Operator

Good day, everyone. And welcome to the Bank of America Earnings Announcement Conference Call. At this time, all participants are in a listen-only mode, but later you'll have the opportunity to ask questions during the question-and-answer session. Please note that this call is being recorded.

It's now my pleasure to turn the conference over to Lee McEntire. Please go ahead.

Lee McEntire

Good morning. Thanks to everyone on the phone, as well as webcast for joining us this morning for the first quarter results. Hopefully, everybody had a chance to review the earnings release documents that are available on the website.

Before I turn the call over to Brian and Bruce, let me just remind you, we may make forward-looking statements. For further information on those, please refer to either our earnings release documents, our website or other SEC filings.

So, with that, let me turn it over to Brian Moynihan, our CEO for some opening comments, before Bruce goes through the details. Brian?

Brian Moynihan

Thank you, Lee. And good morning and welcome everyone to the earnings call for our first quarter of 2015. I am going to start on slide two. So the highlights are there. We earned $3.4 billion after tax in the quarter, which is up both on a linked quarter and year-over-year basis.

We continue to work to drive growth in all our core businesses. We will begin to see it overcome the runoff at non-core portfolios in many areas. At the same time, we continue to focus on managing expenses carefully. As a result, we've begin to see more predictable earnings with more improvement expected ahead.

Both capital and liquidity remained at record levels in our company. We expect to return more capital to shareholders this year than we have in the past.

Revenue on adjusted bases was $21.9 billion for the quarter. From the top of the house revenues remains challenging in an environment with below trend economic growth and rate environment which comes from that.

In addition, we remained faithful to our customer's strategy with strong risk management and risk appetite to ensure we do not repeat the outsized credit losses of the past. With that said, we are seeing our core business stabilizing across the drivers of the revenue.

This quarter we saw continued growth in our Wealth Management revenues and rebounds in the fourth quarter in trading revenues. In our loan and deposit areas we saw continued core growth albeit subject to continued spread contraction.

Our expense management efforts continue. Year-over-year expenses excluding litigation costs are down 6%, including litigation costs, year-over-year expenses are down 30%. We continue to see our efficiency efforts drive forward beyond new BAC through our simplified and improved program.

We also continue to see progress on LAS expense. As proof of our efforts for the quarter we ended with our headcount at 200 -- little under 220,000 full time employees, a reduction of 4,000 employees for the quarter about 2% and 19,000 employees year-over-year or 8%. For the quarter this reduction came to about 35% from LAS and about 65% from the rest of the company.

To put it in a broad context, we are approaching employment levels, where we were in early 2008, prior to bringing over -- in over 100,000 people from Countrywide and Merrill acquisitions.

We are doing that through the investments we are making in technology to reduce costs and they continue to take hold, and we will continue to drive this effort even as economy continues to improve and rates raise helping keep balance to our operating leverage.

During the last year, even though we are reducing those costs and headcount, we continue to invest in the client facing growth capacity in this company. We have added financial advisors in U.S. Trusts and in Merrill Lynch focused on building for the future.

We have added commercial bankers in all our Global Banking areas to help fill in our franchise. We have added new financial centers in areas of opportunity and we continue to invest in products and innovation, as well as efficiency. A simple example, in our Consumer Mobile Banking space, we now have 70 million mobile banking customers up over 2 million from last year.

Turning to slide three, you can see what we simply need to do. Each of the four core lines of businesses on the left hand part of the slide earned above our cost-of-capital for this quarter. In addition, the aggregate earnings for all those businesses were $4.4 billion after tax. The LAS segment had a much smaller loss this quarter, showing we are making progress.

The other area on the right hand of the slide effected this quarter by the impacts of retirement eligible incentive costs in the market related NII adjustment which affect the top of the house earnings. They booked their distributed business over the quarters, what that shows that we need to keep working LAS to get it to breakeven and the other will take care of itself in subsequent quarters.

Turning to slide four, with regard to CCAR. As previously disclosed, we received a conditional non-objection to our capital plan. We received the approval for our request to capital actions that we request in our original submission, a dividend of $0.05 per share and $4 billion of stock repurchase on the relevant periods.

As you can see, the cushion we have increased from about $2 billion last year under the tightest constraint to over $22 billion this year, in both those cases under the tightest constraint after all capital actions.

These quantitative results bode well. However, the conditional approval is an area with which we are focusing. We will focus our energy for the September resubmission and beyond.

Our efforts are well underway. We are bringing additional resources to task. We simply have to be the best at CCAR to meet our shareholder objectives and our company. To ensure that we achieve that success I'd have asked Terry Laughlin to lead our efforts. As many of you know, Terry helped us clear up the mortgage issues over the last several years.

I can assure you that our Board management are extremely focused on our resubmission and our core process improvement for CCAR 2016 next year. Terry has retained the team external experts, increase internal staffing to ensure we are successful. We've had in-depth discussion with our regulators regarding the particulars specified issues that we need to re-immediate with the resubmission and we are focused on getting that done by September.

With that, I'll turn now over to Bruce.

Bruce Thompson

Thanks, Brian, and good morning, everyone. I am going to start on slide five. As Brian mentioned, we recorded $3.4 billion of earnings in the first quarter or $0.27 per diluted share. That compares to $0.25 a share in the fourth quarter of 2014 and a loss of $0.05 if we go back to the first quarter of 2014.

I’d like to note a few items as you review these results. Both first quarter periods include $1 billion in expense for the annual cost of retirement eligible incentives awarded. This was $0.06 in EPS impact in each of the first quarter periods.

The first quarter of 2015 also includes a negative market related adjustments to net interest income of $484 million for the acceleration of bond premium amortization on our debt securities that’s driven by lower long-term rates. That costs us $0.03 in EPS during the quarter. The other large item that’s worth noting as you look at the comparisons is the outsized litigation amount of $6 billion in the first quarter of 2014.

I’d like to spend just a moment on total revenue comparisons, our first quarter of 2015 revenue on an FTE basis. If we exclude the market-related adjustment to NII and a small DVA adjustment was $21.9 billion during the quarter.

If we compared that to the fourth quarter of 2014 and adjust for the same items, revenue is up $1.7 billion or 8% and that 8% increase is attributable to rebound in sales and trading results, as well as higher Mortgage Banking income and is offset somewhat by lower net interest income mostly from two fewer days during the quarter.

If we compare back to the first quarter of ’14 and we further adjust for $800 million in equity investment gains as a result of monetizing a single strategic investment in a year ago period, revenue is down a couple $100 million or 1% and that’s from lower net interest income and lower sales and trading results.

Total non-interest expense during the quarter was $15.7 billion and included the $1 billion in retirement eligible costs, as well as $370 million in litigation expense. I will go through that the comparisons from an expense perspective several slides back.

As we look at provision for credit losses during the quarter, they were $765 million and included $429 million in reserve release versus $660 million in the fourth quarter of 2014.

Preferred dividends during the first quarter were $382 million and as you all looked to update your models given the preferred issuances that we have had the majority of which paid semiannually as you look at preferred dividends they should be roughly $330 million in the second and fourth quarters, and $440 million in the first and third quarters going forward based on our existing preferred footprint.

Let's go ahead and move to slide six on the balance sheet, our balance sheet was up slightly to $2.14 trillion and that was driven almost exclusively by cash balances associated with the deposit growth that we saw during the quarter. We continued our focus on balance sheet optimization for the liquidity, as we continue to shift some of our discretionary portfolio first lien loans into HQLA eligible securities.

Loans on a period end basis were down modestly, reflecting good core loan activity in both our Global Banking, as well as our Wealth Management segments that was more than offset by seasonally lower cad balances in our discretionary consumer real estate area, as well as runoff portfolios.

