Operator

Welcome to today's program. At this time, all participants are in listen-only mode. (Operator Instructions) We'll take questions in turn during our Q&A session. Please note, today's call is being recorded.

It's now my pleasure to introduce Kevin Stitt. Please begin, sir.

Kevin Stitt

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

And with that, let me turn it over to Brian.

Brian Moynihan

Thank you, Kevin and thank all of you for joining us on a busy day. In 2012, we laid out our four focused areas for the year: capital, managing our risks, reducing costs and driving our core business growth. In each area we achieved strong results this year and we're carrying that momentum forward as we look into 2013.

Let's start on page four of our presentation. We positioned our company with a strong balance sheet this year. Estimated capital ratios now are above current Basel III requirements and we've seen improving credit quality. And as you know, we've addressed many legacy issues that Bruce will talk about later.

As a result (inaudible) of the company, the team has driving all year to now showing through more clearly as we look forward. We positioned our company to driving our core customer relationship strategy. That strategy continues to accelerate our growth by simply helping those people we serve with the financial advice. We positioned our company by reducing costs making our operations leaner and more efficient and investing in our growth initiatives at the same time.

We continue to streamline our businesses. We focus it on the three customer groups that we talk about on each call, people, companies, institutional investors. But on page five we highlight some of the progress we made in the last quarter and last year.

On the consumer side, our deposits continue to grow. Our retail mortgage production has increased by an average of 10% per quarter over the past three quarters. The pipeline today remains as strong as it was at the end of the third quarter. As you know, we continue to optimize our service network, our branch network as online and mobile banking numbers continue to increase. We're now averaging about 10,000 new mobile subscribers a day.

In our preferred client area, the growth this year has been strong. Even today our brokerage assets in Merrill Edge were up 40% from a year ago.

Moving to our wealth management business, U.S. trust and Merrill Lynch, those businesses had strong loan deposit, strong revenue growth this year and earnings and pretax margin were also at record levels. As we think about the companies, the corporations and middle market companies we serve across the country and around the world, our loan growth continues to expand, particularly in the second half of 2012.

Global banking and let loans of $288 billion, up from $265 billion at the end of June. Investment banking fees for these clients are strong. We maintain our number two market position. In the fourth quarter we had a leadership position in debt underwriting. As we move to our global markets business which serves institutional investors, our research capabilities continue to be recognized as the best in the world for a second straight year. As we look at 2012, sales and trading revenue did well in a relatively difficult environment.

In 2012, our trading revenues were up 20% from 2011 excluding the impacts of the DDA. And we did that while we reduced the cost in this business by over 10%. So thinking about it and looking across every customer group we serve, you can see our strategy that we put in place continues to drive results. We continue to fine tune the strong core franchise focusing on those industry leading capabilities we have to serve our clients and customers in every area.

While we are doing that, we continue to work on expenses. Bruce is going to take you through the highlights in a few pages. But if you think about it from the top we reduced our delinquent mortgage count which allows us to reduce our LAS expenses. We reduced our employee in each quarter in the last five and we've done that while we continue to invest in our targeted growth areas.

Our strategies continue to work, we're seeing growth across all the core businesses. We're seeing that momentum continue to accelerate. So as we look forward to 2013 we're going to continue to drive this strategy and drive revenues of our company.

Thank you. And I'll turn it over to Bruce to take through the results in detail.

Bruce Thompson

Great. Thanks Brian and good morning everyone. I am going to start on slide six. As you all saw this morning, we reported net income for the quarter of $732 million or $0.03 a share for the quarter. I want to spend a moment on the previously announced items in the geography on the income statement so that you can better under the quarter.

Reported revenues net of interest expense were $18.9 billion during the quarter. If you look in the bottom left hand corner of the slide, you can see our revenues were negatively impacted by five items totaling approximately $3.7 billion. Those items included a $2.5 billion charge for reps and warranties with respect to the Fannie Mae settlement, approximately $0.5 billion related to the clarification of our obligations under mortgage rescissions, negative DVA and FVO of approximately $700 million relating to the significant tightening of our credit spreads that we saw during the quarter and then a positive $700 million between change in the MSR valuation related to the servicing sales as well as our sale in our Japan joint venture.

If we move to the right on the expense side, our expenses were negatively impacted by approximately $2.3 billion due to our previously announced independent foreclosure review acceleration agreement as well as approximately $900 million of litigation expense and $300 million of compensatory fees. In addition, during the quarter, we did have a positive net tax adjustment primarily related to tax credits that are associated with certain non-U.S. subsidiaries.

We turn to slide seven, a lot of numbers, I'd like to draw your attention to three line items. The first deposits were $42 billion or 4% from the end of the third quarter to the end of the fourth quarter.

During the fourth quarter, we reduced our long-term debt footprint by approximately $11 billion but more significantly during all of 2012, our debt footprint came down by almost $100 billion or 26%. We accomplish that reduction in our debt footprint while our overall liquidity sources remained in the range of $370 billion to $380 billion.

Turning to slide eight and looking at Basel 1 capital. Basel 1 capital declined during the quarter to a still very strong 11.06%. The decline was the result of our pretax loss as well as approximately $500 million of common and preferred stock dividends. In addition, during the quarter, our risk-weighted assets grew by approximately $10 billion. It is the strong growth that we saw in the investment and corporate bank more than offset the reductions in the consumer business.

We turn to slide nine. Like to spend a few minutes on Basel 3 capital. We estimate that our Tier 1 common capital under Basel 3 on a fully phased-in basis would have been 9.25% at the end of the year. Our estimate once again assumes approval of all models with the exception of the change in the comprehensive risk measure for CRM after one year under the U.S. Basel 3 NPRs.

This 9.25% is a 28 basis point improvement over our estimate of 8.97% at the end of the third quarter of this year. While our Tier 1 common capital declined as a result of the pretax loss, lower OCI and higher threshold deductions. This was more than offset by a reduction in our risk-weighted assets.

Driving the RW decline during the quarter were lower exposures, particularly in consumer real estate and market risk improved credit quality and update of our recent loss experience in our models. We estimate that our Tier 1 common capital at the end of the quarter was $128.6 billion while our risk-weighted assets were approximately $1.4 trillion under Basel 3. As you all know, Basel 3 ratios are more sensitive to changes in credit quality, portfolio composition, interest rates as well as earnings performance.

We turn to slide 10 and look at funding and liquidity. Our global excess liquidity sources were $372 billion at the end of the fourth quarter, down $8 billion from the prior quarter, driven by a reduction of our long-term debt footprint of approximately $11 billion during the quarter.

