Operator

And welcome to today's program. At this time all participants are in listen-only mode. (Operator Instructions) Please note that today's call is being recorded.

It's now my pleasure to turn the program over to Kevin Stitt. Please begin, sir.

Kevin Stitt

Good morning. Before Brian Moynihan and Bruce Thompson begin their comments, let me remind you that this presentation does contain some forward-looking statements, and please review slides two and three with information around forward-looking statements. And for additional factors, please see our press release and SEC documents.

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

Bruce R. Thompson

Great. Thanks, Kevin, and good morning, everyone. I'm going to start on slide four. And as you all saw this morning, we reported net income of $2.5 billion for the second quarter, or $0.19 a share on a diluted basis.

You will notice at the bottom of the page, we do not have any selected items that we brought forward during this quarter. And given that the list is relatively short, we'll just hit those as we go throughout the presentation within the lines of business.

We go ahead and move forward to slide five. We clearly believe that the results in the second quarter demonstrated our ongoing momentum on several fronts. Capital continued to strengthen and is at record levels by most metrics.

Tier 1 common capital increased $2.5 billion to $134 billion and ended the quarter at 11.24% under Basel 1. We estimate the Basel 3 Tier 1 common equity with 8.1% at the end of June, on a fully phased-in basis, based on our current understanding of both U.S. market risk rules and international Basel 3 guidelines.

If you recall, we had estimated we would be in excess of 7.5% under Basel 3 at the end of the year. So based on where we came out at the end of quarter, we're quite pleased with the progress we've made so far.

While we increased capital, we also continue to bring down our long-term debt, reducing it by $53 billion in the second quarter through both maturities as well as liability management actions that we'll get into throughout the presentation.

Likewise, we made progress on expenses, which declined $2.1 billion from the first quarter, of which approximately $900 million was due to the absence of an annual retirement eligible stock-based compensation awards that impacted the first quarter.

As we said last quarter, while revenue growth correlates in large part with the health of the overall economy, the two areas that we clearly have the ability to control are our expenses as well as our debt cost, and we aggressively addressed those during the second quarter.

Asset quality also continued to improve in almost all categories. This improvement combined with decreased levels of distressed loans drove provision expense to be its lowest level going all the way back to the first quarter of 2007.

Interest rates did continue to be a headwind. And as you can see, the decrease in loans and rates during the quarter did negatively affect net interest income. The European crisis and seasonality are impacting the markets related businesses, driving those revenues lower compared to the first quarter of 2012. However, non-interest income did reflect improved results in some of our consumer businesses, which we'll get into as we go through the presentation.

If you turn to slide six, as we look at regulatory capital under Basel 1, you can see that $2.5 billion of earnings along with a $27 billion decline in risk-weighted assets or about 2.3% of risk-weighted assets drove the capital improvement from 10.78% at the end of the first quarter to 11.24% at the end of the second quarter. If you look at the left hand chart since June of 2011, one year ago, our Basel 1 Tier 1 common ratio has increased by approximately 300 basis points.

Turning to slide seven and providing a Basel 3 update, as we near the 2013 implementation period for Basel 3, we've estimated our Tier 1 common equity ratio and its components to provide a better understanding of where we are relative to the Basel 3 guidelines that will be fully implemented at the beginning of 2019. The estimate we provide here is for BIS Basel 3 guidelines in the final U.S. market risk rules. If we reported Basel 3 as of June 30 on a fully phased-in basis, we estimate that Tier 1 common equity ratio would be 8.1%, we estimate that our Tier1 common equity would be approximately a $127 billion, while our risk-weighted assets would be $1.566 trillion.

As we think about the important differences between Basel 1 and Basel 3 capital or the numerator, the differences include capital deductions related to the MSR, our deferred tax assets and the inclusion of unrealized gains and losses on debt and equity securities recognized in other comprehensive income. As you are well aware, these items will be impacted by future changes in both interest rates as well as overall earnings performance.

We turn to slide eight on funding and liquidity, you can see that long-term debt during the quarter was down $53 billion, while our overall Global Excess Liquidity Sources only declined by $28 billion to $378 billion at the end of the quarter. At the parent company, long-term debt during the quarter came down by approximately $40 billion. That $40 billion reduction was approximately $34 billion of parent company maturities, of which we call out $24 billion of that related to TLGP debt. At the end of June, all of our TLGP related debt has been repaid.

In addition to the maturities, we brought in about $5.5 billion through liability management actions on our TRUPs and subordinated debt that are outstanding. The benefit in the quarter from that was a little over $500 million. As we look forward, those liability management actions will result in net interest income savings of approximately $100 million in 2012 and $180 million in 2013.

As we look at parent company liquidity, it remained very strong at $111 billion at the end of the quarter. And as we look at time to required funding, we finished the quarter at 37 months; the highest in the company's history.

During the quarter, we didn't issue any long-term unsecured parent company debt and I doubt that we will do so during the balance of 2012. What we will continue to do is to bring down long-term debt both by paying off debt at maturity as well as active liability management, consistent with our overall goals of continuing to optimize net interest income.

In fact, we've already announced calls of another $5.2 billion in both TRUPs and sub debt, which we expect to complete during the third quarter of this year. In addition to these calls, maturities of $23 billion, of which approximately $15 billion at the parent, will come due during the second half of the year, which will also help reduce both long-term debt balances as well as associated interest expenses.

I'll spend a minute on page nine, on a couple balance sheet highlights. You can see, total assets were down about 1% to $2.16 trillion while total risk-weighted assets were down over 2% to about $1.19 trillion.

Our tangible common equity ratio improved 25 basis points in the quarter from 6.58% to 6.83%. Intangible book value improved by $0.35 during the quarter to $13.22 from $12.87.

We turn to slide 10 and look at net interest income on an FTE basis. It was $9.8 billion during the quarter, down $1.3 billion from the first quarter. The decrease in the quarter was primarily due to higher premium amortization expense associated with FAS 91 as well as market related hedge ineffectiveness. If you recall, rates rose in the first quarter of this year and that led to lower premium amortization and favorable hedge ineffectiveness that benefited NII by about $400 million in the first quarter of this year.

However, lower rates in the second quarter had a negative impact of approximately $500 million, which resulted in a combined negative impact of approximately $900 million to NII from the first quarter to the second quarter. If we back out those market related swings, net interest income decreased by approximately $400 million during the quarter due to lower loan balances and yields and lower trading net interest income, which was partially offset by the benefit of the lower long-term debt that I just mentioned.

In the near term given long and rate levels at the end of June, we estimate that quarterly net interest income will start at a base of approximately $10.25 billion before the impact from liability management actions.

Second quarter parent debt maturities and liability actions plus third quarter announced redemptions and calls will benefit quarterly interest income by approximately $300 million, of which $60 million was captured in the second quarter of this year. To state the obvious, if rates increase from the end of June, it will have a positive impact and obviously lower rates would have a negative impact.

We turn to page 11 and look at overall loan activity, total loans for the quarter declined by approximately $10 billion from the first quarter or about 1%. If you look at the composition of the loan balances, you can see ending commercial loans actually grew by about $4.1 billion or 1.3% from the first quarter of 2012. That growth was attributed to increases in our commercial and industrial loans and was partially offset by about a $1.4 billion reduction in commercial real estate. If you go to the bottom of slide 11, you can see ending consumer loans declined approximately $14 billion from the first quarter of 2012.

