Operator

Good day, and welcome to today's program. [Operator Instructions] Please note this call is being recorded [Operator Instructions]. It is now my pleasure to turn the conference over to Mr. Kevin Stitt. Please go ahead, sir.

Kevin Stitt

Good morning. Before Brian Moynihan and Bruce Thompson begin their comments, let me remind you that this presentation does contain some forward-looking statements regarding both our financial condition and financial results, and that these statements involve certain risks that may cause actual results in the future to be different from our current expectations. And these factors include, among other things, changes in economic conditions, changes in interest rates, competitive pressures within the financial services industry and legislative or regulatory requirements that may affect our businesses. And 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. Now before I turn it over to Bruce, I just want to make a few comments about the quarter. As we discussed on the call on June 29, we announced the settlement on private-label securities litigation. We've been working hard to put large pieces of uncertain risks behind us as a company and where we can do that on the basis reasonable to you as our shareholders.

This quarter, following the actions we took on last year's fourth quarter on the GSEs, in the first quarter on the monolines, we put another significant part of the rep and warrant exposure behind us and other mortgage-related matters. In all, as you can see, from the materials, we took almost $20 billion in charges related to the Mortgage business. That is translated in a $0.90 per share loss in the range we gave you a few weeks ago. Adjusting for the mortgage charges, our earnings were $0.33 a share, that's the high end of the range we gave you in June. Bruce is going to give you more details on those adjustments later on.

Switching to the important question of capital. The work we have done to improve our balance sheet over the last several quarters came through this quarter as, even with the loss, we reported capital ratios, which are stronger than this quarter in 2010. Our Tier 1 common ratio, which we -- was -- which we said at the end of June was coming around 8%, actually came in at 8.23%, higher than we expected, a drop of 20 basis points since the first quarter 2011 but improving since last year. Our tangible common equity ratio, which we estimated at the end of June to be about 5.7%, came in at 5.87%, again, an improvement of what we said.

We achieved the ratios through the continued balance sheet optimization and repair that we've been going through the company over the last several quarters. In all, during the second quarter 2011, our RWA came down over $30 billion. Bruce is going to take you through the actions we completed during the second quarter of 2011 and, more importantly, the actions that are still ahead of us in the quarters ahead, all of which gave us comfort and demonstrate we don't need to raise capital as we continue on our plans to comply with Basel III.

As we look at the business lines and you can see how they perform, this quarter shows the power of the rest of our franchise, which has been covered up by losses in Mortgage. As you can see on Slide 5, you can see the results. Each business line, other than Mortgage, had solid earnings and returns, earning all -- in all over $5.7 billion after tax. The franchise and customer model continues to shine through.

In our Deposits business, we grew deposits. We also grew accounts at 2x the rate we grew them last quarter on net new checking accounts. We paid less for our deposits this quarter on our deposits franchise, and we lowered our cost to operate the franchise in this quarter. The transformation of this business unit continues to go well, and we are growing our fees again, offsetting the overdraft regulations that came through last year.

In our Card business, we had strong performance aided by the credit provision released. But we also increased our units in the United States this quarter to over 730,000 new cards. The Durbin will affect this business in subsequent quarters, and Bruce will lay that out later.

In our Global Wealth Investment Management business, we had another solid quarter. We grew long-term assets, grew our advisory team and continue to see strong performance across the franchise.

As we move to the corporate commercial side of our house, we had strong earnings in our Global Commercial Bank as you can see. That's our Middle Market business, led by David Darnell. And we had a good quarter in our global corporate Investment Banking business, which is part of the GBAM, led by Tom -- GBAM unit led by Tom Montag. That serves our larger corporate customers around the world. The deposit and treasury management revenues in these businesses were solid.

The loan growth outside the U.S. is strong, and our investment Banking fees of $1.6 billion plus were one of the best quarters we had in this business, since we came together several quarters ago. Our efforts here also show that our international businesses investments are starting to bear fruit as the revenues outside the United States grew faster than revenues inside the United States.

As we switch our sales and trading portion of the GBAM, Global Banking and Markets business, we had a solid quarter, down from the first quarter of 2011 but up from the second quarter of last year. We made money on 97% of the trading days, even on a choppy market.

Let me switch to 2 other areas of focus, our credit and expenses. On credit, we continue to see improvements in all portfolios, and we still have upside as charge-offs will continue to fall. Delinquencies in all portfolios continue to come down despite the recent backup on some economic and unemployment statistics.

Our -- on expenses, we continue to manage to a flat core expense level that Bruce will show you in a few minutes, if you eliminate the large mortgage onetime charges in the expense base. We've seen our headcount go down slightly this quarter. We continue to invest where we need and have to, in this franchise. Examples are the LAS buildout, the Legacy Asset Services buildout, where we've had to invest to collect the delinquent mortgage loans, but more importantly, on the revenue side, investing in more wealth managers in our Global Wealth and Investment Management business, more FSAs or brokers in our branch and small business lenders in our Deposits business, our international franchise and importantly, a technology investor throughout the franchise.

At the same time, we continue to take out expenses in other areas to help fund these investments. For example, this quarter, our branch count is down 63 from last quarter. Our New BAC projects, which is a company-wide initiative on expenses, will be done this quarter, in the third quarter 2011, for one -- about 1/2 of the company, and we'll give you the results of that in October and show you what we plan to do with the second half of the company during the latter part of this year. Suffice to say, that the work so far has gone well and shows a great opportunity to make our company better and more efficient in the future.

With that, I want to turn it over to Bruce to take you through the quarter.

Bruce Thompson

Great. Thanks, Brian, and good morning. If I could ask you to start with Slide 6. As Brian referenced, during the quarter, on a reported basis, we had a net loss of $8.8 billion or $0.90 a share, and if we adjust that for mortgage-related and other items, we reported net income of $3.7 billion or $0.33 a share.

We've scheduled down at the bottom of the page, the onetime items coming through the P&L. The $15.5 billion of mortgage-related revenue charges is comprised of $14 billion of reps and warrants and $1.5 billion negative valuation effect on our MSR. On the mortgage-related expense items of $2.6 billion, $1.9 billion of that litigation expense and $700 million assessments and waivers. And then we've scheduled out back, on Slide 30, the asset sale gains and other amounts that are comprised of a variety of items.

Before I leave this page, I'd like to touch briefly on taxes. The effective tax rate for the quarter was 39.4%, excluding our goodwill impairment. As you look out and think of the balance of the year, think about the effective tax rate in the 30% area, excluding any unusual adjustments. The other thing I'd call your attention to here is during the third quarter, we will have an $800 million hit to our U.K. deferred tax asset, given the reduction in U.K. taxes that we would expect to be approved during the third quarter.

Turning to Page 7 and looking at the balance sheet. Assets during the quarter were down slightly, while we continue to see growth in the deposits. I'd ask you to spend a minute and focus on risk-weighted assets. Risk-weighted assets were down $40.7 billion for the quarter or 2.8%, which is consistent with our strategy of driving down risk-weighted assets as we look out to the new Basel capital rules. To give you a sense of the magnitude of this reduction, it led to a 23-basis-point benefit to Tier 1 common during the quarter.