During the fourth quarter, we redeemed $5.3 billion of TRUPs in other long-term debt. You may have seen last week, we raised approximately $6 billion in the aggregate for $350 million in 10-year notes to take advantage of strong investor demand. As we look forward though, we do expect to continue to see long-term debt decline primarily through maturities, consistent with our overall goal of optimizing the cost associated with both our debt and capital. As we do so, we expect that our time to require funding will consistently remain above two years coverage and that metric at the end of 2012 was at 33 months.

On slide 11, net interest income, we reported an increase in net interest income from $10.2 billion in the third quarter to $10.6 billion in the fourth and an improvement in our net interest margin of about three basis points to 2.35%. As we consider that number, we benefitted during the quarter from less negative impact of market related premium amortization expense. We continue to benefit from the shrinkage in our long-term debt footprint as well as improved trading related net interest income. Partially offsetting those benefits were lower asset yield as well as lower consumer loan balances.

If you just forget the market relating items that I just referred to we're in line with the estimated range of net interest income $10.5 billion before market related impacts we've discussed our past earnings announcements. Given long end rate levels at the end of December, we estimate the quarterly net interest income may come in around a base of $10.5 billion plus or minus for FAS 91 and day count for the next several quarters. The impact of our liability management -- liability management actions and long-term debt maturities are expected to help offset headwinds from continued pressure on consumer loan balances, as well as the overall low rate environment.

On slide 12, we highlight the results of our consumer and business banking. Earnings were $1.4 billion for the quarter, an increase of $143 million or 11% from the third quarter, driven by higher revenue more than offsetting higher non-interest expense. Service charges were lower due in part to our actions that we took around hurricane Sandy to further support our customers in the region. Average deposits increased more than $6 billion or 1.3% from the third quarter.

On slide 13, we list some of the key indicators for our consumer and business banking for the quarter. In our deposits business, the average rate paid on deposits declined 3 basis points during the quarter to 17 basis points. Our mobile banking customer base reached 12 million which is an 8% increase from the prior quarter and up 31% from a year ago. We reduced banking centers as we continued to optimize the delivery network around customer behaviors.

Credit card purchase volumes for active account increased 7% from the fourth quarter of 2011. The U.S. credit card loss rate is at its lowest level since 2006 while the 30 plus day delinquency rate is at a historic low.

On slide 14, and before we get into legacy assets and servicing, we summarized the specific mortgage items that we announced on January 7, including our settlements with Fannie Mae, sales of mortgage servicing rights and the acceleration agreement on the IFR. During the quarter these items had a negative pretax income on fourth quarter LAS revenue of $2.6 billion and the expense category of $2 million resulting in an aggregate net income impact of $2.9 billion in LAS within our consumer real estate services segment.

If we turn to slide 15 now, we break out the two businesses within CRES, home loans and LAS. Home loans reported an increase in net income to $281 million while LAS reported a net loss of $4 billion, including the approximately $2.9 billion of items I just highlighted.

As you're aware, the home loans business is responsible for first lien and home equity originations within CRES. First mortgage retail originations of $21.5 billion were up 6% from the third quarter driven by refinancings and up 42% compared with retail originations of approximately $15 billion in the prior year ago quarter. You can see the same type of trend in our core production income, which is up from the third quarter and almost doubled results from a year ago.

As you know, we exited the correspondent business in late 2011, so correspondent, its originations are nonexistent versus volumes of approximately $6.5 billion a year ago. The MSR assets within LAS ended the quarter at $5.7 billion, up $629 million from the end of the third quarter, due in part to the valuation adjustments previously discussed related to the sale of MSRs.

MSR hedge results during the quarter were positive and we ended the period with the MSR rate at 55 basis points versus 45 basis points in the third quarter and 54 basis points one year ago.

If we turn to slide 16, we showed the comparisons of certain metrics in legacy assets and servicing on a linked-quarter basis, as well as compared to fourth quarter a year ago to reflect the work done to reduce delinquent loans and find homeowners solutions. As you recall, legacy assets and servicing reflects all of our servicing operations and the results of our MSR activities.

Total staffing in the quarter including contractors and offshore decreased approximately 9,000 from the third quarter. The number of first-lien loan serviced drop 7% in the quarter, while the number of 60 plus day delinquent loans dropped 17% to 773,000 units.

We expect this drop in 60 day plus delinquencies should have a positive impact on our staffing levels and servicing costs going forward, as we were fully staffed in the second half of last year to handle the various new programs and regulations.

We referenced our January 7th announcement of agreement to sell MSRs totalling $360, excuse me, $306 billion aggregate unpaid principal balance. This represents $2 million loans of which $232,000 are 60 plus day delinquent. To transfer these servicing rights are scheduled to occur in stages over the course of 2013 with the delinquent loans schedule to be transferred after the current loans.

Currently, we recognized approximately $200 million in servicing fees for quarter associated with these loans which is expected to decrease throughout the year as we actually transfer the servicing.

However, the impact on earnings from lower revenue is expected to be negligible for the year as we expect expenses to also decrease as we transfer the servicing especially the 60 plus day delinquent loans.

We believe our service 60 plus day delinquent loans at the end of 2013 maybe around 400,000 units versus 773,000 units at the end of 2012, a decrease of approximately 50%. That implies an additional decrease of 150,000 units beyond the 232,000 units that are expected to go with the scheduled transfer.

Given the projected declines in 60 plus day delinquent loans and notwithstanding, there being a one to two quarter lag between delinquent loan transfers and expense decrease, we believe we can get expenses in the fourth quarter of 2013 down by more than $1 billion from the $3.1 billion in the fourth quarter of 2012, excluding the impact of IFR and litigation.

On slide 17, we show outstanding claims at the end of December, but as you know a significant portion of GSE claims has been addressed in our settlement with Fannie Mae. If we exclude the rep and warrant amounts addressed in this settlement of $12.2 billion from GSE outstanding claims of $13.5 billion pro forma outstanding GSE claims would have been $1.3 billion at the end of the year.

Total outstanding claims on a pro forma basis would then be $16.1 billion. Remember that the table reflects unpaid principal amounts versus the actual losses projected on the loans. Outstanding claims in the quarter from private-label counterparties increased approximately $1.7 billion from the end of September.

In an anticipated increase in our aggregate non-GSE claims was taken into consideration when we developed our reserves at the time of the BoNY Settlement and we continue to review our assumptions on a quarterly basis.

Unresolved claims with monolines remain static as much of our activity with the monolines revolves around litigation issues. Reserves for representations and warranties at the end of the quarter increased to $19 billion of which $8.5 billion is associated with the BoNY Settlement and approximately $6 billion is associated with the GACs.