I'd like to spend a minute on that. If you go and look at the bar chart, we've talked throughout the last couple of quarters about run-off portfolios that we’re looking to run-off that do not produce any meaningful level of pretax income, you can see we had about $4.4 billion of that during the quarter.

In addition, residential mortgages were down about $4.4 billion. Keep in mind, as we look at those mortgage portfolios, we can either invest in mortgages or securities, and during the quarter we came up in securities, a little bit down in loans. Over and above that about $3.4 billion of loan sales that had been targeted that wrapped up at the beginning of the second quarter.

If you back those three items out and look at consumer loans on a net basis, that leaves us with about a $2 billion reduction during the quarter or well below 1%.

On slide 12, we highlight the results of the Consumer and Business Banking segment. Earnings were $1.2 billion, a decrease from the first quarter, driven by lower net interest income, lower reserve releases and higher litigation expense, partially offset by higher non-interest income. Non-interest income did increase from the first quarter due to a couple of factors; our consumer spending including higher interchange, the gain on certain card portfolios and the impact of our consumer protection products.

On slide 13, we list some key indicators for our Consumer and Business Banking for the quarter. average deposit balance growth was strong, increasing by over 2% or $10 billion compared to the first quarter of 2012. As we continue to focus on cost and look to optimize our delivery network, our branch count came down by 57 branches during the quarter.

As far as card purchase activity, combined credit and debit card purchase volumes increased 6% from the first quarter of 2012. In addition, credit quality continued to improve as the U.S. credit loss rate is the lowest since the fourth quarter of 2007, while the 30-plus day delinquency rate is at historic lows.

As we look at activity levels within the segment, we’ve also continued to increase our mobile banking customer base to more than 10 million customers, which is a 6% increase from the prior quarter and up 34% from the year-ago period.

We turn to slide 14, Consumer Real Estate Services reported a loss of $768 million, which was an improvement of $377 million versus the first quarter of this year. Lower revenue was more than offset by lower expenses and a lower provision for credit losses.

The Home Loans business within our Consumer Real Estate Services segment recorded a profit of $241 million for the quarter. First mortgage retail originations of $18 billion were up 18% over the first quarter due to lower rates and HARP Refis and in line with our retail originations a year ago.

However, as you all know, we exited the corresponded business late last year, so current correspondent originations during the quarter are virtually non-existent versus volumes of approximately $22 billion a year ago. Even with the exit from this correspondent channel, core production income is higher than a year ago.

Results for the quarter include $395 million in costs for representations and warranties provision and $109 million of litigation expenses and expected assessments, waivers and other cost related to foreclosure delays.

During the quarter, our MSR asset decreased by approximately $1.9 billion due to lower mortgage rates and ended the quarter at $5.7 billion. MSR hedge results for the quarter largely offset market valuation declines and the capitalized MSR rate at the end of the quarter was 47 basis points versus 58 basis points in the first quarter and 78 basis points a year ago.

If we move forward to slide 15, as we've done before, we show some comparisons of certain metrics in our Legacy Assets and Servicing basis on a linked quarter basis, and compared to second quarter a year ago is we continue to focus and work very hard on reducing delinquent loans, and looking to find homeowner solutions.

As you recall, Legacy Assets and Servicing reflects all of our servicing operations, and the results of our MSR activities. We added almost 1700 people in the quarter, including contractors versus 3000 people in this area in the first quarter alone.

The number of first-liens serviced did decline by 5% in the quarter, while the number of 60-day plus delinquent loans dropped 2%. As we think about that drop in 60-day plus delinquent loans of 27,000 loans from the first quarter, it was lower than we would have expected for two reasons. The first is a result of the DOJ/AG Settlement, we have holds on loans that were attempting to modify, and in addition to that we had approximately 15,000 loans were servicing is being sold, but we won't complete until this month. Even with these delays, we continue to believe, we can reduce our 60-day plus delinquencies by a net of approximately 300,000 over the next 12 months.

And as we've talked about before, we remain very focused on decreasing these loans because on a lag basis it gives us the ability to further reduce costs within this segment.

On slide 16, you can see that outstanding claims have increased from the end of March from a rep and warranty perspective. Claims from the GSEs increased as a result of ongoing disagreements with Fannie Mae about what constitutes a valid repurchase request. Through June, there's been minimal monoline activity consistent with the past six quarters. However, as I'm sure many of you saw, last night we did sign a settlement with Syncora that would have reduced our outstanding monoline claims at the end of June by approximately 20%.

On the private-label side, we did have an increase in outstanding claims from $4.9 billion to $8.6 billion during the quarter. The increase in claims is primarily due to claims received from trustees that we fully anticipated at the time of the Bank of New York settlement a year-ago, and were largely reflected in the increase in our reserves at that time. As we look forward, we expect these outstanding claims to continue to grow as the process for ultimate resolution continues to evolve and does remain unclear.

As you look at this table, I think it's important to keep in mind that the table reflects unpaid principal amounts as opposed to actual losses that are projected on the loans. Our reserves for rep and warrants ended the quarter at $15.9 billion, up slightly from the prior quarter. And as you look out, our non-GSE range of possible loss over and above existing levels is up to $5 billion.

In Global Wealth and Investment Management on slide 17; earnings for the quarter of $543 billion or a pre-tax margin of 20% were in line with the results we saw in the first quarter of this year.

Solid long-term AUM flows, as well as loan growth of $2.5 billion in the quarter helped to offset a 2% decline in client balances, driven by lower market balances. Loans within this segment are record levels and our advisor levels remained essentially flat, up just slightly from the first quarter of this year.

If we move to Global Banking on slide 18, net income decreased $1.4 billion from the first quarter, due to lower net interest income, as well as lower reserve reductions during the quarter.

Average loans for the quarter were down 3% as a result of the decreases in commercial real estate that I have spoken about before, as well as certain targeted loan sales. Average deposits increased to $239 billion during the quarter, as our corporate customers continue to remain very liquid.

Asset quality for the quarter continue to improve substantially as we had the largest quarterly percentage reduction since the peak in 2009, in both non-performing assets, as well as credit size balances.

As you can see on slide 19, investment banking fees for the quarter firm wide, excluding self-led deals were $1.1 billion down slightly from the first quarter as a pick up in M&A activity was more than offset by a decline in both debt and equity underwriting fees.

We were ranked number two globally, as well as in the U.S. in net investment banking fees during the first half of 2012. And as you look at the mix in the geography of the revenues you can see that during the quarter more than 80% of the fees were driven by activity in the U.S. and Canada. If we switch to global markets on slide 20, net income of $462 million decreased to $336 million from the first quarter reflecting lower sales and trading activity, which was partially offset by lower expenses.

Total revenue ex-DVA was down $2.1 billion from the first quarter and down $769 million from the second quarter a year ago, due primarily to the European crisis as our clients became more risk averse. Expenses were down both from the first quarter driven by lower personal related expense, as well as from a year ago.

Average VaR was $63 million in the quarter, down from $84 million in the first quarter, due to lower levels of client activity. Continuing with the global market segment on slide 21, we recorded DVA losses of a $156 million in the quarter versus losses of $1.4 billion in the first quarter of this year in gains of a $123 million in the year ago period.