As Brian alluded to, Tier 1 common at the end of the quarter was solid at 8.23%, and tangible book value ended the quarter at 12.65% (sic) [$12.65]. From an asset quality and a reserve perspective, ending loan loss reserves after the release were $37.3 billion or 4% of loans and leases in over 1.6x our annualized charge-offs that we saw for the quarter.

On Slide 8, we walk through our net interest income for the quarter. On an FTE basis, net interest income was down roughly $900 million for the quarter. Net interest margin was at 2.5%, which is consistent with our previous guidance where we expected net interest income margin to trough in the 2.5% area.

As you think about the decline in net interest income, it was due to several factors. The first, on the consumer side, lower balances and lower yields. The second, the drop in long-term interest rates had a negative impact on our hedge results, and third, we had lower trading-related revenues.

As you think about our strategy with net interest income and managing OCI risks, we continue to be very focused on keeping the duration in our discretionary portfolio short, as our asset liability management strategy is focused on managing interest rate risk across the company and minimizing higher -- or excuse me, minimizing OCI exposure to the extent we were to have a higher interest rate environment as we move towards Basel.

If we flip to Slide 9 and look at the Deposits business. Net income in the Deposits business was $430 million during the quarter, up $75 million or roughly 21% from the first quarter of 2011. Average deposits were up 2% for the quarter, and net new accounts were positive for the second consecutive quarter. Brian referenced the rates paid on deposits and the cost per dollar of deposit. Rates paid on deposits came down 3 basis points from 32 basis points to 29, and cost per deposit, which we define as noninterest expense over average deposits, came down from 2.6% in the first quarter to 2.44% during the current quarter.

On Slide 10, we walk through our Global Card business, where net income was $2 billion, a $300 million improvement or 17% over the first quarter, as credit improvements more than offset lower net interest income from lower average loans and yields. As we think about volumes, total purchase volume for debit and credit transactions was up seasonally 9% from the first quarter and 6% when we compare it back to the second quarter of 2010. Credit continued to improve significantly as delinquencies improved and U.S. charge-offs declined for the seventh consecutive quarter.

From an average loan and lease perspective, the $5.6 billion decline in average loans from the first quarter was due to higher payments, charge-offs and continued runoff in our noncore credit portfolio. In addition to that reduction, we exited approximately $2 billion in receivables at the end of the quarter, with virtually no income statement effect.

There's been a lot of questions about Durbin out there. If we look at our second quarter results and we look out to the fourth quarter, which will be the quarter in which Durbin is implemented, we would expect a negative $475-million revenue impact from Durbin out in the fourth quarter relative to where we were in this quarter.

On Slide 11, we walk through the Global Wealth and Investment Management business. Net income was $506 million, down $27 million or 5% from the quarter, based on higher expenses from increases in the investment in our Financial Advisors as well as higher credit costs. Revenue for the quarter was nearly flat to record first quarter levels that we saw during the first quarter of '11 as record asset management fees, driven by market and long-term AUM loans, were offset by lower brokerage revenues reflecting lower market activity.

During the quarter, more than 500 Financial Advisors joined the leading advisory force, pushing the total number of FAs to over 16,000 for the first time since the Merrill Lynch merger. Ending loans within the business group for the fifth consecutive quarter and were up $1.6 billion.

Turning to Slide 12, and looking at the Commercial Banking line of business. Net income of $1.4 billion was up $458 million from the first quarter and was at its highest level since the second quarter of 2009. Average deposits grew $6.3 billion or 4% during the quarter, as customers in this line of business continue to remain highly liquid. As we look at average loans, average loans declined $3.1 billion. On the negative, we saw commercial real estate decline by roughly $2.2 billion, which masked the improvement and the increase in average loans that we saw in commercial industrial loans in our Middle Market business.

Once again, very strong improvement in asset quality within the Commercial Bank. Charge-offs declined $193 million or 38% from the first quarter. Nonperformers declined 11%, and we continued to see very solid performance in credit.

If we move to Page 13 and look at the Global Banking and Markets business, net income for this business was $1.6 billion for the quarter and fell seasonally from -- seasonally by $576 million from the first quarter on lower sales and trading results that were partially offset during the quarter by higher Investment Banking fees.

If we start to look at sales and trading, the revenues for the quarter were $3.8 billion dollars, a $1.1 billion decline from the first quarter, but up approximately $666 million from the second quarter. We've laid out the DVA gains that we saw during the 3 periods on this slide. And I think as you think about this business and think about the second quarter, as far as how we ran the business, its market certainty increased towards the end of the quarter, based on what's going on in Europe, global economic concerns, and quite frankly, the lack of opportunity to make money, we reduced risk at the end of the quarter. From a risk-weighted assets perspective within sales and trading, they declined $37 billion as we reduced legacy assets, exited our proprietary trading business in its entirety and continued to optimize the balance sheet as we look forward to Basel III.

If we move to Investment Banking, Investment Banking revenues of $1.6 billion, excluding any self-led transactions, were a record since the closing of the Merrill Lynch merger, and we saw strong activity across all the Investment Banking products.

If we move to Corporate Banking, average loans and leases increased $5.8 billion or approximately 6% from the first quarter, as we saw strong growth in our international commercial loans and trade finance, which is consistent with what we've spoken about before as we made investments internationally in 2010 and they've started to bear fruit in 2011.

The next 3 slides, we're going to touch on are Consumer Real Estate Services. On a consolidated basis, you can see this segment reported a $14.5 billion loss. If we adjust out all of the onetime items that I talked about at the beginning of the call, net loss for the quarter was $954 million versus the $399 million that we saw during the first quarter of '11. The adjusted loss of $555-million delta occurred as the revenue was impacted by the sale of Balboa, which closed on June 1, as well as higher operating costs within the Legacy Asset Services area.

I would also highlight during the quarter, the MSR decreased by $2.9 billion from $15.3 billion to $12.4 billion. And as we look at the cap rate on that MSR, it was at 78 basis points at the end of the second quarter versus 95 basis points at the end of the first quarter.

On Slide 15, we look at the Home Loans business, which is the ongoing mortgage operation within our bank. You can see that net income for the quarter was $531 million. If we back out the gain on Balboa, it was $86 million, up slightly from the $77 million in the first quarter. Revenue in the quarter was helped by higher lock revenue that resulted from deliberate pricing actions that we took, as well as favorable channel mix, and was offset by lower production volumes.

On Page 16 we look at the Legacy Asset Servicing business, which you'll recall is the business where we move a bucket of loans that are either significantly delinquent loans or products that we no longer are interested in participating in, you can see, once we adjust out the onetimers here, the net loss for the quarter was $1.4 billion compared to roughly $800 million during the first quarter. The 2 principal reasons for the increased loss was the result of increased costs from staffing levels within the business, as well as an increase in provision.

As you monitor the progress in this business, this is obviously a discrete portfolio, where we're both trying to work down the number of loans in the portfolio, as well as reduce the number of delinquent loans in the portfolio. And if you look in the bottom left-hand corner, you can see we made very good progress during the quarter. Number of loans serviced was down about

3.3%, and the number of 60 days -- number of loans 60 days delinquent in the portfolio was down roughly 5%.