We currently estimate that the range of possible loss for both GAC and non-GAC representations and warranty exposures could be up to $4 billion over accruals at December 31 compared to up to $6 billion over accruals at September 30. This decrease is the result of our settlement with Fannie Mae and the range of possible loss now principally covers non-GAC exposures.

On slide 18, in global wealth and investment management, earnings for the quarter of $578 million were up slightly from record results in the third quarter. The pretax margin was 21%. This quarter we did move two businesses that we agreed to sell, international wealth management and our brokerage joint venture in Japan to the all other segment, including the results in past quarters for comparability.

Overall client activity in the wealth management business in the quarter across all categories was quite robust and was aided by client actions due to the fiscal cliff. Period end deposit growth of approximately $23 billion and period end loan growth of $3.5 billion helped to offset the impact of the continued low rate environment.

Ending loan balances were at record levels and long-term AUM flows of $9.1 billion were the second highest quarterly amount since the Merrill merger and the 14th consecutive positive quarter. Net income of $1.4 billion in global banking on slide 19 is an increase of more than 10% from the third quarter and reflects higher revenue and lower expenses.

Average loans and leases increased $10.8 billion or 4% from the third-quarter with growth across C&I, as well as commercial real estate. Average deposit balances increased $15.8 billion or 6% from the third quarter to $268 billion as our customer base continued to be very liquid. Asset quality continued to improve from prior quarters as we’ve seen over the last year, NPAs dropped 20% to $2.1 billion and reservable utilized credit size exposure declined 11%.

On slide 20, we outline our investment banking fees for the quarter. You can see that our debt underwriting area was about $213 million from the third-quarter to $1.078 billion in revenues and our advisory business was up approximately $80 million to $301 million for the quarter.

Corporation wide investment banking fees were up 20% from the third quarter and 58% from the year ago period. Debt underwriting fees were a record for the quarter and we believe number one on a global basis during the quarter. From an overall investment fee perspective we maintained our number two global ranking in net investment banking fees during 2012 based on Dealogic’s data.

Switching to global markets on slide 21, earnings excluding DVA were $326 million. Excluding DVA in the UK corporate tax charge in the third quarter, net income decreased compared to the third quarter driven by lower sales and trading revenue, reflecting a seasonally slower fourth quarter. Sales and trading revenue, excluding DVA was down 23% from the third quarter, but improved substantially from levels a year ago.

Within our fixed area, excluding DVA, revenues of $1.8 billion decreased from $2.5 billion in the quarter primarily as a result of lower volumes and reduced client activity but were up $1.3 billion or 37% from a year ago. In equity, excluding DVA, results were flat with the third quarter as lower volatility and continuing lack of investor appetite for equity products kept volumes suppressed. Expenses declined from both the third quarter and the prior year primarily driven by lower personnel expense.

On slide 22, we've shown you the results of all other which includes our global principal investments business, the non-U.S. consumer card business, our discretionary portfolio associated with interest rate risk management, international wealth management business we agreed to sell insurance as well as our discontinued real estate portfolio.

The revenue improvement in all other from the third quarter was mainly due to a lower negative valuation adjustment on structured liabilities under fair value option of $442 million compared to a negative $1.3 billion in the third quarter and higher equity investment income as a result of the sale of our brokerage joint venture in Japan.

Non-interest expense declined compared to the third quarter due to lower litigation costs as the third quarter included the Merrill Lynch class action settlement. Also contributing to net income in the quarter was the foreign tax credit benefit that I mentioned at the beginning of the presentation.

As you can see on slide 23, total expenses increased compared to the third quarter but were down from a year ago. Excluding LAS expenses, the independent foreclosure review and litigation expenses in the quarter were $13.3 billion versus $12.9 billion in the third quarter and $14.7 billion a year ago. The $400 million increase from the third quarter reflects the normal seasonal trend and represented non-personnel costs.

FTE at the end of the quarter was down approximately 5000 from the third quarter and 15,000 from a year ago. An important driver behind the reduction of $1.4 billion in expenses from fourth quarter a year ago is new BAC which we have discussed with you several times.

If you remember total annual cost savings targeted with new BAC are $8 billion per year or $2 billion on a quarterly basis, which we said we would hit sometime in mid-2015. In the fourth quarter, we achieved approximately $900 million of the $2 billion which is 45% of our target. As a reminder, the first quarter every year include the annual retirement eligible stock compensation, which was $900 million in the first quarter of 2012 and this year we expect will be a similar amount plus or minus.

While we're talking about expenses, let me comment on taxes. Tax expense for the quarter was a benefit of $2.6 billion, consisting of the expected tax benefit of the pretax loss, our recurring tax preference items and the $1.3 billion primarily related to the non-U.S. restructurings. For 2013, we estimate the effective tax rate to be somewhere around 30%, including $800 million or so for another expected 2% U.K. tax rate reduction which we would expect in the third quarter.

We switch to overall credit quality on slide 24. Provision was $2.2 billion versus $1.8 billion in the third quarter as lower charge-offs were more than offset by lower release. Overall credit quality trends continue to be positive even when we normalize for the events in the third quarter.

If you recall regulators provided new guidance to the industry in the third quarter of this year around loans discharged as part of a Chapter 7 bankruptcy which resulted in increased net charge-offs of $478 million in the third quarter. In addition, we incurred charge-offs of $435 million in the third quarter in connection with the National Mortgage Settlement. We do not have impacts to net charge-offs of a similar magnitude in the fourth quarter but did have $73 million related to the completion of the implementation of the regulatory guidance.

Excluding these items, net charge-offs were down $178 million or 6%. We believe most portfolios are close to stabilization and overall reserve reductions are expected to continue but at reduced levels. Given our outlook for slow growth but healthy economy, we believe provision expense in 2013 will range between $1.8 billion and $2.2 billion per quarter, the levels experienced between the second and fourth quarters of 2012.

Excluding the fully insured portfolio, 30 plus day performing delinquencies continued to drop. NPAs were down $1.4 billion from the third quarter and $4.2 billion from a year ago. On the commercial side, reservable criticized levels showed a decline of 8% from the third quarter and 42% from a year ago.

Before we open up for questions let me say and reiterate Brian's comments that we feel very good about our accomplishments in 2012. We improved the balance sheet, we managed risks and we addressed significantly -- significant legacy issues and were successful in reducing certain of our exposures. We stepped up our focus on growing the business and some of that focus is evident this quarter when you look at deposit growth across the franchise, loan growth in the global bank, solid investment banking results and in GUM, strong deposit, AUM and loan flows.

We entered 2013 all about moving the ball forward and winning in the marketplace with what we think is the best banking franchise in the world. And with that, let me go ahead and open up for questions.

Question-and-Answer Session

Operator

(Operator Instructions) And we'll take our first question from the side of Matt O'Connor from Deutsche Bank.