Sales and trading revenue, excluding DVA losses decreased $1.9 billion from the first quarter, due to the deteriorating market sentiment that I just mentioned, as well as a slowing U.S. economy. FICC revenue, ex-DVA was $2.6 billion during the quarter, down $1.6 billion from the first quarter as we experienced decreases in almost all product categories, but we'd also point out that if we compare Q2 of this year to Q2 of last year, FICC revenues were basically flat in the year ago period. In equities, ex-DVA results decreased 26% from the first quarter as volumes remain at low levels, significantly impacting both trading, as well as commission revenue.

On slide 22, we show you the results of All Other. Recall in all, All Other, we include global principal investments to non-US consumer card business, our discretionary portfolio associated with interest rate risk management, insurance and a discontinued real-estate portfolio.

The revenue increase we saw from the first quarter was due to a lower negative valuation adjustment on structured viabilities under fair value option and was offset in part by lower equity investment income, lower gains on sales of debt securities, and lower gains on debt and trust preferred repurchases during the quarter. The decline in non-interest expense was mainly due to the absence of retirement eligible stock based compensation awards that we have in the first quarter of each year.

If you turn to slide 23 and look at expenses, you can see in the upper left hand corner in the red bars that we've had significant declines in non-interest expense from the second quarter of 2011, as well as on a linked-quarter basis from the first quarter of 2012. What we've done in the grey bars is back out goodwill impairment, as well as the annual retirement eligible comp cost that we have during the first quarter, and if you back those out, you can see once again expenses declining from $20.3 billion in the second quarter last year to $18.2 billion during the first quarter of this year, down to $17 billion during the current quarter.

I would note during the current quarter, litigation expense embedded in that $17 billion is approximately $1 billion. As we look at the reasons for the decline on a linked-quarter basis in non-interest expense, three major drivers; lower incentive compensation expense, the benefits of our new BAC programs, as well as lower mortgage-related costs.

If you move to the right and look at our full-time equivalents within the employee base, you can see year-over-year ex-legacy assets and servicing our number of employees has come down from 253,000 to 233,000 or an 8% decline. While we're on the topic of expenses, let me spend just a moment on taxes. The tax rate for the quarter was approximately 22%, which resulted from the impact of our recurring tax preference items on the level of pretax earnings.

We estimate 22% to be the rate for the rest of the year except for any unusual items that may arise. As we mentioned last quarter, one unusual item that we do expect to be in active later this month is the UK tax rate reduction of 2%, which should result in a tax charge in the third quarter of approximately $800 million. And recall, due to our current DTA disallowance that charge will not impact our Basel 1 or phased-in Basel 3 Tier-1 ratios.

If we turn to slide 24, as we've talked about previously, our Phase 2 evaluations began late last year and we completed those in the second quarter. As you know, Phase 2 focused on our corporate, commercial, and markets based businesses. We expect that these Phase 2 cost savings will total approximately $3 billion on an annualized basis, which would be fully phased-in by mid-2015. We did start to see some of these Phase 2 savings in the second quarter as these initiatives aren't as interdependent as the consumer businesses in Phase 1 are.

With respect to Phase 1, we're still on track to exceed the 20% of the $5 billion in annual cost savings by the end of 2012. In total, in both Phase 1 and Phase 2, we're targeting to produce annualized cost savings of approximately $8 billion by mid-2015. So if you consider the lower expected FTEs and other expense reductions associated with new BAC, both Phase 1 as well as Phase 2 along with an improving delinquent mortgage loans servicing pool. we believe we can continue to realize cost savings for the remainder of the year.

If we switch to asset quality on slide 25; overall trends continue to remain very positive. Provision expense declined $645 million to $1.8 billion. net charge-offs decreased $430 million or 11% to $3.6 billion versus the first quarter driven by lower consumer charge-offs, while commercial charge-offs were relatively flat.

The reserve reduction was $1.85 billion versus $1.6 billion in the first quarter of the year. As we go forward and as credit continues to stabilize, we would expect that our overall reserve reductions will continue albeit it at significantly reduced levels. Consequently, we believe that provision expense for the next two quarters of the year will be higher than what we experienced during the second quarter of this year, but below that which we saw during the first quarter.

So with that, let me turn it over to Brian to go through how we continue to focus moving forward.

Brian T. Moynihan

Thank you, Bruce. Let me add a few thoughts before we take questions. The results you see in our numbers today showed that we are continuing to be well positioned to keep building on the customer and client relationships that we have in our company.

As we think about our individuals and business we service as clients, many of them have addressed all the financial circumstances that they faced over the last few years and actually are in better shape than a broader economy and the statistics may reflect on a given day or week.

However, there remain some uncertainty in the markets and in the minds of our customers and clients. This largely revolves around the situations in Europe and United States around the longer-term fiscal issues that must be dealt with. And we continue to run our company consistent with that uncertainty and everything we do.

If you think about the past, we've been on for the last couple of years, rebuilding the balance sheet, making the strategic decisions, but in our operating principles in place and living up to them and driving our customer focus strategy.

Everything as we've done in our company has been achieved to make our company less complex and more streamline, and also to position our company better to grow over time. But this quarter continues to demonstrate as a sound financial foundation we have built. The strong balance sheet that we’ve built and will continue to maintain. And because of all the work the opportunities, which we are focused on is now to drive the core earnings of the company.

As we discussed at the beginning of the year, we laid out four things that we were focused upon. We told you we’d focus on improving our capital levels. We told you we’d focus on managing our risk. We told you we’d focus on reducing our cost base, and we told you, we’d focus on driving core business improvements. This quarter, we saw improvements in each of these areas. On capital, we continue to make strong progress and feel good about where we stand especially in light of our Basel 3 guidance.

In a years time we go on from being behind our peers to being ahead of our peers. If you think about the risk side, asset quality trends continue to be positive across the board. Charge-offs continue to fall and has room to go. Provision expense is at the lowest level we’ve had in this company in five years. Delinquency trends continue to improve in all our products and criticized commercial exposures continue to fall.

As we think about the cost side, we are starting to see the benefits of new BAC program. And the results of that Phase 2 work will begin to roll through as well. This is evident in the reduction in head count and expenses that you see in the numbers. So let’s remember this, as we reduce our costs, we continue to invest in the opportunities on our franchise. We invest in technology over $2 billion or $3 billion a year, this year. For example that investment is in May, we completed a major technology milestone for our company converting our California franchise. So for the first time in our company’s history, we now have one deposit platform serving customers coast to coast.

In addition, we continue to invest in our technology platforms across the world, including our cash management platform to service corporate clients and you can see the effect of that in our numbers. But also we invest in our client facing teams. We continue to grow our small business bankers, our wealth management team aids both in our wealth management business in our FSAs and our consumer business. And we will continue to add mortgage loan officers as you can see in our increased production.

So we’ve had strong steady progress on capital risk and cost, providing solid foundation as we focus our energy on a core business growth and the earnings power of the company. This is the area that we continue to have work to do, as you can see in the numbers, but we put ourselves in a position to be success. For example, we have transformed and repositioned our core consumer business, we're taking the core expenses down, we continue to drive growth.