On Page 17, we look at All Other, which is a net loss of $216 million. That's the result of elevated credit cost related to valuation refreshes on our consumer loans, as well as lower revenues. As you look at the revenue line item for the quarter, 3 types of items that affected revenue for the quarter. We had roughly a $200 million FVO adjustment on our structured notes, $831 million of gains on debt securities and about $1.1 billion of equity investment income that was comprised of the dividends from our CCB investment, the gain on the disposition of the balance of our BlackRock interest, partially offset by $500 million impairment on a strategic equity investment.

During his opening remarks, Brian touched on expenses. We've laid those out here. First, I'd like to say a couple of things. If we exclude these selected items, which we detailed elsewhere in this presentation, the reported $22.9 billion of expenses was $17.7 billion in line with the first quarter and relatively flat with the fourth quarter. Expenses related to increased servicing cost in our Mortgage business, as well as the additional client-facing professionals that we've talked about in this presentation, were offset by reduced personnel in various other areas of the company.

We referenced New BAC. In May, we initiated New BAC, which is an intensive effort on our part to create greater efficiency throughout the organization. We're currently identifying ideas and action plans, and we intend to begin implementing those as we get closer to the end of the year. While I know you want us to identify some potential benefits to the bottom line, all I can say at this time is we're very focused on expenses, and we'll update you on the progress as we meet certain milestones.

The next couple of slides, I'm going to talk briefly about credit trends, which continued to be quite strong. On Slide 19, we look at consumer credit trends. You can see net charge-offs, delinquencies and nonperformers continue to improve, and the total provision expense for the quarter for our consumer loan portfolios was $3.8 billion, which is comprised of $5.2 billion of charge-offs and a reserve reduction of $1.4 billion.

On Slide 20, we look at mortgage and home equity delinquencies. What I would highlight here, as you can see, delinquencies peaked in the second quarter of 2009, and we've seen 5 quarters of continued reductions in those delinquencies through the second quarter of 2011.

On Slide 21, we look at nonperforming assets within our residential Mortgage and Home Equity books. You can see that during the second quarter of 2011, both less than 180 day, as well as greater than 180-day delinquencies, improved in both residential mortgage and home equity.

With that being said, I'd make 2 additional points. The first charge-offs do remain elevated due to refreshed valuation losses, even though the frequency of loss continues to improve. The second thing I would note is that we've started to see the greater than 180-day backlog decline as foreclosure activity has started, particularly in most nonjudicial states.

On Slide 22, we talked about home price impact on the call on June 29. We said we'd give you some greater color on that, and what we've laid out here are those portfolios that are most subject to immediate changes in home prices. As you think about home prices in our assumptions, once again, we look at macro markets. Currently, our assumptions are very much in line with those. We expect a little bit north of a 3% decline in home prices in 2011 and a 1% increase in 2012, largely during the second half.

As you think about the individual portfolios that are affected by home prices, we have roughly $40 billion of portfolios that are directly affected, $13 billion of nonperforming loans that are more than 180 days past due that have been written down to net realizable value. Given they're at net realizable value, every 1% decline in home prices will have a correspondingly immediate effect on this portfolio.

Within purchase credit impaired, which is carried at $0.66, we have $27 billion of carrying value. That portfolio, on average, is about 40% delinquent. So as you think about a 1% decline in home prices, it will be immediately affected but not to the entire magnitude of the decline in home prices.

Outside of that which is on our balance sheet, we're affected by home prices in the GSEs. If you think about how we're affected by the GSEs, to the extent home prices go down, it affects the collateral losses which they bear. We obviously share those collateral losses to the extent that we have defects. We currently estimate that about every 1% change in home prices is $125 million relative to the GSEs.

We've not touched on or talked to how changes in home prices can affect our core portfolio, that obviously is something that happens over a period of time, and we provide reserves over and above what our model reserves are, to try to reflect those types of risks that are out there.

On 23, we look at commercial credit trends. Charge-offs declined $180 million in the second quarter of '11, relative to the first quarter. Total provision was a benefit of $523 million and reflected a reserve reduction of $1 billion in the quarter. I would also note, you can see that both nonperformers and reservable credit size declined 11% during the quarter, as corporate credit continued to improve.

Let's now shift from credit to capital. On 24, we've laid out our Basel I Tier 1 common, which Brian alluded to at 8.23%. And as I mentioned earlier, 23 basis points of benefit based on the improvement in risk-weighted assets under Basel I.

On Page 25, which we showed tangible common, which remains very strong at just under 6%, and tangible book value at $12.65 at the end of the quarter.

As we look out at Basel III, we've laid out on Slide 26 the phase-in schedule. What I would say here is we continue to very actively mitigate both the numerator and the denominator effects. As we approach Basel III, we will be well above all of the minimums that are required under Basel, and once again, as we told you at the end of June, we have a goal of 6.75% to 7% of Tier 1 common, as we enter into 2013.

On Slide 27. As we think about Basel mitigation, we show you the different things that we've completed since we became very focused on this at the beginning of 2010. If you look at the bottom left, we talked about the things that we've accomplished during the first half of '11. Risk-weighted assets under Basel I, down by over $60 billion due, in part, to reducing our legacy capital markets, risk exposures. Our MSR, as I referenced, is down $2.5 billion, and we completed asset sale gains, generating $1.3 billion of Tier 1 common gains and reducing risk-weighted assets by $5 billion during the first half of the year.

As we look out at the activities that we're focused on to meet the guidance that we've given at year-end 2012, on the numerator side, under Basel III, we see additional mitigation of $200 billion to $250 billion that will enable us to get to our targeted Basel III risk-weighted assets of $1.8 trillion. The way that we'll get there is to continue to reduce our capital-intensive assets, rebalance our portfolios and optimize our models to be able to get to where we need to for Basel III. We'll also continue to very aggressively, as I talked about in interest rate, to manage the OCI risk associated with our interest -- our net interest income.

The last point here, future mitigation efforts. We've obviously heard the question that's out there: Your 6.75% to 7% at the end '12, where do you go beyond that? As you look to get to the fully phased-in number of 9.5% by the end of '19, even with all of the actions that we've talked about, we have significant additional actions we can take in '13 and beyond. We've laid out 3 portfolios of assets here that we would expect to reduce aggressively. We have a loan run-off portfolio of $70 billion, that we would expect at the end of '12, that runs off by roughly 20% a year. We have a structured credit trading book, that's roughly $30 billion at the end of '12, that will run off over a 5-year period as well. And we have a private equity portfolio that's roughly $50 billion under Basel III, that will be out there at the end of '12, that we'd expect to run off over the several years beyond 2012. In addition to that, you can expect to see us continue to reduce assets in the way that we've done over the course of the last 6 quarters.

If we move now from the denominator to the numerator, 2 things I want to touch on here. The first is the MSR. We referenced that the MSR is $12.5 billion at the end of the second quarter. You can expect to see us taking 2 types of actions with respect to the MSR, going forward, that will benefit the numbers beyond the 6.75% to 7% range I quoted. The first is we're taking a very close look at the types of activities we're originating in servicing. So on the front end, you'll see actions where we look to scale back, that which we put on our books to service. Secondly, we're very focused on looking out and moving MSR assets through sale, in those instances where it makes sense. We had roughly $70 million of gains on MSR sales during the second quarter of this year.