Matt O'Connor - Deutsche Bank

A couple of follow-ups, I guess starting on the expenses, appreciate the outlook on legacy costs. As we think about sort of the all other expenses that you pointed to of $13.3 billion with some seasonal stuff this quarter. Maybe you could just frame what we can expect for that level or for that bucket for 2013.

Bruce Thompson

You're saying expenses not including LAS and litigation.

Matt O'Connor - Deutsche Bank

Exactly. Yeah the 13.3 billion that you pointed to in the fourth quarter.

Bruce Thompson

I think as you look at that number and if we keep LAS out of this, obviously that the big new savings bucket that we have is new BAC. We'd indicated that we are on a quarterly basis at $900 million a quarter. As we leave 2012 we expected that our new BAC cost savings when we get to the fourth quarter of '13 will be at $1.5 billion per quarter. So you could expect to see on a core basis of new BAC of about $600 million increase from where we leave 2012 to where we leave 2013.

Matt O'Connor - Deutsche Bank

So as we think about that $13.3 billion, I guess if we just take out $600 million for new BAC but was there other bulk or how much I guess of the seasonal stuff is there that you may wish to adjust for?

Bruce Thompson

But the seasonal stuff that you're going Q4 to Q4 you'd expect the seasonal stuff to be there, but as we indicated we looked at and for this quarter relative to the third quarter there was $300 million to $400 million of stuff that we would characterize as seasonal.

Matt O'Connor - Deutsche Bank

And just in terms of like underlying call it inflation or just normal investments, if we take that 13.3 4Q to 4Q, would you expect that to be down so you have kind of minus $600 million from additional BAC savings? I know there are always some offsets from inflation or investments, do you think that net number will be down?

Brian Moynihan

We would expect that -- the one thing that we're being very cognizant of is that while we're investing in the business, we're not going to let inflation out-run the progress that we're working on new BAC. So if you think on a net basis thinking about that $600 million from new BAC is a good assumption.

Matt O'Connor - Deutsche Bank

And then separately, if we look at the fixed revenue, little weaker than maybe we've seen so far although it's still early in the earnings process this year. And I guess I noticed that the asset level in the trading book went up, the VaR doubled quarter to quarter, and just wondering if there is anything unusual in terms of positioning or that you point to?

Brian Moynihan

I think it's important when you look at the fixed business, to go back and look at the progress that we've made during 2012. If you look at fixed revenues 2012 compared to 2011, pre-DVA they were up 36% year-over-year. If you go back and look at each of our quarterly releases in 2012, in each quarter 2012 pre-DVA revenues were higher than 2011, at the same that we were taking costs out.

The third thing I would say is that you've to realize that we run the fixed in overall debt underwriting business and look at that as one consolidated business and from a debt underwriting perspective at over $1 billion of revenue, we believe that was as I indicated earlier more than anyone else did this quarter on a global basis. And so we feel very good about that.

You point on the VaR, is a fair one and we did see VaR increased during the fourth quarter, and we would expect to see the benefits of that VaR flow through during the first quarter this year.

Matt O'Connor - Deutsche Bank

Sorry, benefits meaning higher revenue?

Bruce Thompson

That's correct.

Matt O'Connor - Deutsche Bank

Okay. All right. Thank you.

Operator

We'll go next site of John McDonald with Sanford Bernstein. Your line is open.

John McDonald - Sanford Bernstein

Yeah. Hi. Bruce, does the goal of reducing the delinquents in LAS the 150,000? Does that include planned -- additional planned MSR sales that you might have in mind?

Bruce Thompson

It does not John, because I think the one thing when we announced these sales but you have to realize is that, it's very important that the transition of the loans that are being sold work through a process in going away that as consumer friendly as we can do it. So there is a lot of work that goes through that.

So as we look at the servicing business that does not include in any meaningful way incremental sales there maybe some small ones or above that. And at the same time, somebody could come and look to do something as well, but at this point I would consider that 150 to be more organic reduction.

John McDonald - Sanford Bernstein

Okay. And what kind of pace throughout the year would you expect for reducing that $3.1 LAS expense by your goal of $1 billion by the fourth quarter, kind of steady throughout the year or is it lumpy?

Bruce Thompson

I would assume that you should generally expect it to come out throughout the year. It's not something you're going to have to wait for the fourth quarter to say.

John McDonald - Sanford Bernstein

Okay. And then getting to Matt's question earlier, if we just -- a lot of moving parts on your expenses, if we look top of the house, trying to think about the jumping off point for total BAC expenses, you start the first quarter, it seems like you might be in the $17 billion ballpark with the stock option expense? Does that feel like the right area?

Bruce Thompson

Yeah. I'm hesitant John to give you specific numbers in the quarter. What I would say is that, we gave you guidance is to how much of the fourth quarter with seasonal that we obviously wouldn't expect in the first quarter.

You've got the 900 of stock compensation expense that will come through, expect to see a little bit of benefit in the first quarter as we continue to implement new BAC and probably the biggest variable that you could see in the first quarter that I didn't mention is really compensation expense that varies based on actual business performance. But I think if you think and look at those different metrics you get pretty close.

John McDonald - Sanford Bernstein

Okay. And then with the Fannie settlement this quarter, how should we think about the rep and warrant provisioning going forward here, will you need to add on a quarterly basis to the rep and warrant provision?

Bruce Thompson

Yeah. I mean, if you look back over course of 2012, absent any settlements or any unusual activity, you had a run rate throughout the quarter of around $300 million per quarter in 2012. And with the Fannie settlement, as well as obviously the fact that Freddie was settled at Countrywide, you'd expect that number to be $150 million or so going forward.

John McDonald - Sanford Bernstein

Okay. And then, one last thing on NII, was that a pretty clean number, was there any impact from hedging or premium amortization in the NII number this quarter?

Bruce Thompson

There was a less than $100 million to the negative.

John McDonald - Sanford Bernstein

Okay. And your guidance of the kind of $10.5 billion is the run rate you think for the next couple of quarters that's excluding any of that, right?

Bruce Thompson

Excluding any of that and realize that we've got a couple less days in the first quarter of this year.

John McDonald - Sanford Bernstein

Okay. Okay. Thanks.

Bruce Thompson

Thank you, John.

Operator

We'll go next site of Paul Miller from FBR Capital Markets. Your line is open.

Paul Miller - FBR Capital Markets

Hey. Thank you very much. Hey guys on your guidance for NII which was really good. You talked about a steady, I mean, you can maintain that 3 -- that net interest margin at current levels. What about average earning assets? Are you -- do you think you can maintain your average earning assets at these levels or grow them?