Deposits were up $34 billion or 3% from the end of the year and some of that, obviously, I have to do with seasonal tax activity. We issued $3 billion of preferred stock in the quarter that benefited regulatory capital and as you look at common shareholders' equity you can see it improved driven both by earnings growth, as well as improved OCI. As a result of those factors, tangible book value increased to $14.79, 7% higher than 12 months ago and our tangible common equity ratio improved to 7.5%.

The last point that I would note is that we did add a slide in the appendix as we updated our capital allocations across the segments coming into 2015 and the returns that we show you are reflective of those updated capital allocations.

Let's go ahead and flip to slide seven, and go through loans, from several calls, we are asked frequently about the decline in reported loans, which are down modestly again from the fourth quarter levels as you can see in the upper left hand chart.

I want to make a few points though as we go through this, as we have discussed many times, much of the movement in loans has been driven by two pieces of non-core loans. The first relates the shift in our discretionary mortgage loans levels that are used to manage interest rate risks and predominantly recorded in the all other units. Many times based on the investment decisions that we make, these loans are replaced with debt securities on the balance sheet.

The other component, as you look at loans to consider is the runoff that we have within our LAS unit, which are mostly home equity loans. If the home equity loans go away, it enables us to reduce our operating costs as we have less work to do.

As you can see over the past five quarters, these non-core loans have declined approximately $59 billion. If you adjust for that $59 billion though and I will go that upper right hand box, you can see they are actually -- our loans have actually increased by $21 billion from the first quarter of 2014.

Bottom chart on this slide provides the mix of this loan growth across our primary businesses and you can see within our Wealth Management area, we have experienced strong demand in both consumer real estate, as well as securities base lending and that's led to year-over-year loan growth within that segment of 10%.

Within Global Banking, we saw modest growth on a year-over-year basis. But importantly, we saw a significant pickup in activity in the first quarter of '15 relative to the fourth quarter of 2014. Over that timeframe loans were up $6.7 billion or 8% on an annualized basis.

If we move to slide eight and take a look at regulatory capital, this quarter the Standardized transition reporting includes the switch from reporting RWA under the general risks based approach to Basel 3 and the capital number includes another year of phase-in for capital deductions. With those changes, our CET1 ratio was 11.1% in 2015 under the new reporting.

If we go ahead and look at Basel 3 regulatory capital on our fully phase-in basis, our CET1 capital improved $6 billion during the quarter and was driven by earnings, lower DTA, lower threshold deductions, as well as an improvement in AOCI.

That translated under the Standardized approach to our CET1 ratio improving from 10% in the fourth quarter to 10.3% in the first quarter of '15, while under the advanced approaches, the CET1 ratio improved from 9.6% to 10.1%.

As you know from our 10-K disclosure, we are working with our banking regulators to obtain approval of our models in order to exit parallel run, a regulators have requested modification to certain commercial and other credit models in order to exit parallel run, which we estimate will increase our advanced approaches RWA and negatively impact the CET1 ratio that we show here by approximately 100 basis points.

If we look at supplementary leverage, we estimate that at the end of the first quarter of '15, we continue to exceed the U.S. rules applicable in 2018. Our bank holding company SLR ratio was 6.3% and our primary banking subsidiary BANA we were at 7%.

We turn to slide 9, long-term debt. At the end of the first quarter was $238 billion, down $5 billion from the fourth quarter of 2014. In the lower left box, you can see that from a maturity profile perspective, we have $16 billion of parent company debt that matures during the balance of ‘15 and will be opportunistic as it relates to refinancing that indebtedness.

Our global excess liquidity sources reached a record level of $478 billion this quarter and now represents 22% of the overall balance sheet. The increase from the fourth quarter reflects the deposit inflows as well as the shift from discretionary loans in the HQLA securities.

Within the liquidity, our parent company liquidity remains quite strong at $93 billion and our time to require funding is at 37 months. During the quarter, we did continue to increase our liquidity coverage ratios at both the parent as well as at the bank levels. And at the end of the first quarter, we estimate that our consolidated company was well above the 100% fully phased-in 2017 LCR requirement.

On slide 10, net interest income, on a reported FTE basis was $9.7 billion, down $200 million from the fourth quarter of ‘14 driven by two fewer interest accrual days during the quarter as well as some spread compression. If we exclude the previously mentioned market-related adjustment NII of $10.2 billion was largely in line with our expectations and lower than the fourth quarter of ‘14 given two fewer interest accrual days.

Modest improvements net interest income mostly from lower funding cost in the quarter were offset by some of the continued pressures that we saw in loans, securities, yields as well as balances in new assets coming in at lower long-term rates. This drove the adjusted net interest yield to 2.28%.

If we look at the movement down in rates during the quarter, our balance sheet did become more asset sensitive compared to year end, such that 100 basis point parallel increase in rates from the end of the quarter would be expected to contribute roughly $4.6 billion in net interest income benefits over the next 12 months, slightly more than half of that $4.6 billion is on the long end and just under half is based on the short end.

On slide 11, if we move to expenses, non-interest expense was $15.7 billion in the first quarter of ‘15 and included roughly $370 million in litigation expense. First quarter ‘15 once again did include $1 billion in annual retirement eligible incentive cost consistent with what we saw in the first quarter of 2014. Litigation expense during the quarter included FX in RMBS items and was significantly below what we saw a year ago which included the cost of the FHFA settlement.

While we’re in litigation, I do want to make sure that you notice this quarter that we did get one step closer on our Article 77 settlement as the appellate court approved the Bank of New York Mellon settlement in all respects. And I would also note that the deadline for further appeal at this point has passed.

If we exclude litigation and retirement-eligible cost, our total expenses were $14.3 billion this quarter, down nearly $1 billion from the first quarter of '14, driven by three factors. Continued progress on our LAS initiatives, our New BAC cost savings as well as lower revenue-related incentives within Global Markets.

Relative to the fourth quarter '14, the expense level on an adjusted basis is up about a $0.5 billion on higher revenue related incentives, mostly through the improved sales and trading results on a linked-quarter basis. Our legacy assets and servicing cost ex litigation were $1 billion. They improved approximately $100 million from the fourth quarter of 2014 in more than $500 million if we go back to the first quarter of 2014. And we remain on track to hit our Q '14 target that we laid out for yield of $800 million in LAS cost ex litigation once again in the fourth quarter.

Beyond the LAS business, our teams continue to do very good work in optimizing our delivery network as well as our infrastructure. And as you can see, headcount is down 8% over the course of the last 12 months.

If we look at asset quality on slide 12, reported net charge-offs were $1.2 billion in the first quarter versus $900 million in the fourth quarter of 2014. I do want to note that the first quarter of '15 included a net impact of approximately $200 million in losses associated with the DOJ settlement that was previously reserved for and that was offset in part by recoveries from certain NPL sales.

Our Q4 '14 included similar items but with the net adjustment positively benefiting net charge-off to the tune of about $163 million. If we just follow these impacts, our net charge-offs during the quarter were $1 billion which is slightly lower than what we saw in the fourth quarter of 2014. Our loss rates on the same adjusted basis were at about 47 basis points in the first quarter of '15 consistent with what we saw in the fourth quarter of '14, in both our consumer delinquencies as well as our NPLs decline from fourth quarter levels.

On the commercial front, we did see a slight tick up in reservable criticized exposure in the fourth quarter of '14 as we bounce off comparatively low levels. The first quarter of '15 provision expense was $765 million. We released $429 million in reserves, most of those reserve releases were in our consumer real estate portfolio while we did see a modest increase in reserves in the commercial space that was associated with the strong loan growth that we saw during the first quarter.

We could flip to slide 13 on Consumer Banking. Hopefully last week, we all saw and had a chance to review the filing of our recasted segment results.

We mentioned to you during the last earnings call that we made changes in segment reporting where we move the home loans into our Consumer Banking segment from CRES which left our legacy assets and servicing as a standalone segment. We also moved the majority of business banking from Consumer Banking to the Global Banking segment which is how we manage the business. All these changes have been made retroactively.

