, not from expense budget but from a growth of the franchise we'd expect that number to be stronger. And we have seen attrition is an all-time and our recruiting efforts are picking up but we need to grow that because our biggest opportunity inside the United States is around the Wealth Management space even though we got $4.3 billion in revenues and next year's competitor might be $1 billion below that. If you look at commercial banking stable, if you look at the consumer business, generally we continue to manage down the headcount, in the Card businesses, the credit has gotten better. In the Deposits business, I'd expect it to continue to come down, going to the question earlier about sort of structural change. And then at the mortgage, you're running 55,000 people and I think the business, three years out, soon this is all behind us. The other thing is the 30,000, 35,000 person business and maybe very robust production higher than but it's a different side and it's just going to take us time to get through. I think that covered each of the business.

Meredith Whitney - Meredith Whitney Advisory Group LLC

Put back worth which you've well detailed, what about the underwriter risks that we have, the GSE risk, the private label risk, the monoline risk, what about the underwriter risk, can you comment on that and how you would reserve towards that?

Charles Noski

We really don't see that as a significant risk, Meredith.

Meredith Whitney - Meredith Whitney Advisory Group LLC

Moving from a four-deposit base system to one deposit base system, what's the timetable there? And I assume you need to run the redundant system, so it's more expensive to become ultimately less expensive?

Charles Noski

That would be the goal as to go more expense and less expense. But also we have products that are frankly unavailable in parts of our franchise just because of the all things that have been going on, we're now at the point we can actually do this. The planning is -- part of the expenses in the latter part of the year in Deposits business has been to start to work. It's an 18-month process so it would occur in '11 and then in '12. But there is absolutely an expense in the simplification value to this but the real value is one of the four systems operate in a lot of franchise and it works and that's been going on for about two or three years. But the real value of all this is to actually give 100% of our customers, 100% of our product capabilities with absolute flow and that simplifies both our associates' life, our customers' life and also really unified our franchise. So there is both the takeout value but there is really an enhanced value in terms of each time we develop a consumer change, we have to do it 4x.

Meredith Whitney - Meredith Whitney Advisory Group LLC

Chuck, you went through a comment on your reserves and you mentioned that you adjusted your home price assumptions. From what to what please?

Charles Noski

I think we'll have to get back to you on that one, Meredith. It's kind of a year-end assessment as it related to certain of our real estate portfolios. But we'll get back to you on that. The other two or three adjustments and those types just are based on the same statistics you looked at. We objectively tie them to another metrics and then adjust. And as those came up a little less than what's expected in the last couple of months, we adjust them down. So it's not some internal forecast either adjusting based on the outside forecast. I mean, we can get you the numbers.

Brian Moynihan

One more question. Thanks.

Operator

We'll take our final question from the site of David Hilder from Susquehanna.

David Hilder - Susquehanna Financial Group, LLLP

Just a question, you mentioned that there were some litigation expense in the Deposit business. And I was just kind of wondering what group would give rise to that in that business?

Brian Moynihan

The usual cases and stuff like that. I think there's nothing in particular that we talked about externally. But we have a series of cases around -- that everybody has around activities in there and this quarter we proved part of it.

Brian Moynihan

Thanks, everyone.