Brian Moynihan

Well, I think, the average earning asset levels that you probably at a level that you're not going to see an enormous amount of growth. What we do hope that happens though is that the composition of those earning assets change so that we can look at and particularly in the institutional business that I mentioned, as well as in GWIM there was very strong loan growth during the fourth quarter.

We are focused on continuing to drive that forward and that obviously reduces the need to invest in securities and other thing, and we think ultimately has a positive impact on NII and is also quite frankly consistent with managing OCI risk going forward.

Paul Miller - FBR Capital Markets

And then I had to ask one mortgage question. I asked the same question in the third quarter but I think Brian, you've been out in a lot of interviews talking about how much you like mortgage banking. But you're still really going to be focused on retail, am I correct? And on retail, are we focusing just your own customers or are we being focusing on customers outside of your deposit mix or your customer base?

Brian Moynihan

Paul, focusing it on the customers in our customer base is not real restricted into one or two household. There is plenty of market share to go. Our penetration of the product to -- in our preferred segment and our wealth management segment is still relatively low. So there is tremendous growth. But as you think about shape in the mortgage business, we're kind of -- this quarter kind of moves -- starts moving announcing as we closed these servicing sales to where we end up maybe 5 million surplus loans going forward producing $20 billion and growing our core direct to retail, and that's kind of what we want with the market share that steadily grows and that's kind of the equilibrium and the same as we go. So the next challenge ahead is obviously while replacing the hard volumes over the next year, this year we had to replace the core fund of volume, next year we have to replace the hard volumes. The team is working diligently on that. It is really focused on the core customers, and if you think about the cost of servicing mortgages and stuff, we need to really focus on people that we're very comfortable with credit and keep the delinquencies down and stay away from the stray products and just stay on volume.

Operator

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

Glenn Schorr - Nomura

First one is a question on risk weighted assets, on one of your slides you show Basel I assets going actually up a little in the quarter, Basel III coming down, it's all in the net change in credit and other risk weighted assets. I am just curious what do you see on the credit side that drives that model enhancement. The reason I ask is it makes sense intuitively it's just different to the tune of half the Basel I and Basel III jump, it's different versus all the other big banks.

Brian Moynihan

It's a good question, Glenn. When you look at and let's just first spend a minute on Basel I. As I think you know that the majority of regular rate loans in Basel I are 100% risk weighted so that as you look at our $10 billion increase in risk weighted assets under Basel I it's just generally speaking the net increase in our loan book. If you go to Basel III and I think you're referring to slide 9, where we talk about the different reductions, why don't I spend a moment on each of the buckets. The first is that we referenced that we had about $23 billion less through consumer real estate exposures and the way the Basel III works is that as opposed to these general risk weighted buckets, they look at loan to value delinquency and other type metrics. So during the quarter the $23 billion benefit we saw, we saw declines in the loan to value within our residential mortgage book, the percentage of loans that were 90 plus day delinquencies, each of those went down which I think in large part is reflective of the changes in the underwriting standards that we've talked about before that we implemented in the fourth quarter of '08 and first quarter of '09.

The second thing is if you look at our home equity book, the delinquencies as well as the loan to value continued to improve there as well as the notional amount outstanding has also gone down, so we benefit there as well.

And then the third bucket within consumer real estate are other retail exposures which generally represent the run-off portfolio that we talked about, that decreased during the quarter as well. So those three different buckets within the consumer exposure are what drove the $23 billion decline there. If you move to the $64 billion number that we referenced largely in market risk really go through a couple different areas where we had benefits.

The first is we did have a pretty significant decline on a net basis of CBA stress VaR as well as our CRM risk weighted assets during the quarter. Over and above that, as you know that some of the securitization products cover very or have very high risk weighed asset content. We were able to incur -- fairly significantly decrease some of those securitization exposures. And during the quarter, the industry also got some guidance from a regulatory perspective on risk-weighted assets with certain securitization products that was favorable so that helped.

And then, the last piece that we had is that there were some index tranches and other things within the markets business, which came down pretty significantly as well. So those were really the big items in the $64 billion bucket and then with respect to the $23 billion bucket.

I want to spend just a moment on that because the $23 billion reduction is not a function of going in and changing models, the $23 billion is that each year when you update your models for actual loss experience, it drives changes in risk-weighted assets and given the strength and improvement across the credit portfolios in 2012, we benefited from that when the models were updated.

As you look forward, I would just say looking forward I think we're generally in a place now where we told you a couple quarters ago, the optimization on Basel 1 was largely done and the risk-weighted assets would vary pretty proportionately with the amount of loans.

From a pure risk-weighted asset perspective, I think we're largely through those reductions but keep in mind from a numerator or a common perspective going forward, we will benefit given our deferred tax position in that pretax number will generally grow capital on a pretax basis. And we still do have some threshold deductions, we can work down there.

Glenn Schorr - Nomura

That's super helpful. I think you just said but I just want to confirm, this happens on an annual basis, in other words whether the balance has come down on paydown runoff charge-off whatever or credit improves, the models get updated on annual basis and there is no permission process, in another words just happens in real time?

Brian Moynihan

Well, there is not a permission aspect to it. It's required that we update these on an annual basis. So that's correct, Glenn.

Glenn Schorr - Nomura

Okay. Really appreciate.

Bruce Thompson

Glenn, the balances move every quarter. I think it's the models -- the factors that change on risk.

Glenn Schorr - Nomura

That's super helpful. I appreciate all of that. Inside the average balance sheet, the securities yield went up 11 basis points in the quarter. Most banks are trending lower as things runoff. This is part of your depending the NIM so I get it. Just curious, is it just expanding a little bit on the duration curve. Just curious what you're doing on the asset side to help support those yields?

Brian Moynihan

No, it's not extending duration. If you look at our securities portfolio, we continue to run that duration in and around two years. What you have to keep in mind is that we had during the third quarter, you had some of the

FAS 91 amortization expense. That flows through it and hits the yield on the securities portfolio. So we did not see a significant change in the actual yields during the quarter, it's really more FAS 91.

And I think as you look at our company going forward, I think we're a little bit different in that between the fact that the duration of what we have continues to be short. As we look forward, we clearly think the worst of the recouponing of the securities portfolios behind us based on where rates are to that.

Glenn Schorr - Nomura

Okay. Thanks Bruce. Appreciate it.

Operator

We go next to site of Ed Najarian from ISI Group. Your line is open.

Ed Najarian - ISI Group

Good morning, guys.

Brian Moynihan

Good morning.

Ed Najarian - ISI Group

You know with the capital ratios up significantly and credit quality getting better, the mortgage repurchase risk getting resolved over time. Could you give us any thoughts in terms of how you're thinking about capital return for 2013? We've had a number of the other big banks, JPMorgan, Wells, USB. At least give us some insight in terms of how they're thinking about capital return for this year going into the C-Cor, wondered if you'd be willing to do the same? Thanks.