The example that Bruce referenced earlier is our mobile banking platform. We had 10.3 million customers this quarter in that mobile banking platform, up 600,000 from the last quarter. With the usage of that platform and the payments initiate, it's growing very, very quickly. This is a superior service model that is second to none in the industry.

In our consumer business, our deposit balances were up, new credit card accounts were up. For example, we'd issued 1.4 million BankAmericard Cash Rewards cards since we had introduced them less than a year-ago; that's 26,000 new cards a week. Our mortgage production has increased almost 20% quarter-over-quarter.

In a broader context, we've extended $107 billion in credit to our customers to help them participate in the economy this quarter. In the important small business area, year-to-date, we've initiated $4 billion of new credit to small businesses. So we continue to drive businesses across the board, whether it's in our wealth management business as you can see in the good long-term asset under management flows or in the banking product side, where you can see loans have achieved record levels.

We have market coverage and penetration second to none in the commercial areas, whether it's large corporations or medium and small businesses. We brought the Wall Street capabilities to those clients across our franchise. And from an institutional investor client base, you've seen in our trading business the core customer focus and how that continues to improve recurring revenue streams and also you can see our research capabilities that our clients tell us are second to none.

So now we have tremendous opportunities and franchise, we all know that, hence we continue to focus on the execution. As such, what you can expect out of us over the next few quarters, continue to build the momentum around business performance, continue to focus on the fundamentals, stronger capital, capital management of risk and reducing costs and you'll see us drive forward and deliver the results that you, our clients, customers and shareholders expect.

Thank you. And now we're happy to take questions.

Question-and-Answer Session

Operator

Thank you, sir. (Operator Instructions) and with that, we can take our first question from the site of John McDonald with Sanford Bernstein. Your line is open.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Yes, hi, good morning. Bruce, on the net interest income, I just want to clarify your statement that you said that starting point should be the $10.2 billion, is that the adjusted NII from this quarter or is that why you referencing it tend to?

Bruce R. Thompson

That's correct, John.

John E. McDonald – Sanford C. Bernstein & Co., LLC

And then, from there, are you saying we should add the incremental 240 benefit from their reductions?

Bruce R. Thompson

That's correct.

John E. McDonald – Sanford C. Bernstein & Co., LLC

And then what about kind of the core leakage, like this quarter you had that $400 million of core leakage from the loan run-off. You didn't mention that, but do you expect to still have that battling against that benefit?

Bruce R. Thompson

I mean I think as we think about the $10.25 billion, that's the jumping off point. we clearly, and I think you've seen us in the commercial area, are clearly looking within the context of a reasonable risk appetite to start driving loan growth going forward. and as we've talked about before that the run-off portfolio is not one that's particularly profitable. so as we look forward and as we've thought about that jumping off point, that's how we think about the $10.25 billion.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay. And just trying to think of once we jump off, is there something about the $400 million that was elevated this quarter in terms of core leakage and why that might slow as just is loan shrinkage slowing, is that the idea?

Bruce R. Thompson

That's the idea. I mean I think the other thing is that and as I'd mentioned in my comments and we've talked about rates going up or down. While we're not predictors of interest rates per say, we clearly would not expect to see the decline in interest rates from the rate that we saw from the end of the first quarter to the end of the second quarter going forward.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay. And then just finally, how would the hedge and the premium amortization work, given where the tenure is today versus where it ended at the second quarter? Would that be an incremental hurt and would it be similar magnitude or less?

Bruce R. Thompson

That obviously goes both ways, both up and down. I think if you look at where the tenure was at the end of the quarter, I believe it was at about $164 million. So we're clearly a little bit lower today than we were at the end of the quarter. I would expect though that if rates were to continue to go down, I'm not sure that you would necessarily see the same impact on the downside for premium amortization because at some point, it is going to stop.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay. So it would be down but not by the same magnitude on the hedge effectiveness and the premium amortization?

Bruce R. Thompson

That would be the expectation.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay. And then on the expenses, it sounds like you think the $17 billion is a good jumping off point for expenses all in and you expect to decline for the rest of the year from there. Is that what you said?

Bruce R. Thompson

Yes.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay. And then on the Phase 2 done by 2015, am I correct that the Phase 2 stage were supposed to come faster than the Phase 1, is that still the expectation?

Bruce R. Thompson

Yes, when we put out the Phase 1 expectations, we obviously said it was roughly 20% by the end of the first year, and given as I've said, a lot of the work is not as interdependent, you would expect that those Phase 2 savings to come more on a ratable type basis as opposed to having them a little bit a more back-end loaded.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay. But given that those are coming by mid-2015, obviously the Phase 1 takes longer than mid-2015 to finish up?

Bruce R. Thompson

No, because keep in mind, the Phase 1, we have talked about a three-year period and having all of the Phase 1s done by the end of 2014.

Brian T. Moynihan

Remember, because Phase 1 was started much earlier.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay, got it, got it. Okay, so it's not from today, and someone has started, okay.

Bruce R. Thompson

That's correct.

John E. McDonald – Sanford C. Bernstein & Co., LLC

And then the last thing, just the operating expenses and LAS were up to 2.7% from 2.4%, do you believe that those have peaked now and do you see those starting to decline in the second half of this year or more in 2013?

Brian T. Moynihan

John, I think, they are up a little bit, because remember we're now in full multiple things going on in Department of Justice to look back in full swing in everything. So the team thinks we've largely peaked, but I'd expect to be slowly start to move in the right direction. But I think the next quarter, I wouldn't expect them to come down a lot, just because we're still finishing up for the third and fourth quarter.

But once we get through the Department of Justice look back, once we get a settlement work, once we get through the look back, there are a lot of expenses will come out relatively quickly, and in according to line, loan numbers go down. But I think we peaked, but I think it'll take us as we enter early next year when you start to see meaningful quarter-by-quarter improvement.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Okay. So the decline from 17 in the back half of this year is more from the New BAC stuff, would you say?

Brian T. Moynihan

Yeah, I think if you look at that chart on headcount, John, that Bruce showed you in the upper right hand corner, just watch the quarter-by-quarter toward trend and you can see that from a broad franchise, ABS and LAS were down 20,000 people year-over-year, and 3000 this quarter overcoming an increase in LAS. And so you've just seen it come through quarter by quarter by quarter, so we're still driven largely this year by the non-LAS, and the LAS will help probably more in 2013.

John E. McDonald – Sanford C. Bernstein & Co., LLC

Got it, okay. Thanks.

Operator

And our next question is from the site of Paul Miller with FBR. Your line is open.

Paul J. Miller – FBR Capital Markets & Co

Yeah, I thank you very much. Hey Brian, can you help us on slide 16, a follow-up question on the, you said the 8.6 private label that settlement last night, settled 20% of that or roughly $1.7 billion?

Brian T. Moynihan

Yeah, we said so. If you look at the, that's correct that the under monolines, as you look at the dollar of claims, it was roughly 20%. I think, Paul, though that the other thing to keep in mind is that, when you look at the monolines, some of the exposure is included within the claims, and with respect to certain other monolines, it's within the litigation number. But you're correct that with respect to this [in-quarter] settlement, it was 20% of the outstanding claims in the…

Paul J. Miller – FBR Capital Markets & Co

Of the monolines, of the monolines?