Let's go ahead and walk through the business segment results, starting on slide 13 with Consumer Banking. The results showed solid bottomline performance with earnings of $1.5 billion which is up slightly from the year-ago quarter and down seasonally from the fourth quarter of '14 which tends to be a better consumer spending quarter. Business generated a solid 21% return on allocated capital.

Total revenue was lower compared to the first quarter of '14 from a decline in net interest income. Two thirds of that decline in NII was a result of pushing out in the allocation of the portion of the market related NII adjustment to deposits business. Our non-interest income was stable compared to last year, reflecting good growth in both mortgage banking as well as higher card income but was offset by the portfolio divestiture gain last year of roughly $100 million in the first quarter.

Expenses were managed tightly. Non-interest expense declined from the fourth quarter of '14 as we continue to reduce our financial centers in the associated cost driven by consumer behavior patterns shifting to more digital. The number of mobile banking customers continues to increase. We ended the quarter at roughly $17 million and -- the activity from these customers accounts for roughly 13% of all deposit transactions.

On page 14, we've added some additional slides here to give you a sense to some of the trends that we're seeing in the business in key drivers and see we remain a leader in many aspects of our consumer bank doing business with nearly half of all U.S. households. We look at fees compared to the first quarter of '14, part income was up modestly despite some affinity portfolio divestitures over the last year.

Our card issuance remains very strong. Our balances did decline as our customers began to pay down holiday spend balance levels and our net charge-offs remain low at 2.8% and risk-adjusted margins remain high.

We move to mortgage banking income. It was up 60% as originations for the company ramped up during the quarter. Year-over-year first mortgage originations were up 55% to $13.7 billion while our home equity line and loan originations increased 62% to $3.2 billion.

Revenue improvement was driven by these increased volumes as well as the mix of first-lien origination that was 76% weighted towards overall refinance activity. And looking forward, the pipeline remains strong, up 50% from the end of the year.

Moving to service charges, service charges were down versus the fourth quarter of '14. This fee line continues to be muted as more of our customers take advantage of our work plans in our opening accounts with higher balances.

We also continue to reduce the number of less profitable account serviced and migrate customer activity to more self service channels. As a result, we are getting the same or slightly better account fees and debit interchange from fewer accounts which is allowing us to reduce our infrastructure.

Expense is declining. And if you look at cost of deposits, it's dropped from just less than 2% in the fourth -- excuse me -- in the first quarter of '14 to 1.87% in the first quarter of '15. And lastly, as you can see while we are bringing down our overall headcount in this business, I want to note that we've been increasing our sales specialist in the financial centers and their sales are driving client balance is higher. For example, our deposits were up 5% from the first quarter of '14 and our brokerage assets were up 18%.

We move to slide 15, wealth management. It generated earnings of $651 million during the quarter. We compared this with the fourth -- with the first quarter of 2014 with a $78 million decline. It's the solid fee growth that we saw during the quarter, was offset by lower net interest income and higher expense.

Once again the allocation of the market related NII adjustment drove the decline in NII which more than offset the benefits that we saw from solid loan growth. Our asset management fees continue to grow driven by strong client flows and higher market levels. Our non-interest expense increased from the first quarter of '14 as a result of higher revenue related incentives as well as investments in client-facing professionals. Our pre-tax margin was down 23%, down last year, largely impacted by the decline in net interest income. Return on allocated capital remains strong at 22%.

We look at the activity in drivers within Wealth Management on slide 16. You can see our asset management fees continue to grow and are up 10% from the first quarter of 2014. But this is partially offset by some of the sluggishness that we've seen in transactional revenue within the brokerage line.

We do continue to be an employer of choice in this business, increasing financial advisors by more than 850 individuals over the course of the last 12 months. Our client balances climbed to over $2.5 trillion, up $12 billion from the fourth quarter of ‘14, driven by strong client balance inflows.

Long-term AUM flows of $15 billion for the quarter were positive for the 23rd consecutive quarter. And as I mentioned earlier when we discussed loans, we continue to experience strong demand in both our securities base and residential mortgage lending areas of the business reaching a new record level in loans during the quarter.

On slide 17, our Global Banking earnings during the quarter were $1.4 billion, which generated a 16% return on allocated capital. Earnings were up 6% from the first quarter of ‘14 as the decline in net interest income was more than offset by lower expense as well as improved provision expense.

As we look at NII, the year-over-year decline was driven by three things, the allocation of the market related to NII adjustments which I have touched on in previous segments, the push-out of the firm-wide LCR requirements, a good chunk of which goes to Global Banking as well as some year-over-year compression in loan spreads.

Our provision expense was lower than the first quarter of ‘14 by $185 million as we did not build reserves to the same magnitude as we did in the first quarter of last year. Non-interest expense was down 8% from the first quarter of ‘14 driven by three factors, lower technology initiative spend, lower litigation as well as lower incentive costs.

Moving to the Global Banking metrics on page 18, we chart the components of revenue, which shows stability across the quarters, with the exception of NII as I just mentioned. Our investment banking fees companywide during the quarter were $1.5 billion, down 4% from the first quarter of 2014.

I would highlight during the quarter, we recorded the highest level of advisory fees since the Merrill merger, up 50% from the first quarter of 2014. This helped offset the drop that we saw within our leveraged finance business, as a result of the regulatory guidance that was implemented during the first half of 2014.

Equity underwriting was also up nicely, up 10% from the first quarter of 2014. And as you look at the balance sheet, loans on average were $290 billion, up modestly on a year-over-year basis. But if you look linked quarter as I mentioned earlier, we had a fair bit of momentum ending the first quarter with balances up $7 billion on a spot basis from the fourth quarter of ’14.

$7 million improvement was broad-based. We saw middle-market utilization rates at levels that we’ve not seen for six years at this point, so we feel good about that and within commercial real estate, we saw a linked quarter improvement as well.

On slide 19, Global Markets, we earned $945 million on revenues and $4.6 billion in the quarter, leveraging 11% return on allocated capital during the quarter. Our earnings were up nicely from the fourth quarter of ’14 but down from the first quarter, as our revenue was down 7%, excluding net DVA and FVA.

The decline from the first quarter of ’14 was driven by lower fixed sales -- excuse me, lower fixed sales and trading results. On the expense front, non-interest expense was modestly higher year-over-year, as we had $260 million in litigation expense in the quarter. Ex-litigation, expenses were down 7% on reduced levels of revenue related incentives.

We look at the Global Markets metrics on slide 20. Sales of trading revenue of $3.9 billion ex-DVA and FVA, as I mentioned was up nicely from our fourth quarter of ’14 levels but down 5% from the first quarter of ’14. Fixed sales and trading was down 7% on a year-over-year basis while equities was effectively flat with the year ago period.

Within the macro-related product areas like FX and rates, there was a solid return in volatility in client trading activity in the quarter while the credit spreads traded products areas experienced lower activity in line with lower issuance levels during the quarter.

And as you look at and we layout a mix between macro and credit in the upper box, upper right hand box and you can see that our activity tends to be more heavily weighted towards credit spread trading given the position that we occupy within the issuer market. And the last point I would make our markets, our asset levels were fairly flat while VaR was below the level that we experienced last year.

Slide 21, Legacy Assets & Servicing, you can see we saw improvement in revenue and expense trends compared to both periods within legacy assets and servicing. The loss in this segment narrowed to less than $240 million. Revenue improved as both rep and warrant was down $156 million from the year ago period and we had a more favorable MSR hedge performance. Those two factors were partially offset by lower servicing fees as we continue to reduce the servicing portfolio.

Non-interest expense, ex-litigation was a $1 billion in the quarter, once again improving approximately $100 million from the fourth quarter and more than $500 million since the first quarter of ’14. Importantly, our 60 plus days delinquent loans were 153,000 units that were down 36,000 units or 19% from the fourth quarter of 2014.