Brian Moynihan

I think I'd say that that we completed our results. We're in a better position this year than last year and we'll let you know once we get through the test. I think it's -- the Fed is doing it's work and -- but we've included people that -- here the issue for us is not necessary capital levels, balance sheet cleanup and stuff, it is the issues of occurring earnings levels, consistent on that and we'll let you know once we get there. But Bruce and the team have done a great job on submitting it and we will see what happens.

Ed Najarian - ISI Group

I think you already above the capital ratios that you need to be at, always according to FASB guidelines, now that you are generating -- continue to generate excess capital, is that something that you think you'd like to return to shareholders over time? Or is that something that needs to be retained in the near term for safety and soundness reasons until you get more litigation resolved? Or any thoughts in terms of the excess, above and beyond where you have indicated you sort of intend to run the company?

Brian Moynihan

If you look at what we did in 2012, we took capital and redeemed preferred instruments and subordinated debt and other things and continued to do that during the year, we'd be getting approval to do so as we went along. So we've been clear to all the capital that we have now that we're above the levels, we will be in a position when we get the approvals to return to the shareholders. And there will be points of the relative preferences of the CCAR process in terms of dividends versus stock buybacks and things like that. So we would be no different than anybody else. But it's clear it's either on the balance sheet, tangible book value, it's not needed for the risk of the balance sheet as you can see that with all the risk weighting and everything, there capital is there. And all get returned as part of the business proposition.

If we retain and need to grow, that's actually a good problem and I did but so far we have -- still have optimization left in the balance sheet as Bruce described, that will allow to return capital. Our intention is that -- the question is we've got to get to the process and then we will do it.

Ed Najarian - ISI Group

And then I guess my second question is just fairly technical. But when I look at your -- what you've outlined in terms of reserve recapture, it looks like about $900 million in terms of loan loss reserve, a $2.2 billion provision and $3.1 billion charge-offs. But it looks like the loan loss reserve itself dropped by about $2 billion from the third quarter. Can you reconcile that for me?

Bruce Thompson

Yeah, the reason is it dropped by that amount is that and you saw it in the third as well as the fourth quarter that some of the DOJ AG settlement modification and other things, that is as you dispose, get repaid or write off the purchase credit impaired portfolio, it reduces your loan loss reserve.

Ed Najarian - ISI Group

And then that's not coming through the charge-off line?

Bruce Thompson

That's correct.

Operator

We'll go next to the site of Brennan Hawken with UBS.

Brennan Hawken - UBS

So a quick one following up actually on one of Ed's questions. And it's related to your capital levels and the SIFI buffer. Is there any view from your guys' perspective that you will intend to run with a buffer above the required 8.5% because many of your money center competitors are going to be running at the 9.5% level. So maybe either for funding market reasons or potentially competitive reasons, is it in your mindset or strategic vision that you might run a bit above that 8.5% level or is that the wrong way to think about it?

Bruce Thompson

I'd make a couple of observations on that. The first is that at 9.25% today regardless of required SIFI buffers, we have more on the Basel III basis than anyone else. The second thing I would say is that given the position that we are in, in fact, we do have on PTAs going forward, the rate at which we accrue capital given that it's on a pre-tax basis, we would expect to be more significant than our peers. So I think going forward we still think we have the opportunity as core earnings rebound, grow capital more quickly than our peers.

As it relates to the exact level, we've always looked at and thought that you would want to run at least an extra 50 basis point cushion given that these ratios are more sensitive to changes in the market depending on what the market looks like at the time your ratio. You may vary that a little bit based on the market but I would say generally if we look at the -- what we saw in the third quarter, what we saw today that we're generally in the range of where you expect us to run. And as we look out at and see how our counterparties from a credit perspective view the company now and look at our credit spreads we feel like we're doing the right things right now.

Brennan Hawken - UBS

Yeah. Okay. That's fair. And then thinking about maybe the fact that you guys might be in the market to sell another chunk of MSRs at least we hear about that through speculation from various sources. It -- is the idea behind that, we are at a point where that's not really a capital issues for you all anymore, right, because you are below the threshold from that perspective. So is it more about getting an opportunity to further eliminate and push down these legacy costs or is it that you just strategically don't view the business is very attractive and you just want to be out of it all together? Can you help -- maybe give some color around that thought process?

Bruce Thompson

So, if you go back and look what we did in the beginning of '11 when we split, we split our portfolio into two thought processes, our mortgage servicing portfolio. We split a chunk into what we called the home loans at that point and a chunk into what we called LAS. And it was about round numbers $11 million, $12 million of loans at that time, half went to LAS and half went to home loans.

And the criteria which we look at that was customers' products and loans and stuff that were going to be a go-forward business, we think of in the home loans business and the other half was products that were never going to be done again. And the way we're going to run the business because, frankly you lose a lot of money on them due to the delinquency levels and customer strike et cetera.

So since that time we have -- and if you go back and look, we showed that exact rate. Since that time, we've been busily trying to work the $6 million non-core loan book portfolio down and we got it down around $2.5 million-ish now and with the sales to $2 million, not all of it comes out that because of combined pools and stuff but a significant amount.

We are really accelerating the ability to get to the end state on the bad mortgage servicing book for lack of better return. And that is what we're up to. We had gotten at the level from a capital level and all that stuff we're comfortable with. And so once we get this out -- these are products that we just aren't going to continue with and we've been focusing on rebuilding the business into the core business as I spoke about earlier.

So, if you think about in that context, think about something that might have taken us all the way into '15 to finish up and think about through the sales of the significant part of the $2.5 million, how much we can -- the question is, we are bringing that in into '13 and nearly '14 as we finish up which then accelerates our position of our company away from products and services which we didn't plan to continue two years ago.

Brennan Hawken - UBS

Okay. Thanks for that. And then last one, the $1 billion decline in mortgage cost, the legacy cost you guys provided from the $3.1 billion to the $2.1

billion by 4Q, just kind of curious about the starting point there, the 3.1, I thought that included $0.3 billion of compensatory fees from this Fannie deal. So, why is that the starting point rather than like 2.7? Is there something in that $0.3 billion that is recurring or what's the deal there?

Brian Moynihan

The number was slightly less than 300. It rounded to that number. But in any one quarter in that business, you have some plusses and some minuses that are flowing through. So you're right, the $1 billion though is starting from a $3.1 billion base.

Let's be clear. We are still working through. We signed the sales transaction January 7th working through the buyers and timing of the movement of the assets and finalizing that, then how fast you can move. There is transition issues that you got to deal with in terms of people or intermittently modification process and stuff.