Brian T. Moynihan

Yeah, yeah, you said private improves at monolines, but the monolines aren't.

Paul J. Miller – FBR Capital Markets & Co

Yeah, I had it wrong. And then the other question is, is like the private, I mean the GSE, reps and warrant put-backs continues to grow, and I agree with you that after 25 statements, you shouldn't asked to pay any reps and warrants, but how is this going to be settled? Will the GSEs go to court, have they gone to court? I don't think you're in dialog with them, I know you'll probably don't make a comment about that, but how can we look at this as analyst? How would this be eventually settled, would you have to go to court?

Brian T. Moynihan

I think Paul, I would just reiterate your point and I think if you look back on slide 33, and look at the new claim trends that are coming in from the GSEs, it's very clear that the new trends that are building up in that bucket were back in the 2006, 2007 vintages. And so I think we clearly have a disagreement and the way that it gets result is obviously through one of two ways, either they would look to bring an action or alternatively there would be a settlement. But those would be the two ways that it would get resolved.

Paul J. Miller, FBR Capital Markets & Co.

Okay. Go ahead.

Bruce R. Thompson

Well, if you look on those pages, you can see that there are approved repurchases going through in quarters. So there's a pattern, which thinks we are still paying if any today, on once we believe we owe one.

Paul J. Miller, FBR Capital Markets & Co.

But you're paying on those that are less than two years of payments, right? The disagreements coming about on those loans have made over 25 payments, right?

Bruce R. Thompson

Yeah, we're paying on the ones that are consistent with our past belief that we're owing the money, and leave aside the payment exactly but it's really that we're owing the money or not.

Paul J. Miller, FBR Capital Markets & Co.

Okay. And thank you very much gentlemen.

Bruce R. Thompson

Thank you.

Operator

And we turn to our next question from the site of Glenn Schorr with Nomura. Your line is open.

Glenn Schorr – Nomura Securities International Inc.

Thank you. A quick one, the Basel 3, 8.1% that you showed, correct me if I'm wrong, it includes 2.5%, but not the NPR. I'm just curious on why you took that road and what your estimate? I might be using the standardized approach.

Bruce R. Thompson

Sure. That's correct, Glenn. And I think as we look at the NPR, obviously there's a comment period, there's a lot of clarification and qualification needs to get baked in. We've done the work and based on our understanding, realizing it's a draft and there's going to be a lot of comments, we think the negative effect would be around 15 basis points, but I think we're just hesitant to including the number until there's exact clarity and the different clarifications get made and the rules become a little bit more clear.

Glenn Schorr – Nomura Securities International Inc.

Okay, that's all we really needed, just to get that range, that's helpful. And then on the, just curious, I don't know if I missed it in the prepared remarks, but I think the private label claims spiked by like 77%, I'm not sure if that's a single private label holder or what's closed that spike.

Bruce R. Thompson

Yeah, I think it's a series of holders. And I think the one thing that I think is important to take a step back and when you think about these private label claims is that when we set up the reserves and entered into the settlement at the end of the second quarter of last year, we obviously established both reserves and range of possible loss with the anticipation that we would see increased claim activity.

And I think as you look at these private label claims, I think that it's important to think of a couple of things. The first is they're notional amounts. The second thing is if you look at the losses that tend to be associated with those notional amounts, they're roughly $0.60 on the dollar of what the notional amounts are. So if you take that $8 billion number that's come in and think about it in the context of $0.60, it gets you down to a number of roughly $5 billion.

And then you can take the settlement data that we've had out there, if you wanted to look at a Gibbs & Bruns type settlement number off of collateral losses, and if you apply that to that number, you get something that's well below $1 billion dollars. And obviously as we go through the process and set up both reserves and range of possible loss, we factor in the data that you see there.

Glenn Schorr – Nomura Securities International Inc.

Very helpful, I appreciate that. Last one is a quickie. There was nothing in the Q, the past Q on LIBOR. I know it's a sticky situation, but is there any, I think you only said LIBOR in U.S. dollars, if that's correct, I'm just curious, if you can update us on anything related to that issue now?

Bruce R. Thompson

Yeah, I mean I think, obviously, all of you have seen the different press reports and that you're aware that we're a panel bank, not unlike others, we've received and are cooperating with the enquiries that we get from both the U.S. and the foreign regulators. We're also one of the number of defendants in some of the other LIBOR related litigation. And just given the fact that these are active matters, there's really not a lot more than we can say than that.

Glenn Schorr – Nomura Securities International Inc.

Okay, thanks for answering the questions.

Operator

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

Matthew D. O'Connor – Deutsche Bank

Good morning. If I could just follow-up a little bit on the net interest income commentary, I guess first, when you talk about the jumping off point, the $10.25 billion, I guess I'm trying to think why it's not the $10.5 billion roughly including some of the liability management, and then from there, we've got to make adjustments up or down for loans, securities and interest rate environment.

Bruce R. Thompson

I think you're saying the same thing slightly differently than we did, which is that the $10.25 billion is generally where we were at in the second quarter adjusted for that activity. And you're right, going forward, there should be an incremental $240 million a quarter that would get added to that and then plus or minus whatever you see in balance levels in rate movement. So we said it slightly differently, but you're right, you can look at it the way that you just articulated as well.

Matthew D. O'Connor – Deutsche Bank

Okay. And then taking out the accounting new answers of premium amortization hedge, the market related hedge ineffectiveness, I guess we just think about the core portfolio and some of the re-pricing that you might see in your securities book if rates stay here, I mean I would assume there's just kind of some natural drag to the core NIM, if rates would stay here that we would expect?

Bruce R. Thompson

I think you almost needed to look at it portfolio-by-portfolio, obviously the securities portfolios are subject to rates either going up or down from here. I think if you go back and look at the different card portfolios that the actual rates on the card portfolios have been pretty sticky where they are. And obviously beyond just NIM, as you go down to the pretax line, we're benefiting from credit improvement within the card business.

And then I would say, if you look at and go through some of the commercial and corporate loan pricing that I would characterize that environment is generally pretty stable at this point. So to your point as far as where do you see and is there downward pressure going forward, I think it's going to be more a function of both loan balances as well as where rates go from here more than anything else.

Matthew D. O'Connor – Deutsche Bank

Okay. And then I guess you're not the only bank, but like a number of banks have kind of brushed off the low rate impact on the securities book. And I know it takes time for the securities portfolio to re-price, but if we adjust your yield [forcing to] one-time or it seems like it's around 2.8%, and my guess is the stuff that you're adding is 1.5% to 1.7% right now. So, I mean hypothetically if rates stay here, it's just kind of constantly down to that, right?

Bruce R. Thompson

I think what it says is that as we look out at and I think if you go back to last year, we could see and I think as we looked out, we're pretty close to exit the FAS 91 and the premier amor being pretty close to where we thought NII would land. And what I'd say at this point is that I think all other things being equal in this environment, obviously there's a little bit of pressure downward on that. I think the other thing though and clearly what we're looking to do and working real hard to mitigate and hopefully improve where we're from a net interest perspective is the debt footprint.

And I think as you look out, at the parent we've got roughly $15 billion of maturities during the balance of the year, and we'll look to clearly offset to the extent that that pressure exist, work real hard to continue to shrink the debt footprint, because we're paying roughly $2.5 billion a quarter on that long-term debt footprint, and obviously one of the things that's in our control is to continue to shrink that.