We move to slide 22, All Other. All Other reflects a loss of $841 million and that includes once again the impact of the annual retirement eligible incentive costs, as well as some of the market-related NII impact.

If we compare this quarter to the first quarter of ’14, revenues lowered by about $683 million and that was driven by nearly $700 million in equity investment gains in the first quarter of ’14, compared to essentially nothing in the first quarter of ’15. And it was partially offset, as well by the absence of payment protection loss this quarter, compared to about a $141 million in the prior year quarter.

From a modeling perspective, the effective tax rate during the quarter was about 29% and as we look out during the balance of 2015, we would expect the tax rate to be roughly 30%, absent any unusual items.

So, I would just wrap up the prepared part of my comments that as we end the quarter, we end the quarter with record capital. We end the quarter with record liquidity. We’ll begin our $4 billion share repurchase program this quarter. The team’s very focused on addressing our CCAR submission.

Expense management remains a key focus across the company. Our businesses are showing good activity, including a pick up in lending across several businesses and the company credit quality remains strong and we remain well positioned to benefit in a rising interest rate environment.

And with that, we’ll go ahead and open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And we can take our first question from Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck

Hey. Thanks very much. So, Brian, very impressive commentary in the beginning of the call on headcount getting back to ’08 levels before CFC and the Merrill Lynch acquisitions. The one question we get continually from investors is what’s left to do on the expenses and you’ve already got the core expense number coming into the $13 billion range. So can you give us some sense as to where you go from here on expense management and is it steady as she goes or is there room to become even more efficient?

Brian Moynihan

Couple of things. One is that if you parse expenses, Betsy, into three basic buckets, the litigation expense bucket, which you are seeing come down to more reasonable levels and then there is a cost of that litigation and the external legal fees and stuff, which will continue to see lift in which is in the expense numbers. Then you have the second bucket LAS worth a billion level and as Bruce said, we would expect to get down to $800 million and keep moving at to lower numbers over into '16.

And then given the baseline and I think the thought on the baseline is even as we reduce the headcount, we continued to reinvest in sales capacity. So just in our consumer business, headcount is down year-over-year but we have a thousand more sales people roughly out there selling. And so the idea is to continue to drive sales people into the businesses. At the same time, we've taken our wealth management, et cetera. So when you think about the broad expense base, there is adjustments always in the first quarter, second quarter just because of revenue and stuff in terms of the aggregate amount.

But we will continue to pare way. You can look linked quarter -- year-over-year quarters over the last four years, we continued to chip away. This year it was 300 on the core base. We will continue to work at that. But I would say that a lot of it, we are trying to make sure that we create the investment rate and continue to grow the franchises and their size. This is a matter of holding these expenses relatively flat as revenues start to pick up with the expected increase in rates in economy continue to grow. As that change, we have to go aggressively and push down the core also. And so we manage it everyday and you can see the headcounts leading indicator because that headcount reduction in the quarter really benefits us in the second quarter.

Betsy Graseck

Got it. And then just separate topic on GWIM, and maybe you could give us some commentary around how you are thinking about the impact of the fiduciary language that's been coming out of the Department of Labor? And also how you deal with the competitive threats coming from Silicon Valley, including some of the robo-advisor efforts?

Brian Moynihan

On the first question, John Thiel who runs Merrill Lynch for us, where largely we are affected by the discussion on fiduciary standards. Remember, U.S. Trust is actually a private bank and operates into the fiduciary standard and most of its activity. So, John Thiel does the lead in our business does great job for us and has been clear. We believe that doing what's in the best interest of the customer is absolutely the right thing to do. And while this rule has just come out yesterday afternoon and frankly, Betsy, to get prepared for your questions this morning, I have spent a lot of time examining into detail. But from a basic standpoint, we've been clear that that's we see the industry moving and we expect lot of movement there.

On the robo-advisor, I think that the clear segment match for us in that area in terms of what Schwab and other people have talked about is really in the Merrill Lynch business, which is below the Merrill Lynch cut-off a lot of their return. So, John and his team drive people to $150,000 in investable assets free to invest, which is net worth of a $0.5 million in the upper range of the client and Dean Athanasia and his preferred team drive the business below that.

And if you look in our information, you will see that that business has got about $118 billion of both, which assets are growing faster than the industry. Year-over-year, I think the assets were up 18%. The number of accounts of the sales levels were up and so that's really the automated rebalancing portfolios and stuff like that and we are driving that through as a core execution. And by the way, they also refer tens of thousands of customers a year up to Merrill Lynch at the same time. So we are trying to have the best of both worlds.

Betsy Graseck

Okay. Thanks. You've been a leader there, so appreciate that color. Thanks.

Operator

And we can take our next question from Matt O'Connor with Deutsche Bank. Please go ahead.

Matt O'Connor

Good morning.

Brian Moynihan

Good morning, Matt.

Matt O'Connor

Any sense of when we get a clear picture on the final impact of exiting parallel run? Should we just assume the 100 basis point hit that you mentioned a done deal or is there a potential to be less than that?

Bruce Thompson

Yes. I think what we wanted to disclose, Matt is that I think they were coming out of the disclosure that we had in the K. There were a lot of questions and you are absolutely right that what we disclosed today was the requested amount from our banking regulators to exit parallel run that was the outcome. We have discussions continue but we did want to put out there what the ask was.

Matt O'Connor

Okay. In terms of timing of -- a conclusion on that?

Bruce Thompson

I think those things are always hard to predict, but we are obviously working hard to get through it over the next quarter or so.

Matt O'Connor

Okay. And just related, I mean, obviously capital build was very good this quarter of 50 basis points. So you essentially got half of that already, but assuming that 100 basis point hit goes through, are there additional kind of RWA levers to pull model adjustments in the future that we can think about?

Bruce Thompson

Yeah. You asked a very good question, which is that -- to the extend that there is an adjustment in the RWA, you obviously as you look to refine and improve your models, always have the ability to work hard to get that back if there is obviously a lot of scrutiny with respect to models. But your point is spot on is that there would be the opportunity as we work through and look to refine improve and become better with our models to get some of that back over time.

Brian Moynihan

And Matt, in the broader context, we have flipped the binding constraint in our company to some degree with the move to advance and so therefore, you continue to look at the balance sheet, what makes the businesses and how you approach the businesses changes again to standardize with the constraint we are focused on. And with our binding constraint now it’s going to flip to advance as you can see in the numbers and that bend is -- you expect us to be as aggressive and in depth at thinking through how we mix the businesses right to make sure that we are focused on that constraint now has become a binding rule.

Matt O'Connor

Okay. That's very helpful. Thank you.

Operator

And we can take our next question from Paul Miller with FBR Capital Markets. Please go ahead.

Paul Miller

Yes. Thank you very much. On your legacy asset servicing -- in your discussions, you said that the loans went down from 36,000 loans in the quarter. Did you sell any loans in the quarter?

Bruce Thompson

There was some servicing of loans that was moved, as well as the outright sale of some non-performing loans. So there was some inorganic activity but as you look at those reductions, it was very strong from both organic as well as inorganic. And I would say the other thing that we are seeing Paul is just less new delinquencies coming in than we what we would have expected. So you've got the benefit of less coming in. You've got the benefit of working through some of what you have and then we are supplementing that with moving additional out.

Paul Miller

Yeah. And one of the things out there is what we are seeing or hearing is that there is a strong market right now for people wanting to buy either re-performing or non-performing loans. Are you going to use that as an advantage to start moving the stuff off your books quicker?

Bruce Thompson

We have been using as an advantage. If you go back and look at the results, I think we were one of the first out there that started to move those loans in the first half of 2014. We've been aggressively doing that both to take the risk of the loans off as well as to move the servicing.