So, but let me flip to the other thing. This quarter the total resources you saw on one slide dedicated to LAS went down by 9,000 between FTEs and contractors that are dedicated to this team. We will continue to drive that down. There is nothing more important to our company than to get this done as quickly as possible.

So, Bruce has given you the outline and whether it's in this called item or that item, the idea is that we need to get the work out of here and that's would actually take the cost and the sales closing the continued progress on the remaining pieces that we have left. But think about, say single quarter, 9,000 change in headcount and think about -- we're going as fast as we can.

Brennan Hawken - UBS

So, clearly it's been really tough to try to forecast and how this would rundown and you guys are clearly not alone in having challenges. Everybody in the industry I think has been struggling with that. So, just was kind of curious whether or not there was something in there to better understand it. Thanks for giving the color.

Operator

We'll go next to site of Betsy Graseck with Morgan Stanley. Your line is open.

Betsy Graseck - Morgan Stanley

Hey, good morning. Couple of other questions on mortgage. One is around the Fannie settlement. So, now you will be originating through Fannie as you used to really weigh mortgages for the home loans section. I'm wondering, how fast you think you can get your market share back up as a result of that?

Brian Moynihan

Our market share overall when you put the whole thing together I think has gone up about two tenths of a percent per quarter is the best I have and remember we are only competing in the direct-to-consumer part of the market. So I think it's moved from 4.2 to 4.4 to 4.6 type of numbers.

And so we expect us to keep driving our market share up. Now again we've got the HARP volumes which is in the $21 billion, this quarter is $7 billion to $8 billion type of number think of that, that we got to replace.

And so that's the team challenge and on the other hand we are not closing loans as quickly as we should honestly and we've been adding significant resources as we have downsized LAS into the home loans business to increase our fulfillment capacity.

So you put all of it together, our market share continues to grow every quarter, the last three or four, we'll continue to drive it. Where it will settle in, I'm not exactly sure but as I have talked about earlier that's if you think about us having about -- think of an 8% share of servicing, we got to get our origination share moving towards that direction over the next couple of years in order to have sort of equilibrium for lack of better term.

Betsy Graseck - Morgan Stanley

Right. It's just that when you stopped originating through Fannie, the share came down rather sharply in a short period of time. So I was just wondering if, with higher throughput, you might be able to do more there.

Brian Moynihan

Well, look, to the issues in liquidity in the market and the kind of loans going through, the issue was when we -- they happen to correspond to each other but they had really nothing to each other. The issue is we stopped the correspondents. As you thought about our market share, when it was at its strongest in the high teens, two-thirds of it or more were correspondents. And that's what brought our share down, the retail market share is actually -- from this year our direct to retail including even HARP, it's flat year over year in terms of production and fell little bit and has grown every quarter. So we're selling to Freddie and we will work it out with Fannie over time but the point I am really saying is it's not the secondary market liquidity that caused our markets to drop, it's getting out of the correspondent business.

And if you just look in this quarter, remember there is a 6.5 billion last year fourth quarter versus this quarter -- this year fourth quarter was in the correspondent that was a carryover when we quit it in the third quarter, at the same time we announced that we're going to stop the thing.

Betsy Graseck - Morgan Stanley

And then lastly on home loans, should we expect -- are you anticipating more reinvestment in the home loans group to drive that faster throughput or do you think you are at the investment spend that you want to make in that business?

Brian Moynihan

Of the volumes there we continue investments in the servicing fulfillment teams, we moved to -- Tony Meola has done a great job and Ron Sturzenegger in that business working through LAS has now taken over sort of the good side of production along with a fellow named Steve Boland, Dean Athanasia in the retail and the preferred group under David Darnell drives the production side. We have added mortgage loan officers every single quarter focused them on the branches that we're seeing a tremendous uptick when we get them working with our teammates. We're better or more connected as a company and cross things, and so we've seen it, and we are investing both on the front end and on the servicing and fulfillment, the middle office so to speak.

And we moved I think 4000 increase this year so far to fulfillment and we will move some -- we will continue to move them because ultimately this -- the retail production side is a good business right now.

Operator

And we'll go next to the site of Nancy Bush with NAB Research LLC.

Nancy Bush - NAB Research

First question, on the credit card business, Brian, could you just give us some color about what's going on right there? I mean your numbers are not robust and I am wondering -- I know you have lost share there. What's being invested into that business?

Brian Moynihan

So as we think about starting in 2009, Nancy, we started to reposition that business because it's gotten too far into the broader credit and that's the crisis, remember we charged off $60 billion, $70 billion in that business. We start repositioning it, we've got about now where we wanted. In other words, we have a definitive group of businesses that's very core and we like a lot. And we have the core business. So this quarter I think we did 840,000 cards and about 350,000 more or less through the franchise and another 700 some thousand I think online.

So we're producing what we need to do. Balances grew point to point, got to be careful for the fourth quarter you get a little kick around Christmas obviously. But if you look at it, we look across the last few quarters and (inaudible) we get out this quarter, we are holding around 14-ish percent market share which is fine. So now the question is we pushed a little bit hard on the, and I use the broad context marketing, not direct mail market but marketing driving to the franchise. So what we have done to position the credit quarterly, well it's a much more repayment business, now 19% plus pay rate which is basically up from 14, probably six or eight quarters ago. And so it's a higher quality business, it's drilled the core customer base, the one to three card and the rewards card we have drilled up the core platform are working well on the retail segments and then obviously in the wealth management segment, we have a greater rate of products. So we are -- I would say that we got to where we wanted now, it's stabilized the run-off book that we are fighting on our growth basis down to $3.5 billion, down from 15. I think they should start to see some growth but it will take -- it's going to bump around to where it is right now for few quarters. But I'd say there's nothing wrong with business and we're making a fair amount of money right now. The risk adjusted margin is its highest it's ever been.

Nancy Bush - NAB Research

Secondly, Bruce, if you could just speak to the comp ratios in the investment bank and how you guys are trying to position yourself relative to your competition?

Bruce Thompson

Yeah, I think generally we're in that 40% area from a compensation perspective, and obviously given the performance and where we are we need to be competitive with where peers are. But I don't think you'd really see that changed materially during the course of 2012.

Nancy Bush - NAB Research

Great. Thank you.

Operator

We'll go next site of Mike Mayo with CLSA? Your line is open.

Mike Mayo - CLSA

Hi. First just a follow-up, the FAS 91 amortization expense, what would have been the change in the securities yield and the margin if not for that, looking third quarter to fourth quarter?

Brian Moynihan

I want to get back to you with that exact number, Mike. I think, I have got, but I want to make sure I'm right. So why don't we get back to you with that number?