The last thing I want to highlight on the numerator is the deferred tax asset and the multiplier effect with respect to that. As I think everyone knows, the deferred tax asset flows through the Basel calculations in several different ways, depending on whether or not it's an NOL DTA or a timing DTA. As you think about the leverage though and the benefits that we will have from the reductions in DTA through 2012 and significantly but -- beyond, at the end of June, we'll have roughly $30 billion of a net deferred tax asset, roughly 2/3 of that is associated with NOLs and 1/3 is associated with timing. The net effect of that is that we would expect our Tier 1 common to grow at a rate that's above that, which is improved just by the generation of net income.

As we look to wrap up and close, we continue to work very diligently in getting the legacy assets -- or excuse me, the legacy issues, as well as the legacy assets, behind us while we reposition our business for future growth. If you think about the earnings this quarter, they demonstrated that our businesses outside of mortgage are producing attractive returns, even with the headwinds of low interest rates. Deposits continue to grow as we make progress on our customer-focused relationship strategy. Credit quality continues to improve. We have solid capital ratios. Our liquidity position is very strong, and we expect to grow capital going forward. We look at the opportunity each day to make progress, and that's what we are all about.

And with that, let me open it up to questions.

Question-and-Answer Session

Operator

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

Glenn Schorr - Nomura Securities Co. Ltd.

Quickie. I think it's good to see the $200 billion-$250 billion risk-weighted asset reduction expectations. Just curious what you think the revenue or earnings associated with that are?

Bruce Thompson

I think if you look at and you saw the individual books, one of the most significant contributors to that reduction of $200 billion to $250 billion is actually something, over the last several quarters, that we've taken losses on. I think if you think about the structured credit trading book, that's not something where you see significant amounts of income on as well. So think -- the net of it is, while there is some income, there are also certain elements of that, that have been expensive. So we really don't see any material level of impact into the income statement from reducing that $200 billion to $250 billion.

Glenn Schorr - Nomura Securities Co. Ltd.

Not bad. I noticed on one of your first slides that long-term debt was down a bunch. That's in line with I think your previous. So I was just curious on what your refinancing schedule thought process is for the next, say, 6, 12 months. What do you need to fund? What don't you?

Bruce Thompson

Sure. The -- I think as you look out, we obviously put out a 22 months to funding. I think it's important, even though the mortgage settlement is uncertain, that 22 months to funding reflects the payment of the $8.5 billion associated with the mortgage settlement. We don't know exactly when that happens, but we've assumed it will be within the funding window. What you haven't seen here is we -- in addition to taking down debt, we continued to aggressively reduce our short-term debt with the goal of driving our commercial paper balances to 0. And the last comment I would make there is that the reason the balances continue to remain as high as they are is we're pursuing liquidity to be able to pay off the balance of our TLGP debt at the end of June. And as you think about issuances, I would say that we'll continue to be opportunistic as it relates to getting the debt markets, and at the same time, we're being very aggressive in looking to generate liquidity through selling parent company assets.

Operator

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

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

Bruce, how much did the long rates hit the hedge component in 1Q? How much -- in the second quarter, how much did the hedging component hurt NII and NIM? you mentioned that was a factor.

Bruce Thompson

It was about $300 million, John.

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

Okay. So -- and you did use the term trough for the NIM and I guess NII, too. Could you give us your outlook in the near term about where you see the NIM and NII heading?

Bruce Thompson

Sure. I think we would clearly expect -- and let me start with the net interest income. We would clearly expect net interest income, if not at the trough, to clearly be pretty close to that. On the NIM, there are 2 comments that I'd make. The first is the rates that we're seeing with respect to the corporate loans that we've made have not shown any material deterioration, so the yields that we're seeing on the asset side continue to hold up. What I do want to caution you to a little bit is, to the extent that we continue to generate the types of liquidity on the deposit side that we are, NIM will be affected to the extent that, that happens because we're not going to chase long-duration assets that have OCI risk, and we're not going to chase assets that we don't feel comfortable with the credit. So realize that, that margin may jump around a little bit, depending on exactly how strong our deposit growth is.

Brian Moynihan

And, John, that -- we've been consistent for several quarters, and we actually, the last couple of quarters, did better than we thought on our reported basis in the net interest income line. But we still stay consistent where we've been at the -- at troughs in the second quarter, third quarter this year, and then it ought to come out from there.

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

That's the net interest income, Brian, you said, troughs.

Brian Moynihan

Yes. The dollars that Bruce talked about.

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

And in NIM, Bruce, your answer there, to summarize on, the NIM percentage could bounce around either way, give or take, depending on what happens in liquidity?

Bruce Thompson

I think that's fair. And once again, it's going to be a function of liquidity versus the assets that are available, but we're going to be very sensitive to both OCI risk and credit risk with respect to that.

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

Okay. So then on Basel III and, Brian, a question about the capital raise. You've consistently stated you don't need to raise capital. Could you again just kind of walk through your reasoning on that? Is that because you've gotten a sense from regulators that a Basel III fast forward is not going to happen and that you'll be allowed to meet the requirements as they're actually phased in?

Brian Moynihan

Right. I think that the sense we get from the world regulatory community is that they've phased in, with the phase in, and put in purposely when it will be put and install. But importantly, I think -- what I think, John, we got a lot of people focused on was from here to 2012. And what I think Bruce was trying to add earlier is beyond '12, there's significant mitigation, both on the numerator and denominator side. So a lot of discussion about how you get from the 7% level to the 9.5% over that course of the 5, 6 years, people -- the pace at which you move in the first couple of years of that is high, because the amount of numerator improve when you get to the DTAs and other things. So what we try to do to today is to show you that. But I think -- we believe that we can get to the 7 -- 6½ -- 6.75% to 7%, we said, by year-end '12, continue to improve well beyond that. And that takes into account us continuing to make the great improvements and the optimization on both the RWA side and numerator. And so I -- everything we hear is that's consistent with where we need to go. The sheer amount of capital we have, if you just step back and think about it, and compare to where we were 12 months ago or 24 months ago is quite high, including both on the ratio side and raw dollars. So we continue to make improvements. It make us feel comfortable. And we got to continue to show you that bridge each quarter as we execute.

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

So there's no pressure to raise capital from regulatory side of things?

Brian Moynihan

No.

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

Okay. And then, Bruce, on the January 1, 2013, 7% goal. That's assuming you're hitting yourself on the numerator deductions there, right? If you didn't have the numerator deductions, because those don't start till 2014, do you have a sense of what your Basel III actual number would be as reported and required on January 1, 2013?

Bruce Thompson

I would think about that number, John, as being well above 8%.

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

Right. And that's what you'd actually be reporting when it starts, right?

Bruce Thompson

That's correct.

Brian Moynihan

Right. There'd be no numerator deductions. The way to think about it is that, each year, as the numerator's deductions are coming in over the pace beginning in '14 and beyond, we'll make numerator improvement before that. And so that's a fully front loaded as if it were 1/1/'19 number, this 6.75% and 7.5%.

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

So why you're showing us this lower one of 6.75% to 7%, just because the market is asking for it, or regulators haven't asked you to fast forward that, you're just doing it to show a more conservative number?