Matthew D. O'Connor – Deutsche Bank

Okay. And then just separate topic briefly here. Obviously there's a lot of cost savings coming from New BAC, probably another $7 billion or so versus what's in the run rate now, the legacy mortgage costs could come down. You've said and we've estimated maybe $8 billion annually. So I mean these are really big numbers off of your expense space. Are there any modest offsets, like ramp-ups in investment stance or some of the growth initiatives you've talked about in the commercial, anything in those areas that we should be factoring in?

Brian T. Moynihan

I think, so think about the markets business, so the revenues in the compensation will follow that, so being careful to, if always adjust that to what you think it is. But outside of that, we're, for example, we'd invest about $3 billion in technology development this year, about $750 million of that will go to New BAC implementation, which is going through the run rate. And as that comes off, we'll turn that $750 million level back to the core businesses. So embedded and that is what is shifting money around even something like that to help drive the business growth.

So of course, if you look in core consumer, you'd see expenses are flattish when it does the litigation quarter-to-quarter. That's because that business is putting on loan officers and putting on FSAs and putting on preferred bankers in the preferred growth area of the business, while in the mass market, the retail businesses were bringing it down.

So I think you're seeing those investments go on in the business. and so we're taking advantage of those opportunities, our marketing dollars, we're careful with them, but we continue to watch them and trim them. but we're getting rid of a lot of expense that is just coming from the overall reposition of the company including real estate expenses, and things like that.

So there's enough room to invest and embed it in the way we did New BAC is to at least a couple of years of growth capacity that we have left in there to assume an economy, which is bumping around at 2%, 2.5% type of growth. So I think we're comfortable that you won't see a big offset to it in that context.

When you go to the markets business, we built the international platform out. We'll always take opportunities to add people where opportunity is, but even on the international, we brought that back a little bit, because the fees available and the training process available were down. So I'm not overly concerned about the reinvestment rate within the businesses, there's money in there. so you should think a lot of that is only coming through today net of the implementation costs, which that we can reposition.

Matthew D. O'Connor – Deutsche Bank

Okay. thank you very much.

Operator

And we can go next to the site of Betsy Graseck with Morgan Stanley. Your line is open.

Betsy Graseck – Morgan Stanley

Hi, good morning, thanks. One follow-up question on the capital, you indicated that Basel 3 proposals, if we put them all, it would be a 15 basis point hit, lots of caveats around the fact that we need more clarification. I guess I'm wondering is that on an advanced basis or standardized basis?

Bruce R. Thompson

That would be on a, assuming all model approval. So it's going to be on an advanced basis, which I think from everything that we've seen best, I think we clearly believe that will be our governor.

Betsy Graseck – Morgan Stanley

Okay. And so, and then the standardized rate with the (inaudible), when you have to disclose whichever is lower, will the standardized have an impact there or no?

Brian T. Moynihan

I think, yeah from everything we're seeing at this point, clearly the advanced approach is going to be our governor. So as you look at the different rules assume were advanced.

Betsy Graseck – Morgan Stanley

Okay.

Bruce R. Thompson

The sales I remember, when we're saying fully phased-in, we are still deducting the entire DTA in terms of the calculations as of today. And by time those rules we really face, and we'll run that back overtime. So there are other adjustments, which where you're making this adjustments on this side, we agree with you, but there – the fully phased-in axis of the rules were there fully implemented and its still five to six years out. And so, as you watch us really play out, you'll see some differences in that the reported numbers during time. And we will earn back the DTA and that creates capital faster rate than other one.

Betsy Graseck – Morgan Stanley

Sure. Okay, that's helpful. On page 16, just want to make sure that, I am not sure you are saying about the DOJ/AG is holding on to the loans and then you've got this 15,000 loans sourcing, sold that are going to be completed this month. So I just want to make sure I understand how that's going to flow through. And to not only expected declines and delinquencies that's over and above the 300, are you talking about over the next 12 months or that's embedded within?

Brian T. Moynihan

No the servicing sales are embedded within that net 300,000 units.

Betsy Graseck – Morgan Stanley

Okay. But then the comments you are making about the DOJ?

Brian T. Moynihan

Yeah, DOJ just as we attempt to modify some of those loans, its slowdown what would have gone through the normal process as we satisfied those obligations. so we look at that as more of a one to two quarter delay, not something that's permanent, and I think the thing that we just wanted to make sure of is, we've spoken publicly before, that as we look out at over the course of the second quarter, third quarter, fourth quarter, first quarter that we were thinking it would be a net 300,000 reduction, we just want to make it clear that over that timeframe, we're not coming off that guidance.

Betsy Graseck – Morgan Stanley

Okay. and then as we think about the LAS expenses, as you've indicated a decline and the delinquencies, obviously should be driving down your LAS expenses. When I look at kind of the servicing pools foreclosure to liquidation or pass due to liquidation. I'm not seeing that much of a ramp up yet. Can you just give us some thoughts on what you're doing to try to ramp that up and when you think that turn is going to happen?

Bruce R. Thompson

Yeah. A couple of things, I think the first thing is that when you look at the expense side, just to keep in mind embedded in these numbers are couple of things that we've observed in the second quarter as we go forward. First is obviously as part of the different settlements, we had to staff up and obviously going to single point of contact at the level of expense. The second thing is there are a variety of obligations under the DOJ/AG settlement including getting through the modifications that adds expense, and obviously there are some of the look back and other activities that adds expense. so as you look at those different things from an expense perspective that those are all embedded in the second quarter and it's why we believe that they will trend down based on the guidance that Brian had given before. I think as it relates to some of the activity as far as the different buckets of getting the number of 60 plus day delinquencies out. I don't think that there is any question that the second quarter was a little bit slower in those different buckets than we would have expected. At the same time, as we look out at, and as I said over the next couple of quarters, as we see the different pipelines, the different servicing sales and everything else, we're still quite comfortable with what we've communicated before.

Betsy Graseck – Morgan Stanley

Okay. And then last on the DOJ piece, a lot of that review have to be done by the end of this year, can you tell us how much you think the expenses to come down as you move into 1Q – 2Q from those reviews being completed?

Bruce R. Thompson

Well, I think we said, it will take us throughout the year, so you'll see more benefits next year in that in terms of them coming down, plus the day-to-day work. You've got multiple things going on, you've got the DOJ, you've got the foreclosure look back which is running through here, and then just getting the inventory down overall. And remember, also that there is a flow in each quarter that we're – that you just – each in this 75,000 to 80,000 new units come in, in the second quarter. So, just from the general delinquency [flaws] of portfolio.

So, all that put together, what we're saying is, for the rest of this year, we are busy getting, that the DOJ behind us getting the work done on the look back and get that behind us, which is very expensive largely not through the personal line, but largely through the out-of-pocket expenses to third-parties to independent foreclosure review. And then you'll see it start coming down next year more measurably, because those two activities will be completed as you said and then the rest of the balances come down. So, year-over-year will be down 260,000 plus units, remembering that year we probably had 250,000, think about to make 300,000 new units flow in from the delinquency [flaws] of portfolio, so you've made a net gain over top of that and that front end flow is slowing down as the portfolio shrinks and the asset quality gets better.