Mike Mayo - CLSA

Okay. Do you just generally, I mean, because your margin was up, that's good and the securities yield is up 11 basis points, but do you think it was -- would have been down if not for that?

Brian Moynihan

I want to think, Mike, it was somewhere between 9 and 11 basis points. I just don't have the exact number.

Mike Mayo - CLSA

Okay. That's fine. And then going to the mortgage putbacks and so the Fannie settlement you got that done. It sounds like you're feeling better about the rep and warranty expense. I think I heard you saying, it might go from $300 million to $150 million per quarter. So I sense you're feeling better.

I'm trying to reconcile that with what's taking place with the MBIA versus Countrywide court moves. And correct my thinking if anything is wrong here but I think it's an issue of Bank of America successor liability or is Bank of America responsible for Countrywide?

And as of January 9th and 10th, the oral arguments were completed, so I understand it's in the hands of Judge Bransten, the New York State Supreme Court? And the motion says that Bank of America is responsible for Countrywide and if so, I guess that could put the $8.5 billion private-label settlement at risk?

So, my question is, could that $8.5 billion settlement be at risk? Do I understand what's happening in the court correctly and what happens if the $8.5 billion private-label settlement does not go through?

Brian Moynihan

Yeah. I think a couple of things on that, Mike. First, I think from our perspective, the $8.5 billion Gibbs & Bruns settlement is going through the court process, would likely get wrapped up some time in the second quarter or early in the third quarter and that's completely independent from what's going on at MBIA.

With respect to MBIA in the broader monolines, as we've said before generally, if you look at geography within the financial statements, the majority of the work that we do and where the monolines are accrued for at this point is within the litigation line item as opposed to within our provision for reps and warranties.

And the third thing I would say is that as it relates to kind of the general rep and warrant question. I think the most important thing to go back to is that, virtually -- the large majority of everything that was done with the GSEs at this point between our global settlement with Freddie and Countrywide, and our global settlement with both Countrywide and Bank of America with the GSEs just takes away a significant amount of risk relative to where we've been before.

Mike Mayo - CLSA

So we're really just talking private-label at this point?

Brian Moynihan

You've got the, as I referenced, you've got the several monolines that we're working through on a litigation prospective and then you're right, you've got the private-label piece.

And I think, if you got back to the comments that we've made about the geography, the representations and warranties, you can see we have a pretty sizable amount set aside to work through the private-label exposures.

Mike Mayo - CLSA

So what is the significance of the decision by Judge Bransten in the New York State Supreme Court? There was a Wall Street Journal article on January 11th, some other chatter saying that, if this motion goes against you and you're deemed responsible for the legal liabilities of Countrywide then that could be a negative event for you? Do you agree with that?

Brian Moynihan

That, Mike, I mean, we could, I think, we think about this litigation goes back and forth, and the judge has a lot of decisions to make a lot of cases, and we'll play it out here, but we're comfortable our legal positions across the Board.

Mike Mayo - CLSA

Okay. But for that, we should, you think we'll hear next month as opposed to in a mid-year?

Brian Moynihan

I'm not sure the exact time.

Mike Mayo - CLSA

Okay. Just last question, next -- I don't -- I'm just trying to -- how do we get arms around that risk? That's really my question? And so, if you wanted to just give advice to somebody, okay, here is the potential hit if things go wrong? What would be your answer to that or just, is there no answer?

Brian Moynihan

I think what you -- what I would suggest you do on that, I'm not going to quote somebody else's financial statements. But I think you can go look on MBIA's financial statements and see how much that they believe that we're owed and that they are owed from us, that's disclosed in their financial statement. So you can look at that and then the corollary is I think you have to keep in mind that there is a significant amount of money that they owe us within our Global Markets business that's very significant that we have marked it cents on the dollar.

Mike Mayo - CLSA

Great. All right. Thank you.

Operator

And we'll take a final question, this one from the site of Guy Moszkowski from Autonomous Research. Your line is open.

Guy Moszkowski - Autonomous Research

Good morning.

Brian Moynihan

Good morning.

Guy Moszkowski - Autonomous Research

You guys have done a great job countering the net interest margin pressure obviously with managing your long-term debt down and maybe it's too early to think about this. But obviously under Orderly Liquidation Authority in Dodd-Frank, there is some provision for bailing debt and I was wondering, how you guys are thinking about that and how you might implement it over time?

Brian Moynihan

I think the biggest thing Guy, that you have to go back to is that you have seen that the different reports that it's -- the people are looking at these amounts based on not only the amount of debt but also the amount of equity that you have on the balance sheet.

So if you go and look at our ratios, we obviously as far as the amount of pure common equity and other equity related instruments on the balance sheet now are more than virtually all of our peers and because of the way through the series of mergers that happened, our debt footprint on an absolute basis as well as on a relative basis is higher than our peers.

So as we look at this and as we talk about going forward, I think we still have a lot of work to do and opportunity to get our interest expense down through shrinking the size of the debt footprint and just bringing it down to where the rest of the industry is.

So we can't predict with certainty where this goes but we know as we look at the different ratios and the different metrics, we still have some opportunity to continue to benefit the interest expense line, just to get to where our peers are from an overall debt and equity perspective.

Guy Moszkowski - Autonomous Research

Okay. That's fair. Just one last question regarding expenses, obviously, you've stuck with your guidance on the new BAC and you've told us where you are along the path of getting to those goals. And you've updated us on the LAS expense reduction initiatives as well, but you're also talking about reinvesting and specifically around mortgage origination, but I think more broadly as well because obviously you don't want to ignore revenue growth opportunities. How do we reconcile those things and how much reinvestment at this point should we expect to see of the new BAC $8 billion and of the LAS $10 billion?

Brian Moynihan

On the LAS, I don't think you'd see it. In the new BAC, it's net of the cost of achieving the results, which -- as well as your technology implementation cost and if you look at our technology development costs over the last few years, we've gone from about to $2 billion and change to $3.6 billion per year. And the investments we're making in new BAC are investments in the franchise.

In other words, to get the efficiencies we have re-embedded in there as the rework of our entire trading platform systems and things like that. So, we aren't investing to get the savings, but investing to also strengthen the franchise at the same time. So, it's all netted in there.

Guy Moszkowski - Autonomous Research

Okay. So you would encourage analysts to continue to bring those entire amounts to the bottom line by 2015?

Brian Moynihan

Yeah.

Guy Moszkowski - Autonomous Research

Okay. That's great. Thank you.

Operator

And this concludes our Q&A. I will go back to our presenters for any closing remarks.

Brian Moynihan

Thank you for your time and attention. Look forward to next quarter.