Brian Moynihan

I think we all basically said if we show you that number, that shows you there's -- you don't have to wait for it to come in. And I think that's the -- the goal there is our peers have all been showing it to you, we've been showing it to you, so we'll continue to show that. But I think as we move through each period, the reported number will be much higher than that, and that's what you pointed out. So it's not a question of capital adequacy under any standard that we measure, because remember the standard at the end of '12 is 3.5%. So if you think about that in our context, you have $100 billion of capital more than the minimum. So it's not a question of capital adequacy. We're doing it to show you what the fully phased-in number is, so you could compare it against other people.

Operator

And we'll take our next question from Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley

Follow-up question on capital. So risk-weighted assets came down under Basel I by about $40 billion in the quarter. What was the effective Basel III RWA decline?

Bruce Thompson

We don't have an exact number on that Betsy. What I would say is that in almost all cases, the Basel III number is going to be higher than the Basel I number but we don't have that exact number.

Betsy Graseck - Morgan Stanley

Okay. Because it just looks like your $200 billion to $250 billion RWAs under Basel III, on a quarterly basis, runs -- comes out at roughly the same amount so.

Bruce Thompson

Yes. There are some fundamental steps to that, Betsy, in terms of the -- think it's going from 1% to 2.5% to 3% in the optimization around model developments and way that works on the trading books. So it will not be as ratable as you may be by dividing it out, but it -- but the math works. It'll come in bigger chunks, I think, frankly over the next couple, 3 quarters as we get these models fully implemented and optimized.

Betsy Graseck - Morgan Stanley

Okay. So it's back-end loaded, not front-end loaded.

Brian Moynihan

No, it's more front-end loaded .It'll come a little quicker in the latter part of this year and early part of next year as the models get implemented, and then it'll slow down, just look around at what we're doing on the asset side.

Betsy Graseck - Morgan Stanley

And then in the first half of '11, obviously you had some asset sales and then you've got your 6.75% to 7% goal by the end of 2012, but I don't see any assets sales in this bucket that you've identified. So you then -- you've got future mitigation goals where you've got continued asset sales. So you're just suggesting that if you did assets sales between now and 2012, recognize some gains, that would ain't be incremental to the 6.75% to 7%?

Bruce Thompson

That's correct.

Betsy Graseck - Morgan Stanley

Okay. Because you obviously have the opportunity to make some asset sales in the next quarter. I mean, people have been -- and then you're not going to comment on what you're planning on doing. But if you were to sell anything you would -- obviously, that would be incremental. Okay.

Bruce Thompson

If we sell assets, it'd be incremental.

Betsy Graseck - Morgan Stanley

Okay. And then can you just give us this -- I know you can't talk specifically about the mortgage foreclosure settlement, but maybe you can give us a sense as to where you think it is relative to a final conclusion. Are we likely to get a settlement here in the next quarter or so, or is it still touch and go and who knows?

Bruce Thompson

What I would say there, Betsy, is that, I think, as you all read about, this is something that's very fluid and continues to move around. What I would say is that I think everyone realizes it would be a good thing to get this wrapped up, so that people can move forward. There are obviously a lot of people that are involved with this that need to get to the same place. What I would say from a financial impact perspective, as we look out at and as we understand what's out there with -- kind of ask you to think about 1 or 2 things. The first is that during the second quarter, as we mentioned at the end of June, we did provide some litigations, litigation reserves, during the second quarter to be able to help address any cash-type penalties that would come out of that. And beyond that, we believe that we've got reserves that we can direct towards some of the settlements, and we just won't really know the exact amount of that until this is finalized and we see if everyone can get to a common place.

Betsy Graseck - Morgan Stanley

Is there an opportunity for potentially you to settle outside of the whole industry?

Bruce Thompson

I'm sorry?

Betsy Graseck - Morgan Stanley

Is there any opportunity for you to settle outside of the whole industry?

Brian Moynihan

I wouldn't comment on litigation strategy at this point, Betsy. But I think Bruce gave you a sense of what we're trying to accomplish over there [ph].

Betsy Graseck - Morgan Stanley

Okay. And then lastly on the settlement that you did announce with the consortium. Clearly, the market's seeing some dissents coming in. Did you expect them? How do you plan to deal with that? And then lastly, did you get an IRS opinion on the settlement before you announced it, i.e is it going to be -- do you expect it will be deemed to be handled within the REMIC structure of the trust?

Bruce Thompson

Okay. If you look at the agreement, we did not get an IRS opinion before the deal was announced. The deal is obviously subject to that, and we have no reason to believe that we wouldn't get that opinion. As it relates to the reaction from holders, I think when we were on the call on the 29th -- this is obviously a unique structure. The types of challenges and the like that we've seen with -- that are out there were clearly expected by both the Gibbs & Bruns group, as well as ourselves. And the other thing that you've probably seen out there is the work that was done and released that the -- from the trustee and all of the experts that opined and spoke to the work that they've done. So I think -- the only thing that we'd say is that we obviously did a lot of work and had a lot of smart people around it. The investor group did the same, as did the trustee. There's a court date that's been set out there for November, and we'll continue to see how it progresses forward.

Operator

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

Paul Miller - FBR Capital Markets & Co.

Hey, Brian, going back to the first question on the revenue impact of shrinking the risk-weighted assets. On a separate Investor Day, you talked about a normalized number but you couldn't give us -- you couldn't tell us when we're going to get there, and that normalized number is roughly in that $200 billion to $250 billion range. Do you have any update to that normalized number guidance, or are you just don't really feel that it's a -- that this lower risk-weighted assets will have a meaningful impact on those numbers neither?

Brian Moynihan

When we gave you those numbers, we had in it the mitigation, that Bruce described earlier on the risk-weighted assets. As far as an update, if you think about -- let's just use in the PPNR guidance that we gave you, if you look at what we did this quarter, at the time we told you out in more normalized environment, we'd be $45 billion to $50 billion, $30 billion from the core businesses and 15 from card, this quarter, we did about $14 billion plus from card, which leaves we needed to do obviously around $30 billion, $31 billion from the rest. We did about $20-odd billion from the rest of the businesses, leaves us about $8 billion short. If you think about how we make that up, there's really 2 major components. One is as we said at that day and, Paul, you're well familiar with, as rates rise, the benefits of the deposit franchise become a lot more lucrative, and then net interest margin will expand back out. That ought to be worth $3 billion, sort of annually. And then on the cost side, in the PPNR number that of $8.5 billion -- $8.7 billion this quarter is still the operating costs for all the mortgage legacy assets, which -- and also the elevated costs we're working on our New BAC project. The operating cost, as you saw on one of the slides Bruce has, is about $1.7 billion, $1.8 billion for Legacy Assets Servicing just this quarter. That will drop $1 billion plus a quarter easily, and then the rest of the cost will come through. So I think we could -- we'll still see that when you put that together, sort of $14 billion-ish, $14.5 billion on card, plus the need to get the $30 billion on the rest of it, to get to the level we talked about. But if you look at the shortfall, there's really 2 major components, getting it to work on the cost side and the net interest margin expansion when rates rise. And you put all it against that, then we're obviously projecting more normalize time at little better economy than the growth rates we're seeing now in the GDP. So we still feel comfortable with that guidance, and we still are working towards that and making all the preparations. The RWA optimization was factored into our thinking there, and the reality of that RWA optimization is it's along a bunch of assets that are not core to what we do as a company. And it's something like the structured credit trading book is not a business that we continue to do in a way that was done at the -- in the '07, '08 timeframe but takes till '13, '14, '15 for it to run off. So as you think about that, I think we're comfortable that -- we are comfortable with the projections that we gave then, and I just try to give you a little insights on the PPNR, for example, the $45 billion to $50 billion, how do we get back in that range.