Betsy Graseck – Morgan Stanley

Sure, got that. I just wondered if it was puzzle put a number on the third party payments that you've got, sustaining with this review which can end at year end.

Bruce R. Thompson

There is nobody working harder to get this number down and we are.

Betsy Graseck – Morgan Stanley

Okay, thanks.

Operator

And we'll take our next questions from the site of Andrew Marquardt from Evercore Partners. Your line is open.

Andrew Marquardt – Evercore Partners

Good morning, guy. Just back on capital, so I just want to – with the capital ratios coming in above what you had targeted for the full year as well. How do we think about, do you have a new target for the end of this year?

Bruce R. Thompson

We've not put out a new target for this year, I think, the things that I would say, as you look at on capital, let's think about both numerator and denominator, on the numerator side, if you look at us generating net income and given where we are from a DCA prospective, I think generally you can think about the capital number growing in the zip code of one and half times our net income. So you've got that benefit and that relates to the tax position that Brian referenced, and unlike some of our other peers, it's largely in the U.S where we generate income.

Secondly, and I think one of the benefits that we have this quarter that just be aware of is that, obviously as we continue to drive down into self servicing that benefits the MSR, which is the capital benefit, that MSR obviously also bounces around with rates as does OCI. So I think as you think about the numerator, I would think about those different things, and as we look at the denominator and moving forward, I think we still believe that we've got a decent bit of runway on the denominator as we go forward both from actual risk reduction things that we continue to do, and as we continue to reduce legacy assets that we believe that there's upside there. and then secondly, that there's still a lot of model work that we're working through that we believe we'll provide further benefit as we go throughout the end of this year and in to next year.

Andrew Marquardt – Evercore Partners

Should we assume that the run-offs portfolios more than offset incremental growth or are they are offsetting out, and how do we think about kind of the overall balance sheet size?

Bruce R. Thompson

Yeah. I think that clearly some of the stuff that runs off, given its nature tends to be higher on the risk rating spectrum. and so, as you think about that amount that runs off for $5 billion, some of that has decent risk ratings associated with that, until we see the actual mix of what we're able to get and what comes on, it's probably not appropriate to comment. but we're obviously mindful, as we look to grow and put assets on of what the different Basel 3 risk ratings are?

Andrew Marquardt – Evercore Partners

Got it, thank you. And then lastly, just back on expenses. Can you help us understand in terms of Phase 1 and Phase 2, $8 billion by mid-15. I just want to understand, with this Phase 1 now, the $5 billion you've realized the billion, is that, is there a timing of realization on the same wide tab that it had before, I recall it was going to be coming in sooner kind of by the end of '13, but maybe I'm not recollecting correctly?

Bruce R. Thompson

Yeah. I think a couple of things Andrew. what we would have suddenly came out with New BAC 1, is that, it was $5 billion on an annual basis, it would be fully phased-in by the end of 2014, we said that we've realized 20% of that by the end of 2012 and you're exactly correct that we've subsequently said that we're ahead of schedule with respect to that 20% by the end of 2012. And as I mentioned earlier, as you think about the New BAC 2, and you think about that $3 billion over the course of the next three years, unlike New BAC 1, I would generally think about that in the buckets of kind of a third, a third, a third in each of the three years.

Andrew Marquardt – Evercore Partners

Got it. So just to be clear on that New BAC 1, if 20% is realized in this year, how much should we think about next year, is the bulk of that coming in next year, is that fair?

Bruce R. Thompson

We've not provided that guidance or split between the second and third year.

Brian T. Moynihan

Just to be clear, we haven't changed what we said before. We just added it, the 2015 comes attached to Phase 2, and not Phase 1.

Andrew Marquardt – Evercore Partners

Okay. Thank you.

Operator

We go next to the site of Jefferson Harralson with KBW. Your line is open.

Jefferson Harralson – Keefe, Bruyette & Woods, Inc.

Hi, thanks. I was going to follow up on some, on the rep and warranty question. Given that we're not in dialog with Fannie and that the private label seemed to be trying to get their suites in before statue limitations ahead. Should we expect the same types of outstanding claims increase next quarter?

Bruce R. Thompson

Yeah, I think at this point, we're not going to predict what these claims are or not, because I think you have to keep in mind that first they tend to be lumpy, and the second thing is that, they don't think we want to confuse claims that come in versus those that are valid, but have the ability to come in. But I think with – as you think about it, and you think about when the underwriting and the originations with respect to these slowdown as we got into 2008, we're clearly almost four years into that. So, I think generally speaking, your point has to mere, but we're not going to predict exactly what we'd expect these to be. Besides that that we expected those to increase, we'd continue to see some of those increases in the second quarter, and we'll see some more going forward.

Jefferson Harralson – Keefe, Bruyette & Woods, Inc.

All right. And just on a follow-up, is it possible, I'm trying to frame that $6 billion of increase in the outstanding claims, and you give us the net claims every quarter. Is it possible to look at the total claims that you've gotten over the cycle and compare that $6 billion of new claims to the total claims? I mean is it, that you've gotten, I don't know, $60 billion of claims, is it a little different or $600 billion of claims, is a different – is it different growth rate?

Bruce R. Thompson

I think, if you look at 32 and 33, you can sort of see that we paid out $13.6 billion on page 32, the slides through this quarter that's actually been paid on resolution and these types of things, and then we have reserves established $15.9 billion. And then if you look, I don't have here in front of us. If you can look at this chart from page 33, we've been producing this now for a better year and half, so you can sort of go back and see the claims flows literally quarter-by-quarter going back pretty far.

Jefferson Harralson – Keefe, Bruyette & Woods, Inc.

All right, thanks guys.

Operator

We’ll go next to site of Moshe Orenbuch with Credit Suisse. Your line is open.

Moshe Orenbuch – Credit Suisse

Great, thanks. Couple of things just on the reps and warrants, Bruce, I understand the idea that you set up the reserve contemplated a lot of this. What should we look at from our stand point kind of out here to kind of get the sense that you would need to add to the reserves by this what would have to happen in order for that – for you need to add to them?

Bruce R. Thompson

I may think you almost need to go through the three different buckets. We obviously, as we’ve said before believe that the work in a way that we’ve reserved for the GSEs is based on our obligations, and we continue to believe that we’re satisfied with those obligations with perspective of the GSE bucket.

I think second, if you go to the monolines, the deal that we’ve referenced in quarter that we signed up that got done today was in the context of our reserves. So I think in the context of getting that one behind us, it was where the reserves were. And so I guess given that a fair bit of the monolines stuff that’s out there it relates to litigation obviously it’s something from a litigation perspective was different than what we’ve assumed. That would affect it.

And then I think third, if you go down to the private-label stuff, you’ve got two different buckets of liability, you’ve got one from the rep and warrant perspective, and obviously if there was different behavior from a claim’s perspective than what we’ve assumed in an outcome that we didn’t anticipate. We have to adjust with that point if the experience was different than what we have assumed.

And then obviously the fourth piece of it is that there is securities litigation that’s out there that we touch on as far as looking at range of possible loss within our litigation bucket. So I think we – at this point, we’ve got experience, we’ve got the different buckets, and we’ve laid out what those are, and obviously changes from what our assumptions and what our experience is, is what would change that.