And I think as if you look at the impact of that and how it flows through different things, you really get a good sense, Paul, when you look at some of the CCAR results where the loss content that we have particularly within both first mortgages as well as home equity has come down. So we have been at that for some time at this point.

Brian Moynihan

Paul, I think overall remember as you get further and further remove from the crisis, what's leftover or even though at the time when we said fairly answer that some of these non-core portfolios would have been a product to service, you did want to continue seven years later, you are seeing the customers are left over to paid. And so there is a good bid, but also we want to make sure we measure the economics of the portfolios. Now they are much smaller. The risk is way down.

And so we judge that really on the basis of, who the customer is and whether we want to sort of roam into core loans in our company and then also what the economics the outside are. So I wouldn't expect us to change our course there, whether its look opportunistically, we had to keep move in the right direction on both servicing and that's that we own too because remember Paul there is also servicing side to this, even though we don't own the asset. There is a strong bid. Even the agencies are moving to move some portfolios.

Paul Miller

Okay. Thank you, guys.

Brian Moynihan

Thank you.

Operator

And we can take our next question from Jim Mitchell with Buckingham Research. Please go ahead.

Jim Mitchell

Hey, good morning.

Brian Moynihan

Good morning.

Jim Mitchell

Just want to follow up on the capital discussion. You guys had pretty good progress on the advanced approach of 50 basis points quarter-over-quarter, but the gap between standardized and advanced is still very large. And I guess if you have to go through with the 400 basis points that I guess about 120 basis point gap versus your peers that are less than half that.

I guess is the big difference operational risk because of the larger litigation you faced over the last couple of years? And how do we think about that coming down and getting more in line with the peers? Is that just a time sort of as you get further away that, like those op risk come down or how else do we think about the trajectory of the closing of the gap?

Brian Moynihan

No. Your point is exactly right which is that as we talked about last quarter that the op risk relative to the total advanced startup was upwards of 30%. That's obviously higher than our peers. It's something that we are working hard on to be able to drive down. And to your point, the question is when you're able to get benefit from declining litigation trend as we wrap up the legacy matters and that does take some time. Obviously, the last two quarters from litigation perspective have been much lighter than what we experienced going back several years.

So it's up to us to continue to work that and to look to convince people that the level of op risk capital should come down given the resolution of the matters. And I would just highlight that once again whether you look at Article 77, there was an Ocala litigation matter that was wrapped up as well as on the RMBS front with settlements that we got through this quarter were roughly 99% of all threatened or filed litigation with respect to RMBS. So we continue to work through that and drive through that. And ultimately the benefit from that should be lower op risk capital from an RWA perspective.

Jim Mitchell

Right. And sorry, is that sort of a negotiation process on the models with regulators or is it could it be sort of a step function or is it really just time value as you move further away? I am just trying to understand the process.

Brian Moynihan

I think in all these cases, clearly that we work closely with our supervisors on all model related activity. And as you look to make changes that are to the good, you obviously need to work through your regulators to get those put through.

Bruce Thompson

So I think as we think forward remember, you saw a good capital built this quarter and we will continue to build. But remember that we keep on the course of earnings that we expect and the issue was in CCAR last year when we asked, you had to remember we came off a really low just nominal earnings environment.

And so we came with a lot of capital between now and next time. We've been asked to change the capital position of the company and we have a big cushion. So we will close this gap relatively quickly. And then we have a longer-term question of what you are saying which is as op risk runs off how do you get that reflected all coming your capital requirements and same with the models and the other side.

Jim Mitchell

Right at to your point, the stress test is based on standardized not advanced?

Bruce Thompson

Yes.

Jim Mitchell

But just one quick follow-up elsewhere on the FICC revenues, just can you talk about the trajectory over the quarter, did it improve in March? It sounded like some of your peers talked about a slow start to get any better in March or how do we think about the trajectory to the quarter?

Brian Moynihan

I am always hesitant to comment on results given that we are nine days into a new quarter. But I think if you look at what we saw from both, I would say both a sales and trading as well as an overall investment banking fee perspective, the January and the margin was a little bit slower than what was expected.

And we saw activity and momentum build up throughout the quarter to where if you had to grade which is three months to the quarter. If you feel best about, it was clearly March. And like I said, we are only nine trading days into the new quarter. But we've not seen anything change directionally some of the activity that we saw in March, we've continued to see in April.

Jim Mitchell

Okay. Great. That's very helpful. Thanks.

Operator

And we can take our next question from Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr

Thanks very much. A quick question on proposal eight in the proxy, I mean I don't think the regulators wanted to happen, I don't think it should happen, I assume you have been doing a lot of the work on this along the way for last couple of years. But curious why the Board is so against shareholders voting it for and what you actually have to do if it does get the yes vote?

Brian Moynihan

Well, I think as I think you read the response in the proxy, Glenn, you will see this is a core Board duty and they do look at it periodically and think about the optimal company structure, capital structure. So the idea to have a special element around it is really the whole Board looks at it and that's you should look at it so.

And then the technical terms of the what the request is or little hard to understand when you think about how company really operates, but we do look at the question of, do we have the optimal business mix, is it optimal from shareholders and the Board will look at it continuously and we will continue to look at.

Glenn Schorr

Okay. I appreciate the comments you made on the increased asset sensitivity. And if I remember the numbers correctly, it sounds like more of the increased sensitivity came out on the long end. So I guess my question is, it's great you make a lot more money at the current shifts of 100 basis points, but I think a lot of people are more fearful of what happens if we get into a flattener environment. So is it as simply as you capture at least half the benefit short rates going up and if you are in the flattener that's where then?

Bruce Thompson

I think couple of things Glenn. First is that we are coming -- in many respects we were 35, 36 at the end of the year, we went to 45, 46 this quarter. Keep in mind a chunk of what you see as far as becoming more asset sensitive is just the FAS 91 that we lost during the quarter. So keep that in mind.

And to your point, you are exactly right if you looked out where we were at year end, I think we were just over in the 21 to 22 benefit from short rates moving and that has not changed materially. So to your point the asset sensitivity is based almost solely on long-term rates and given the deltas that we saw change from the end of the year to the end of the first quarter.

Glenn Schorr

Okay. I appreciate it. Thank you.

Brian Moynihan

Thank you.

Operator

We will take our next question from Jon McDonald with Sanford C. Bernstein. Please go ahead.

Jon McDonald

Hi, Bruce. Just to follow up on that in terms of if rates kind of stay pretty flat, what kind of outlook would you have for the core NII if we take the 10.2 this quarter as a jumping off point? Do you have any room to lower the debt cost from here or how would you expect the core NII to trend if we don't see too much move in rates?

Bruce Thompson

We spent a lot of time on, Jon. We got at the end of the first quarter, we looked at and said during the balance of 2015, what's the impact that we would see if in effect we rolled the spot throughout 2015, which just means that you don't get the benefit of the curve as we go through. And if you look at that, it's roughly a couple hundred million dollars a quarter relative to $10 billion of NII.

So we think that we've done between the debt footprint deposits. And if you actually look at the clean yields during the quarter Q4 to Q1 that we have done a pretty good job of managing this exposure in what's been a tough environment. But to your question there is probably a couple hundred million dollars a quarter and risk if you roll the spot.

Jon McDonald

Got it. Okay. And that couple hundred million over a couple of quarters, right?

Bruce Thompson

It is up 200 per quarter over the next three quarters.

Jon McDonald

Got it. And that's just kind of core leakage from new stuff coming on lower yields and you are not investing much in a low rate environment?

Bruce Thompson

That's correct.

Brian Moynihan

And continue to shorten the balance sheet every time.

Jon McDonald

Okay. And then just switching gears for this on the credit side, do you see the net charges-off kind of bouncing around a $1 billion per quarter level or is there room for those to come down or is that kind of stabilizing and how should we think about reserve releases from here relative to the 400 or so you did this quarter?