Operator

We'll go next to the side of Matthew O'Connor with Deutsche Bank.

Matthew O'Connor - Deutsche Bank AG

Question on expenses. You just gave us a little commentary in terms of what might be coming down and the magnitude, but obviously the cost savings opportunity seems quite large. There has been some talk about reducing the branches by about 10%. At the end of this year, when you're done with your internal work, are you going to present to the Street kind of total cost-savings program in terms of dollars and more backup detail?

Brian Moynihan

Well, yes. In the third quarter call, because we'll finish the work during the third quarter, we will have the work that's really on -- think of all the consumer businesses and all the centralized groups that we've done. And then in the third quarter, we start with the G1 Global Commercial Banking business and good GBAM business, and we split in half just because of the size of our company and the amount of work. So we will give you that in the third quarter. And we're deep into it now. We've been seeing all the ideas. We've had the steering committee meetings and going through it, and we're very confident, as I said earlier, that it'll provide great benefits to the company.

Matthew O'Connor - Deutsche Bank AG

And then as you go through initiatives, such as this, the size of the opportunity, what type of macro backdrop do you try and keep in mind? I mean, obviously, there's a lot of moving pieces on the capital markets, on the rate environment. Do you have kind of a base case that you try and manage for and then provide some flexibility up and down?

Brian Moynihan

Yes. We obviously do. If you think about how we manage the money -- the company across the last several quarters, the environment we've managed into is to try to figure out how to keep the -- leave aside the quarterly expense or my company assessments or things which are more volatile that are hard to predict. But the core operating expenses, core headcount, we've been managing it to try to make sure as we deployed assets in places we wanted and we were taking them out of other areas to fund it, and so we've been running at about that level. I'd say that longer term, I hope your expectation -- our expectation is the economy will grow faster but the backdrop of this is a -- an economy growth moving towards trend over the next couple of years, not at trend tomorrow. So it's a modest growth environment that the economy keeps grinding along and grinding along and -- but doesn't improve dramatically in the short term, but improves over time.

Matthew O'Connor - Deutsche Bank AG

Okay, and then separately I think you've addressed most of the capital questions out there. But just to clarify, the targeted capital ratio at the end of next year, that would not include any potential gains from CCB. But what about additional private label losses of up to $5 billion? You've talked about the state attorney general settlement. Have you factored any of the mortgage hits as well?

Brian Moynihan

We -- the -- well, the question that Betsy had is what you have in asset sales and things like that. So I think in embedded in there are our estimates for ongoing costs of litigation and things, like normal run rate cost of what our earnings would be over the next quarter. So it's all in there, and when we factor that all, then we get to 6.75% to 7%. And I'd be careful about trying to pluck any piece out and say this piece is in, this piece is in, but it's -- we factored it all in, in terms of our expectations of when litigation costs will come or when asset sales, that Betsy talked about, will take place, if any, and how it'll affect it. So it's in our estimates, and we'll tell you that -- we'll give you a quarterly report on how we're improving them and the progress we're making.

Matthew O'Connor - Deutsche Bank AG

Okay. So just to be clear, that's an all-in number, including both potential ongoing mortgage costs, as well as opportunities to take gains.

Brian Moynihan

In the -- in earnings of franchise and things like that. And then what we're trying to be clear with you is from '12 out -- and I think because we had such focus on now through '12 because at the time - we spent a lot of time on this early this year was before the SIFI buffer, et cetera. So SIFI city buffer came in, but we want to make sure that you're seeing is the opportunities from '13, '14 and out, through numerator optimization and denominator work, that will help drive us to the next level. So from now to '12, it's -- it factors in all of the things you just -- we just talked about.

Operator

We'll take our next question from Mike Mayo with CLSA.

Michael Mayo - Credit Agricole Securities (USA) Inc.

Just staying on the capital issue. I guess the other potential events that could cause a capital raise would relate to funding or rating agencies or CDS spreads. What are you seeing from those areas? I mean, I guess CDS spreads are a fraction of where they were at the crisis peak but they're up from the low. If rating agencies threaten a downgrade, might you have to raise capital? And what I'm really getting to and you talked a lot about it already, Brian, is just what's your level of conviction that you don't need to raise capital?

Brian Moynihan

I'll start. The level of conviction is, given the economic scenarios, which are moving along but at a very slow, steady -- slow pace, is that we don't see it. From a funding perspective, I think if you look, Bruce mentioned earlier and I'll let him touch on it, that we have driven down short-term funds to a very small amount. Our plan is to take it really down next to 0. We've built up tremendous liquidity. We've -- the ratings of the banks and the broker-dealer are separate. We can continue to operate the business as if between all the things going on around the world, that you could see disruptions in the markets, and we continue to watch that carefully. So, Bruce, you want to?

Bruce Thompson

Yes, and I would just add, Mike. I mean, a couple of things. We obviously continue to work with the rating agencies very closely. I think if you look out at S&P, you can see that we had them take a look at the broker-dealer, both Pierce, Fenner & Smith, as well as MLI, and they actually notched the broker-dealer up. So we felt good about that rating. And the other thing I'd say as it relates to access to capital, we obviously put the news of the settlement and released the guidance at the end of June, and we went out and raised $2.5 billion in the fixed-income markets at the beginning of July at attractive rates. So we're very sensitive with the rating agencies. We continue to work with them closely, and we continue to be opportunistic as it relates to accessing the markets.

Michael Mayo - Credit Agricole Securities (USA) Inc.

What about your exposure to the countries in Europe, the PIIGS countries? What's your net exposure? What's your gross exposure?

Bruce Thompson

Yes. If you look out at -- in the supplement, we put some information out there. And you can see that the number that we have out there is $16.7 billion. As you think about that $16.7 billion realized, it's been reduced by roughly $1.1 billion due to hedges. Outside of that $16.7 billion that was reduced by $1.1 billion of hedges, we have additional protection that's not factored into that number, roughly $1.3 billion -- or excuse me, $1.7 billion of CVAs hedges and an additional $3 billion of single-named hedges that we've not reduced those numbers by. So we were active and early in getting after this exposure, starting in the first quarter of 2010. We've laid out the exposure with the caveats that I've just mentioned. And while we're very focused and vigilant in watching it and trying to think through what the spillover effects could be, as we sit here today, we feel very good about where the exposure is.

Michael Mayo - Credit Agricole Securities (USA) Inc.

I mean, how much could you lose if things go worse in Europe, which could, in turn, potentially lead to a capital raise? I'm asking you.

Bruce Thompson

Yes. I think what you have to think through as you think through the exposure, there's 3 different kinds of buckets of exposure that we have within the region. The first is the corporate loan book. And what I would say is that if you look at the corporate loan book, it is largely to large, multinational global-leading companies and to the extent that the amounts are above house guidelines, in many cases, like I said, we buy protection. So the corporate loan book, we feel very good about. If you look at the liquid-traded book, we only have one country where we have any meaningful level of sovereign exposure, and we have protection that largely offsets that. And then we have a securities book that's mark-to-market that we mark every day. So as we look at any meaningful level of losses from where we sit today, we just don't see it, and clearly, we don't see it wherever it lead to there being any kind of capital event.

Michael Mayo - Credit Agricole Securities (USA) Inc.

And then last follow-up for Brian again. Brian, I think what -- I heard you just say, we don't see it in this economic scenario. And if you can provide any more confidence, because at the start of the year, where -- are you considering the possibility of a dividend increase by the end of the year? And now, several investors have asked about the idea of a potential capital raise. We've kind of gone full circle here. So just your level of conviction? Can you provide any more comfort -- do you have more confidential information than any of us to have on the call?

Brian Moynihan

Well, we've given you the improvements we've made in the capital. And even with the sizable $20 billion charge this quarter, that impacted 20 basis points. So our economic scenario is posted -- is out there. The scenario that we used to plan against this is the one you see out in the domain, which is modest growth, and we don't see anything in that. The challenges we have reserved -- the difference between now and a couple of years ago when people worried about deterioration in the economy, when employment obviously rose and think about the reserve levels we have, think about the improvements in the portfolios that we have made across that. So when -- there's lot of discussion about future home risk, there-- risk the charge-offs in -- our mortgage portfolios combined between home equity and first residential. $2.5 billion off that quarter is still an unacceptable level. But they're down from the peak even while housing prices actually have deteriorated from the time they peak, because the quality of the portfolios and the quality of borrowers in the portfolios is different than it was. So that gives us good step between reserves, the capital we built in the quality portfolios to hold us against economic times, which are going to bounce around, and that's what we've done. So you see this quarter, with a charge of $20 billion, we took a 20 basis point hit to ratios and plowed through it.

Operator

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

Moshe Orenbuch - Crédit Suisse AG

Maybe -- I don't know if you could flesh out the answer a little more, as to how you are confident that this quarter or the third quarter, the trough in net interest income, and what things would kind of lead you to think that, that number turns around and starts to grow?

Bruce Thompson

A couple of things. As I'd say -- if you think about the quarter and what we absorbed, it was obviously a fairly significant negative effect on hedge income, and we clearly would not expect that to happen again, given how flat the yield curve is as we look out there. The second thing that I would say is that we had some runoffs in the corporate book during the second quarter that we wouldn't expect to see again. So I think as we look at the number, absent some meaningful change in the rate environment, when we look at both the assets that we have, as well as the rates that are applied against them, I think that the -- we feel pretty good that we're pretty close to the trough as it relates to net interest income.

Moshe Orenbuch - Crédit Suisse AG

And, Bruce, in that $300 million that you identified in the hedging, does that come back, or is that the absence of a negative in the future?

Bruce Thompson

I don't want to speculate if it comes back or it doesn't, but I think you know during the first quarter, we had some benefits from hedging. So the number bounces around, but I just want to reiterate that the reason it's there is because we're very sensitive to OCI risk and making sure that as we go out towards Basel III, that we don't have any negative effects from OCI.

Brian Moynihan

But I think if you think about it more broadly, the -- what's been going on in the last many quarters that we've been trying to make sure people saw is that as you've ran off some high-yielding assets, which don't have a net profit contribution because the charge-off exceeded yield and that keeps running down, that was hurting us. And then what we -- and the offsets that were grinding down your debt cost and your deposit cost. The issue now is that the core loan growth is still -- is modest and even backing out the runoff portfolios, just because the economic activity is not that strong. So that is -- that helps and that we're seeing that activity be a little stronger than it was several quarters ago, but it's bumping along the deposits. So we continue to drive down deposit costs and OEM costs of debt by paying off the term debt, as someone mentioned earlier. So we'll be grinding at this. So the assumption is as we trough out here, it'll continue for a while. It's not going to leap right back up. So we want to make sure that you guys see it, but it's in line with what we've been predicting for 6 quarters, that this would be the place where we'd sort of see it bottom out. But long term, it'll -- we'll have to grind from here, on both the liability pricing side, the debt cost side and also, you grind out loan growth slowly but surely.

Moshe Orenbuch - Crédit Suisse AG

Yes. And a separate but somewhat related issue. As you mentioned, $475 million a quarter of impact from Durbin. Obviously, that's less than you thought before potentially. But can you talk a little bit about your strategies to mitigate that from both from a product and pricing standpoint?

Brian Moynihan

Sure. I think -- usually, Durbin gets caught with all the other changes that have gone on, as opposed to any of them going back, what seems like a long time ago, to CARD Act and then Reg E and Durbin and all the pieces. So we're on the consumer business. So how do -- how are we mitigating the activity. If you look what we've been doing as the new account structure has now been rolled out in 3 states for new accounts and then now for all accounts and they're converting the account, that is all going very well. So we'd expect that conversion to take place during 2012. And what that does is institute some monthly fees and other ways customers can pay us, away from overdrafts or, frankly, devalue the interchange in Durbin. And so the pricing structure that is set, will be set -- is set and will be set to generate the activity. The good news is that -- reasonably good news is that where we ended up in Durbin is a place where we continue to drive debit usage. And as you can see from the statistics on the -- on the Card page, you can see the payments made through plastic, and our franchise continue to grow 5%, 6% a year. You take out the gas prices, it's 4% to 5% a year. Gas price contribute 1.5% to 2% of that. So we will continue to drive the usage of that, which continue to drive the revenue up from a level after the Durbin takes it away. So it's the account structure. It's the pricing within that monthly accounts. It's the charges that you've seen some of us put in across the last several months to make up for some of the fee loss. But the real benefits that come -- really as we convert the entire account base to new structure in '12 and into '13, and the benefits come in '13 after you're done with the conversions. And think about this, this is all 30 million checking holders going through a conversion or franchise, so it's a large conversion and will take place after we finished migrating the deposit platforms together. So it's going well. It's having intended outcome, both from a dollars and cents basis but also from a customer behaviors basis, and we'll continue to drive that. That all being said, the other way that we'll get paid is to have to maintain discipline deposit pricing, as short-term rates rise at some -- as the economy improves and that will be credit for us to do. You've seen our ability to continue to take down deposit pricing and grow deposits and the competitor for customer's deposit money won't be competitive until short-term rates rise quite a bit. And so if we maintain a deposit price, another way to make up for that cost.

Operator

And we'll go next to Ed Najarian with ISI Group.

Ed Najarian - ISI Group Inc.

Most of my questions were answered, but I have one specific question for Bruce. It's a bit detailed. And if you look on Page 10 of the supplement, which is the liability side of the average balance sheet, I'm focused in on your cost of federal funds purchased, securities loaned or sold under agreements of repurchase. That cost this quarter was 159 basis points, up from 129 basis points last quarter and 79 basis points a year ago, and I'm comparing that to other banks. I just compared that to J.P. Morgan, for example. A year ago, you actually borrowed on that line for 5 basis points less than J.P. Morgan did at 79 basis points versus their 84 basis points. A quarter ago, you borrowed for 20 basis points more at 129 versus their 109. Now you're borrowing for 49 basis points more. Is there something going on in terms of your ability to borrow in the wholesale markets and that cost rising more rapidly than peers? Or why, in your opinion, has this line item, which is pretty substantial at $338 billion, grown, from a borrowing cost perspective, so much more rapidly than peers?