Brian Moynihan

Yes. Couple of things. And we continue to see Jon if you look at the -- within the consumer space and overall consumer credit, the first quarter typically all other things being equal is the toughest consumer quarter in the first quarter. So I think there is probably a little bit of room there if we continue to see what we see in the economy on the consumer side.

The tougher piece of it's probably to judge commercial because outside of what we see in the small business lending, there really haven't been many charge-offs and we will just have to see how long that benign environment covers.

On the reserve release for the quarter, what they want to make sure that we point out that while we release 400 plus of reserves, 200 of that was from the DOJ where with the mailings you had both charge-offs and reserve release. So as it relates to just from a -- as you look at the provision perspective realize that which impacted the provisions more like 200.

Jon McDonald

Okay. So that should be some at least the jumping off points more like a 200 reserve release number?

Brian Moynihan

Yes. And I think we said that we clearly expect reserve releases to moderate. So, a lot to see as we roll into the quarters. But I think you are directionally right on your charge-off number and we will see if there is anything left in the reserve releases as we go through the second and third quarters.

Jon McDonald

Okay. Last quick thing for me. In terms of rep and warrants, the slide 26 not sure if you mentioned this already because there is a pickup in the claims, the new claims this quarter showed a big increase. Just what's the driver of that while they will show up now and any color you can provide on whether that's a concern or not?

Brian Moynihan

Yes. I think you need to go down to and we laid out in the footnote, but if you start up in the new claim trends, if you recall there is the case going through where the statute of limitations on rep and warrant claims in the Ace case was found, the statute was six years. And if you look at the claims that you see up in the new claim trends, you can see virtually all of those claims were in the pre 2005 through 2006 area.

So absent any tolling a good chunk of those are going to be time barred. The other part that I would -- the other point that I would mention is if you go down to the footnote, you can see that the vast majority of these claims were put in with no file worked on whatsoever or no individual loan work that was done. So I think there continues to be obviously activity on that front, but there is not a lot of work being done as those claims are being filed.

Jon McDonald

Okay. Thank you.

Brian Moynihan

Thank you.

Operator

We will take our next question from Steven Chubak with Nomura. Please go ahead.

Steven Chubak

Hi, good morning.

Brian Moynihan

Good morning.

Steven Chubak

So Bruce I just wanted to touch on the preferreds for a moment. So we saw that you completed another $3 billion of issuance in the quarter, but seem as you are already at the 150 basis point target contemplated under Basel III, whether it's fair to assume that you are now full on perhaps at the moment and we shouldn't expect any additional issuance?

Bruce Thompson

I think you are absolutely right that we've got the bucket filled up this quarter. I think the only thing that's out there is depending on exactly where we come out from an overall RWA perspective as we exit parallel run that beyond 2015 could there be a $2 billion more preferred sometime during '16, that's a possibility. But you're absolutely right that based on where we are from an RWA perspective, the buckets filled up. So we don't see much of any at all in '15 maybe a little bit in '16 but not much.

Steven Chubak

Excellent. Thanks for clarifying that, Bruce. And I suppose that you mentioned RWA, one thing I just wanted to clarify, I believe it was relating to your response to Jim where you noted that for CCAR it only contemplate the standardized approach. But I just wanted to know if that determination have been finalized since some are speculating that the advanced approach could be incorporated within the CCAR exam going forward?

Bruce Thompson

Yeah. No, there is an open question out there that you're absolutely right that for the different CCAR submissions that went in 2015 that those submissions are against the standard ratios. As an industry, we just don't know the answer. If we'll test under just standardized in CCAR 2016 or if advanced will be brought in, that's an open question that's out there for the industry.

Steven Chubak

And do you have a sense at least for the moment as to what the impact will be on RWAs if they were to incorporate the advanced approach versus the standardized?

Bruce Thompson

I think if you look at the numbers you can see the difference that we have within our numbers as to advanced. I think the open question that's out there as you look at moving to advanced in a CCAR scenario is that under advanced you hold the capital for up risk. And then there is the open question if you go to stress test under advanced, what do you do with respect to CCAR in those up risk litigation type item. And like I said, that’s an open question for the industry.

Steven Chubak

Right. But would it be fair to expect that because it is the advanced calculation is more procyclical in nature that the RWA is calculated under a period of stress would be higher versus the standardized?

Bruce Thompson

There is no question. There is a procyclical class that does it. That intuitively, I think you’re right but it just until you understand exactly the completeness and the entire picture of what you’re looking at I just don’t want to speculate.

Steven Chubak

No. Fair enough. All right. That’s it for me. And thank you for taking my questions.

Bruce Thompson

Thank you.

Operator

We’ll take our next question from Ken Usdin with Jefferies. Please go ahead.

Ken Usdin

Thanks. Good morning. I was wondering if you could talk a little bit about the investments in brokerage services business. The metrics continue to look very strong as far as assets gain but the growth rate on year-over-year basis looks like it slowed considerably. Any context you can provide around revenue generation and is there a potential catch-up that we should see or expect going forward based on either markets or just activity levels?

Brian Moynihan

Let me -- from a high level, that team has continued to invest in growth. So there’s a couple of things driving that. One is they’re adding more core advisor, so in the last 12 months I think we added 120 experienced advisors and we added almost 900 total. So in that there is a carry cost to bring those up but we’ve -- that's good for the future.

The second thing is there's a little bit of the business mix issue which is that the investment management side of business continues to grow but we've seen weakness in the brokers transactional side as the business get reposition and that sort of year-over-year is enough to hit you.

And then third frankly is that the NII that Bruce point out earlier, just the way we allocate and we won't let businesses take an excuse for intercompany allocations. But the way we allocate year-over-year, a big chunk of the NII losses just to the way we allocate out the impact from the market and less NII.

Ken Usdin

Okay. And then secondly, just extending that to the other -- some of the other consumer fee lines, your card income flattish in service charges down a bit, is this customer behavior driven or an additional repositioning in there? And can you talk about growth expectations on the consumer side as well?

Brian Moynihan

Yes. I think as Bruce talked about earlier, if you think about the couple of broad things. One is as we continue to drive to be the core checking account for households, we're seeing higher sales, we're seeing higher primary sales but with that comes less fees in a sense but the average balances are higher.

And so what you're seeing is a lower -- the flattening of the fees, charge on accounts overdraft and other fees, while you see an increase in the consumer balances which in this environment were something that we worth a lot more as rates rise because these are core checking account. So yeah, there is some elements that how the business has been shipped and based on our priority of getting -- making sure that we just don't have a lot of checking accounts, we have a lot of core checking account and that has caused it. So you're seeing a far faster growth in balances and actually slight decline in total check accounts out there.

When you put debit fees and other fees plus the interest rates together which is a core checking revenue, it's actually a better picture. But that's kind of the story there. On the credit card fees, it's -- basically we have absorbed most of the compression on the interchange at this point in the rebase we give. So really year-over-year you had a bit of loss there because we added a divestiture of a big Affinity program, two big Affinity program that hurt us. And you should expect to see that a little bit more inline with our spending growth going forward which has done about 3%, 4%.

Ken Usdin

Okay. And then last one, just Bruce, you mentioned on the discretionary portfolio and the switch out to HQLA. Can you give us a sense of just how much more of that mix shift we should expect or at some point, you get to appoint where the loan portfolio finally starts to bottom out?

Bruce Thompson

I think a couple of things, so that the shift to the discretionary portfolio, you probably have about $5 billion of that in each of the second quarter and the third quarter of this year and at that point that work is done. I would say as you look at just discretionary mortgage balances and what you're seeing from a payments for the old stuff that was put within the investment portfolio, you're probably looking at before the new is that we put on within the business that you are in $10 billion to $14 billion type run-off in each of the next couple quarters, realized all that net interest income doesn't go away because there is reinvestment of that and there is new loans coming in. But you do have probably two more quarters where we'll move stuff into securities and obviously that does continue to be a runoff of that portfolio as well.

Ken Usdin

Thank you.

Bruce Thompson

Thank you.

Operator

We'll take our next question from Eric Wasserstrom with Guggenheim Securities. Please go ahead.

Eric Wasserstrom

Thanks very much. Just one quick question on the legal expense that was incurred in this period, are those issues now the FX and the RMBS, are those issues now settled or are they ongoing?

Bruce Thompson

The RMBS piece I quoted, there were both amounts and litigation for things that were settled, as well as accruals during the quarter. And once again Eric, I will go back to that the -- from an RMBS perspective at this point, we are 98% or 99% of threatened or filed claims on original UPB that we are through. So that's where we are with the RMBS. With respect to the FX piece, I think if you go back and look at to where we said that we were in October, that we resolved the matter with the OCC.

The top-up that we saw in the quarter related to FX with respect to other banking regulators and the results. So the resolution and we're working through the final documentation of the civil piece of the overall FX work and that's all included within the litigation reserve during the quarter.

Eric Wasserstrom

Okay. And so just to understand that last point, the civil component, is that with the DoJ or some other kind of authority?

Bruce Thompson

No. It's the civil piece with respect to a class action type matter, not the DoJ.

Eric Wasserstrom

I see. Okay. But that was contained within the accrual in this period.

Bruce Thompson

That's correct.

Eric Wasserstrom

Okay. Great. Thank you for the clarity.

Bruce Thompson

Thank you.

Operator

We'll go next to Mike Mayo with CLSA. Please go ahead.

Mike Mayo

Hi. What are your financial targets for 2015 and 2016?

Brian Moynihan

So, Mike, as we said, our goal is to continue to drive toward the 1% return on assets and depending on where we end up with capital between 7.5% and 8% tangible common equity ratio that we translate into 13 to down to

12 return on tangible common equity. In this quarter, we move to up to where we have our return on tangible common equity was 8%. And so return on assets was 64 basis points, so we serve two-thirds of the way to that goal.

Mike Mayo

And what timeframe do you expect to get there?

Brian Moynihan

Well, I think if you adjust our earnings this quarter for a couple of things, the FAS 123, the FAS 91 and then we continue to think of LAS normalizing. You see us get close to that goal and that should happen between now and the end of '16 because we just keep chunking away at LAS as we described here.

Mike Mayo

So is that your specific financial targets to -- and what's your target for 2015 when it comes to your financial metrics?

Brian Moynihan

Yeah. Mike, I think the way you ask that, we especially have to give you our earnings estimates for '15 and we just don't do that. But our targets long-term, we've told you each time you asked us is a 1% return on assets and a 12%, 13% return on tangible common equity based on what we think our tangible common equity ratio will settle out.

Mike Mayo

Okay. I guess when I looked back at 2014 I ask myself the question, did Bank America meet its financial targets? And I've trouble because I'm not sure that you have specific targets just for the year 2014 as opposed to your longer term targets?

Brian Moynihan

We made $4 billion in change last year against the expectation by unit you and your colleagues of -- I don't know $15 billion that clearly did meet the financial targets to litigation we took last year.

Mike Mayo

Okay. Let me just ask a separate question then. Glenn Schorr brought a proposal in the proxy. And I guess my reaction is why not give more information on the tradeoffs of the business model. One of your competitors gave three slides on this topic at their investor day. They weren't asked to do this and they have some higher ROE and ROA. So more information I think would be good. And in the proxy, it says that your Board believes that the proposal would not enhance stockholder value. If that's the conclusion of the Board, just why not share some of the insights of the Board to investors?

Brian Moynihan

So the insights we have and you look at the returns on page two and three of the material show that the core businesses return above our cost of capital. And that the mix between them and the revenue synergies and the diversity we get have been there but let's backup. A lot of people are looking at here, Mike, is can you simplify your company to make it tighter. We started that in 2010 was about $2.5 billion and we are trading that as we are down to 2.1.

We started with about $7 billion in capital or $8 billion in capital, up to $140 billion and we started by getting rid of the 60 operating businesses and so we've done a lot of implications. What's really left and this is one of the reason why our market business is more constrained its growth prospects potentially than some other peoples because we keep it to about a third of the franchise in terms of size.

And that market business is really focused on driving the value of our issuer side customers going to the market and then with our investor side customers providing sources of capital for that, so it's a very synergistic basis. So, we'll continue to provide insight but if you look at it, the businesses return of other cost of capital and then if we put them out there, the question would be, what we be look like after and we have capital we can't deploy and we have less earnings powers.

Mike Mayo

All right. But you can share additional insights into that conclusion in addition to what you just gave, that would be great at least in the future. Thanks a lot.

Operator

And we can take our next question from Nancy Bush with NAB Research. Please go ahead.

Nancy Bush

Good morning, guys.

Brian Moynihan

Good morning.

Nancy Bush

I have sort of one straightforward question and one that's more existential. I'll ask the straight forward one first. Brian, could you just restate your position on paying or raising the dividend? I know the CCAR this year has distorted that a bit and if you could just state how you feel about dividends versus buyback?

Brian Moynihan

Well, I think number one, in terms of -- we received approval for what we asked, which is a nickel a share dividend and $4 billion of stock buyback in the CCAR. And we had to be conservative in that ask, leaving aside the modeling and other questions, but just had to be conservative based ask, because if you think about it, our run rate of earnings was such that we're coming off of $4 billion plus earnings score. We had to keep our head on in terms of how we're accumulating capital and make sure we earned the capital before we paid them.

The second thing is that the [$0.2 billion] [ph] of cushion shows that based on all the works at CCAR, we have a strong cushion going forward. So the key for us to be able to increase the dividend and continue to push forward is to get that normalized earnings stream in a couple of quarters, $3 million plus of earnings we're getting.

Long-term, we've said many times our ultimate goal is to take about 3% of our recurring earnings and pay it out in dividends and then to use the rest for capital management. At this price we would be buying stock back and if there is a different scenario where our multiple to book and earnings multiples are higher, we might pay additional dividends, but the goal would be about 30% payout ratio of recurring earnings as we get there.

Nancy Bush

Okay. Thank you. The second one is this. And this is maybe a little bit more difficult to answer. You had a good trading quarter, but we've seen one of your competitors have a much better trading quarter. And I know that there is a mix issue there. But also as I kind of look at the composition of your businesses there, have you sort of de-risked the trading desk to the point where you can't really take full advantage of the volatility in markets? And I'm wondering if you see that as the case. And secondly, if there will come a time when you're able to do some re-risking there?

Brian Moynihan

I think, the Nancy what you asked is really the core question, which is, if you look a few years ago when we put core capital Global Markets out as a separate reported segment to ensure that people saw that that was a less volatile earnings stream than people perceived and it was not the earnings stream of the Global Banking segment, high investment banking which you could see the fees up or down and were relatively stable in clearly the loan book and treasury services. So we tried to sort the businesses so people can see what we're doing in the global markets.

Based on our capital and based on our view of how the franchise fit together, we keep that business about a third of our total size. This total balance sheet deployed is under $600 billion and had them for years. That then requires Tom and the team to make a series of choices how they deploy that based on our appetite for risk expressed by VaR, our appetite for size expressed by the $600 billion which other people have far bigger balance sheet to deploy the business. And that does limit their ability to take risk and do certain things.

So there is a mix issue based on this quarter. In other quarters we performed better relatively and that's this issue, but from a core standpoint, it's not an existential question at all. It is an actual determination we made to have our 50 buffer lower, to have our overall risk lower and demand to company which is really customer focused on the core banking middle markets franchise and the core investors. It's still be big enough to be very impactful number one research house in the world and have $3.5 billion to $4 billion of revenue in the giving quarter.