Bruce Thompson

Yes, I think we can get back to you with the exact numbers. I believe, Ed, that there's a couple of things going on within the numbers. The first is that some of the hedges are directed towards that. So as we talked about some of the hedge income and the ineffectiveness, you'll see some of that there. The second thing is we looked out at and we've talked about we're extending within some of our repo books, extending the maturities on those repo books as we go forward. And the third thing is, and we can get you the exact number, is that during the second quarter, within the Markets business, is we borrow in Europe for dividend stocks. Given that the dividends in Europe are paid in the second quarter, the borrowing cost typically blips up a little bit in the second quarter for that. So we can get you the exact numbers, but I think those are the 3 things that would contribute to that number.

Ed Najarian - ISI Group Inc.

I mean, as I just sort of look at and do net interest margin math, this looks -- this increase looks like something that had a -- it was part of the negative impact. Is this a number you expect to stabilize or come down in future quarters? Or would this trend of rising continue to happen?

Bruce Thompson

I think if you think about the 3 things that I've given you, we are going to continue to extend repo. So that piece of it you'd expect. Clearly, with respect to the European stocks, that's a seasonal thing in the second quarter, as well as the hedging effectiveness. We would hope that those wouldn't continue. So I think, to answer your question, one, probably does; 2, don't.

Operator

And we'll go next to Nancy Bush with NAB Research.

Nancy Bush - NAB Research

Two questions for you. First, on the Commercial Bank. I think you said that CRE declined by about $2.2 billion, and then you had some loan growth in Middle Market C&I. Has the Middle Market C&I loan growth continued as we've gone into the third quarter here? And was the CRE runoff planned or unplanned?

Bruce Thompson

Start with the Commercial Real Estate. I think the -- given both the capital markets as the -- as well as the refinancing markets, I would say part of the real estate was planned and part of it, quite frankly, were assets that were either criticized or nonperformers coming off the books. So as we look at that Commercial Real Estate number, we obviously don't like to see loans going down at the same time that there was some stuff that you would have wanted to come off. And we feel very good about where the Commercial Real Estate portfolio is now and, quite frankly, are trying to figure out places to do more commercial real estate where it makes sense. With respect to the C&I portfolio within the Middle Market, that's about $37 billion of the overall Commercial Banking portfolio. And if you go back and look at that since the second quarter of last year, that portfolio is up about 10%, and that really is the core guts of the client base that we're very focused on within the Commercial Bank.

Nancy Bush - NAB Research

I guess the sort of the root of my question is the companies that we've seen report, thus far, are sort of reporting the glimmers of commercial beginning, commercial loan growth. And I just wanted to see if that was your experience as well or if you can just give us sort of an overall view of where -- whether we're at a growth inflection point yet?

Brian Moynihan

I'd say, Nancy, as you came through the -- from the end of last year and the first part of this year, you were seeing David Darnell would say the core Middle Market book, the customers were more -- were optimistic, and they were starting to grow a little bit. I think that sort of flattened out a little bit, so there's still some growth as we pointed out here. But if you look at the utilization rates and stuff, they've now stabilized. Again, they were at a low probably 31% or 32%. They're sort of in the 34.5% to 30% range. They would be in a 43% range in normalized times. Now people have excess cash, but I'd say that as we've gone through the year this year, I think that people who are less aggressive -- our clients are less aggressive in the core broad middle market spectrum than they were earlier this year, but the loan balances are holding in and growing slightly.

Nancy Bush - NAB Research

Yes. Brian, and I just have one final question for you. We've been getting several articles lately about what seems to be a prominent change in the attitude toward homeownership in the U.S., want to get your opinion on that. And also, just when all is said and done here and whatever year that may happen, how do you see the mortgage business as a contributor to the bottom line at BAC?

Brian Moynihan

Let me go to the second one first -- Nancy, because I think it kind of answers the first one in some respects. Leave aside the exact dollars and cents, but the way we see the Mortgage business and our company going forward is we have 50 million consumer households, 30 million have their core banking checking accounts with us, et cetera, our job is to provide mortgage products to not only our general customers in our Retail and Preferred segment, but also our both -- well, Global Wealth Management customers in a very strong, very focused and very -- in a very fair way. And that's what we're going to drive to and that's what you expect to see in our Mortgage business going forward. I think the idea of being in a stand-alone context, where we had a wholesale business, for example, a broker-driven business. We've gotten out of the -- reverse mortgage, we've gotten out of. We continue to shape our yield what the correspondent business looks like.

But a -- the business that will be in, it will be a strong direct to consumer -- direct-to-retail, direct-to-the-consumer mortgage business, and that's where we're moving Barbara and the team and moving the business to. That actually fits into the capital demands of MSR and other things, as you could well figure out. So that's how we're going to run the business for the benefit of our customers, as if -- as the same way we're running all our business, making sure every ounce of our capital is used to support the core customer base and, frankly, to do the mortgage product very well for that customer base. When you back into the broader context, I think the homeownership discussion is a policy discussion I'd leave to policymakers. But as you look at our customers and listen to them and watch what they've gone through, I think that the people in the world, my children's age, are going to think differently about homeownership, in terms of the value of it and how it factors into their thinking, because of what they've seen going on around them. And I think that that's just the reality where we're in. Doesn't mean it's good or bad, it's just the reality. And I think with the population growth dynamics and things like that in the United States, I think that that's going to be the reality of a more sober society on this. And I think our jobs are to buy products into that and help people become homeowners, because it's ultimately something they may aspire to, but do it the right way.

Operator

And due to the time, we will take our final question from Chris Kotowski with Oppenheimer.

Christoph Kotowski - Oppenheimer & Co. Inc.

Yes. When you look at the trading results on Page 26 of the supplement, it looks like your total trading profits this quarter were almost exactly in line with the trailing 4 quarter average. And so I'm curious -- what you're -- is this the new normal, or do you still view this as a depressed trading environment? And then what's the outlook for this business? And if the revenues remain at this level that they've been in, is the expense side of that business properly structured then?

Brian Moynihan

I'd say that -- I'd still say we're probably below normal right now in the minds of Tom and the team running it. The -- and so I think that you won't see what you saw, say, in the first quarter of last year and things like that. That was above -- way above normal. We tried to talk about -- we've talked about sort of $4.5 billion range that -- in total revenue, which includes this, plus the margin and other things. But -- so I think that that's -- I think we're still below the normal. The question is, unless you see the improvement back to normal, we will have to continue to work on the expense. And in fact, that's what Tom has been doing. If you look at our business, the headcount that he's had has been relatively flat. But -- we've done is deployed to -- in international space, for example -- obviously Asia being key component, where from a research side, we've got strong Asia-wide research ratings, Japan #1 rating, things like that. So we deployed resources there to help our teams, sales people to cover the clients. At the same time, the total deployed resources headcount has been flattish, and we've been taking it out of places where the opportunities aren't as big. So you ought to expect us to continue to manage the business that way. In the aggregate, this is a little below normal. If it doesn't get above normal, then the cost structure come down but -- and the comp structure is one of the quick ways to adjust it, but ultimately you got to keep factoring that in.

Operator

At this time, I'd like to turn it back over to Mr. Brian Moynihan for closing comments.

Brian Moynihan

Thank you for your attention, and we look forward to talking to you in October. Thank you.