We had to basically optimize around size capital, capital deployment business and then the risk we're willing to put in the P&L and that's where we ended up. And that's resulted I think 100 basis points less SIFI buffer requirement than other people. And we think that's balanced because with our book of business if we increased that we've got to carry that 100 basis points across the whole franchise, not just the market business, and that extra capital in our balance would really increase the capital requirements that really not needed for our core banking business.

Nancy Bush

So basically you are happy with the trading desk as it is?

Brian Moynihan

Yes, I mean -- no, we're always never happy because we always wanted to do better. I mean, that's not -- but on the other hand, it's fair to say that we are not unsatisfied when we make almost $1 billion after tax in the quarter where they were -- where they had a couple of big elements, this mix in the macro businesses which we are positioned in on purpose.

And then secondly remember the core part of our business we are still adjusting to which was the leverage finance transaction business, which you can look at is down dramatically year-over-year as we adopted the guidance and they were -- what was acquired. That's through the numbers now, and then we will build back based on that business doing it the way that meets the regulatory standard. So happy, we are never happy with any business. We are always pushing them to do better, but given the constraints there is an understanding I would say more than happiness of where we ended up.

Nancy Bush

Okay. Thank you.

Operator

We'll take our next question from Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Hi. Good morning, guys. A quick follow-up on the op risk questions. So if we still have pending settlements out there on a few of the remaining sort of large issues, could that lead to op risk at least sustaining at elevated levels or/and could it even potentially cause a little bit of an uplift there?

Bruce Thompson

Yes. I think at this point we walk through. And we said in the last call that we are at the level that we need to be from a overall op risk perspective. And to your point, if you look at the last two quarters relative to when that op risk capital was set, we've seen fairly sizeable declines in overall litigation expense. So you obviously work through that, but our belief overtime is that number should be less, not more but we need to deliver that to the shareholder.

Brennan Hawken

Yes. I mean, from your lips to God's ears, but if we still have some potential settlements my only point is that it might take a little while before we end up seeing that come down. Isn't that a similar reason?

Brian Moynihan

Just as we said there is a bid ask on the RWA related to commercial credit factors and models. There was a bid ask and operating risk. We closed that out. And we've actually moved our RWA to a number of those asks. And then from then, we just look at it very simply, think about the last four quarters versus last year and just taking up third and fourth quarter, you have a complete change in the amount of litigation expense that's gone through the enterprise and you see that keep going through. It will take a while for that to average out, but basically assume that we've agreed to with amount which was requested to bring our op risk and we put that through last quarter.

Brennan Hawken

Okay. Thanks. And then it seems some high level turnover in your equities business. Can you comment maybe on what's driving some of those departures, any potential implications and what you are doing about it?

Brian Moynihan

Yes. I mean, we've had some retirements of people worked in the business for 25 years, Henry and team, and it's just the ebb and flow of business, I don't think there is any major issues going on there. I think that [Thong Nguyen] [ph] and team have done a good job and stabilized that business and brought it back. We continue to work on the prime brokerage side to make sure that we can be positioned to sort of restart that engine of growth.

Now that -- now we had both the business back, we got the operating platform in place where we wanted to be [indiscernible] not this past fall but fall before. So I think you shouldn't be thinking into that other than usual ebb and flow of people deciding to do other things.

Brennan Hawken

Okay. Thanks for that color. And then the last one for me, following up on Ken's question, it sounds like the FA headcount add are sort of biased a little more to the junior side? So should we count on a bit of a headwind from that on your productivity metrics in GWIM and maybe could you also comment on the recruiting environment currently and if you still think that comp may moderate as some of those deals with FAs from crisis level sunset…

Brian Moynihan

The average deal last year I think was 100, for highest end producing FAs which there were 100 up -- 120 up. The average deal was like 127 -- 1.27 times going to others that might that are fly to us and that's, don't know the exact number to think conceptually. So the rumors about these payoffs are probably far in excess. The reality is only 120 people or so. So take whatever number.

So let's broaden out the productivity question, the productivity per advisor in our business is extremely strong and has sort of structurally been strong for many years and continues to increase.

You wouldn't mine eluding that to get faster long-term growth prospects of the business and broaden out the business and that's what John and team are doing, whether it goes down and not really going to be a factor. How fast the revenue stream grows. It's been our growing net impact of investing in the loan business.

But we aren't, yes, so I wouldn't -- I would say it's going to go down or up based on the added younger advisors, but let's flip that and say, there is the way we think this business has to drive for our competitive advantage as franchise, there is a linkage from preferred to Merrill Lynch Wealth Management and the interactions between the financial services centers and the people come in there and tens of thousands people that get referred to Merrill is a competitive advantage for Merrill.

And we will continue to drive that, part of that connectivity is we are now putting Merrill team-based brokers in the branches to work with clients and ultimately move physically onto the team in the offices. So we've got a lot of program going. They seem to be working very well. It could dilute the productivity a little bit, but it would immaterial because of the strength of the core franchise is so strong.

Brennan Hawken

Thanks for the color.

Operator

And we can take our final question from Jeff Harte with Sandler O'Neill. Please go ahead.

Brian Moynihan

Good morning, Jeff.

Jeff Harte

Good morning, guys. A couple from me, first of all, you mentioned the commercial utilization rate being up a lot. Can you give me some or give us some idea of how much of that is energy complex driven versus maybe coming from other less stressed industries?

Bruce Thompson

Yeah. Most of all that, given that the number I quoted was within the Commercial Bank, that's almost exclusively outside of the energy space. So it has nothing to do with anything to stress. It just core commercial plans driving more those numbers bottom down in the low 30s and they are now up in the high 30s. Yeah, think of that, when we say Commercial that's middle market, general middle market for us.

Brian Moynihan

Not the Corporate Bank where the energy exposures would be so. It's back to basically where it was, not the highest point, because it's ran up right before the crisis. But if you look back it's higher than it wasn't say 4 and 5 at this point right on. So you just start to see the normalization of that borrowing, which is good news, because that means the people borrowing the money to do something.

Jeff Harte

Okay. And looking at the balance sheet, I mean, can you talk a little bit about the plans, the kind of the level of excess cash, I mean, 22% of assets in cash, a 7% plus SLR ratio? It would seem awfully tough to generate ROE or ROA with that much of the balance sheet sitting in cash, is there something you can do there?

Bruce Thompson

Yeah. Look, I think, the first thing, if you look that, you have to consider as that. As we went through with the different regulatory metrics we needed to get to that that the last metric that we needed to solve for and we wanted to get behind us was the satisfaction of where we needed to be from the LCR perspective in 2017 at both the bank level, as well as the parent and work to the point where we've gotten to that point. So from an overall liquidity HQLA perspective we feel very good about that progress.

As you look at on a go-forward bases, obviously, the big focus and the reason as a company that we are looking to drive the loan growth that we have is to basically take the access deposits today that are within the investment portfolio and release them from the investment portfolio into two core loan activity to do more with our clients.

So as you look at the changes and mix in the balance sheet as far as the built that you've seen with cash. I think we are at the point where from an overall balance and where we need to be with the different metrics that we’ve satisfied that at this point and it will be more of a normal course on a go-forward basis.

Brian Moynihan

Yeah. I think generally thematically if you think about as we see rules come up, we try to get in full compliances as fast as possible even though there is delay dates. And then you can then work back on how to continuously improve the way you get there but first thing you guys do is get over the humps because it affects every other aspect of the franchise. And so I think the LCR and case set we got over the hump 17 is two years away still and we are in compliance and then the idea is that you keep to figure out how that work to dies to make it more and more shareholder friendly overtime, but the first we want to make sure we can do.

Jeff Harte

Okay. Thank you.

Lee McEntire

I think that’s a -- I think that was the last question. Thanks for joining today and we’ll talk to you in the next quarter.