Moshe Orenbuch – Credit Suisse

Great. On the comment that you made about the retail banking platform, now that you are actually on one platform, is it more likely that you will kind of have a new retail banking offering and kind of adjust pricing and try to recapture some of the revenue that's been lost over the last several years. Any thoughts, you can give on some in that front?

Bruce R. Thompson

It's a combination of everything. but if you look, we've sort of passed through all the different regulatory impacts now and you can see – if you look at the consumer saving, you can see the revenues have stabilized in terms of the fee revenues and start to grow, really good activity at this point, because you've now had the impact of the overdraft, and the interchange and everything we have through the core (inaudible) result. and so the team is working on combination of all the factors, driving revenue from the standpoint of loan originations and things like that of the core portfolio, bringing down expenses at 57 range or so whatever we reduce this quarter. and if you look at the people, the headcount in this business is down from a high point, at one point 100,000 down to say 70,000 to give you the sense. And so we continue to reduce that.

So it's a combination of all things. so we continue to do a new offering, new account structures and something we've been testing, we've been clear about that. We haven't made any decisions there and we continue to look at it. but interesting enough this mobile platform growth really has changed some of our thinking there, because the – for example, we send 20 odd million texts a month to people telling their balances are low, the initiation of payments after mobile platform is about $1 billion a week now, up dramatically year-over-year and continues to grow, and it's just a much more efficient and frankly, strong service models. So I think it's going to be, continues to be a combination of expenses in revenue and activity. I'd tell you that the court sales checking accounts were strong this quarter, the account closures by our customers lowest since they've been in 2007. so that net attrition rates are down and we keep driving all those different things. So I wouldn't mean it's any one thing, but the platform, really the Northwest and the California, because people that we did in the Northwest gives us a much more cheaper platform obviously, but also much more capable platform that we couldn't change things put thing get it into the system. And we continue to look at account structures and making sure we balanced the rates we charged with the value we get.

Moshe Orenbuch – Credit Suisse

Okay, thanks. Just one quick follow-up. Bruce, (inaudible) this already, but did the DTA go down in the quarter or what happen there?

Bruce R. Thompson

It went down by a small amount.

Moshe Orenbuch – Credit Suisse

Small amount, thank you.

Operator

We'll go next to the site of Brennan Hawken with UBS. Your line is open.

Brennan Hawken – UBS

Hi, good morning. Thanks for taking the question. My question is on LAS first off, the staffing levels there, it seems as though the FTE definition that you guys used in your LAS disclosures bounces around a little bit. I was hoping, you could maybe give some clarity on that, and maybe provide some consistent quarter-over-quarter disclosure over an extended period of time. So we could get a better handle on exactly staffing levels there and what's moving, because it doesn't seem like it just the FTEs plus third party. Can you help out there a little bit?

Brian T. Moynihan

I think, we think consistently the FTEs that what we count the FTEs, so you could see that what you – sometimes you hear numbers that are 42,000 and 55,000, the 55,000 are contractors, we have about 10,000 to 12,000, 13,000 contractors working in the given time that are not on our payroll. That we obviously pay through the expense line, and we'll talk about 50,000 plus people working, but the FTE numbers of (inaudible) consistently and we could – if you look on page 15, you can see some 7,000 employees FTE equivalents from second quarter of 2011, 2012. But the contract that one moves around a little bit based on the ebbs and flows of what we're doing and you should see those come down.

Brennan Hawken – UBS

Yeah, but last quarter in your deck you had FTEs at 38.1% and now you are at 42.4%, but you say you are only up 0.3%, so I guess I don’t understand that.

Brian T. Moynihan

In the last quarter of adjustment there is a group that’s in our core consumer business that does the good mortgage service thing before collections and they’ve moved some people around, so there might be a little bit noise there, but from a core activity level you are seeing that this thing is really around about 55,000 people equivalents, 42,000 with us 13,000 with our people.

Brennan Hawken – UBS

Okay, I guess it will be helpful to see it consistently disclose because I mean, what I am kind of getting at here is, starting at about third quarter of last year, indications were that LAS staffing was out on your peak, but we've actually seen the staff always go up every quarter since and I might be not remembering this correctly, but I seem to recall you saying previously that LAS staffing should start to go down in the back half of 2012 previously; and now it seems like you are calling for those declines to be held-off until 2013, so what I'm getting at is, can you give us a sense of your confidence level of these cost projections and maybe how much we should bake in there?

Bruce R. Thompson

Okay. Let me just make sure and with respect to the staffing levels in what you are looking at, what was adjusted this quarter was the – within legacy assets servicing there is some non-distress servicing that's in there that when we reported this segment we adjusted the people that do some of that non-distressed serving in the numbers that's reflected in the numbers and we've gone back and adjusted those numbers to make sure that it' consisted on a look-back basis, so you've got apples-to-apples within these numbers.

Okay, the second is, it relates to the staffing levels, I think what we've said this quarter with prospect to the overall expense base and staffing is that we're wrapping the different parts of the different DOJ/AG and other settlements, and we would start to expect both the people in the expense to go down probably more towards the latter part of the year with significant momentum in 2013.

Brennan Hawken – UBS

Okay, and I get – believe me the business has been really difficult and I'm sure it has been really hard to manage so I can certainly appreciate the challenge is there. I guess it, just the key part of the story is a lot of this expense improvement, and some of the commentary around improvements in 2013, it seems as though, it has been, that's going to be sort of slow, whereas you get a more substantial pickup in 2014, and I think Brian, you've made some of those references in some of the investor presentations what I've heard.

So could you give us maybe a bit more, is it possible to get a bit more specific on, what you're talking about there? I mean are we talking someone in the ballpark like 10% to 15% reduction in that $8 billion in our X litigation numbers, is it more like a third, is it – what are we thinking about for 2013 and then 2014 is it possible?

Brian T. Moynihan

We've given you an overall view point that says that the amount of 60 plus day delinquent loans will ultimately get into the say the 300,000 range that will take us the rest of this year, and next year to get it down into those ranges and probably end of '14. Before that we're saying that it takes about $500 million of quarterly cost versus the [$2.8 you have in your day] and so that's what we get, the pace of this even six months ago, for example, now closure look back we just got the final rules recently a bad habit finish the work and that was month after we expect it.

So, a lot of it is based on in that case we had to get the final rules to actually go do the work and the Department of Justice, the settlement came through in early April, final settlement. A lot of people believed it would be done a few months before that because it was largely worked out. We couldn't start the work until the settlement was finalized.

So many things move around a month or two, but in a grand scheme of things the key is to get this from the $2.8 billion to the $500 million level. And they're – in there all the people cost and in there on top of that is some of the effectively each quarter the one-time adjustments, the life expectation, foreclosure delays and things like that, but we adjust on. But I think you will see this come down relatively quickly once we break through the two big bodies of work, and then beginning the Department of Justice settlement work and the look back. And then after that it is really scheduled against the work flow down to the people will come down. And we are working as hard as we can to get it down.

So I think any adjustment to the view of timing is largely done just to make sure we do it right because the number one thing is to do this right for the consumers continue to modify the $1 million plus loans we've modified, continue to work the short step process and other alternative resolutions continue to do all the work under all the various programs that are there now and get out of – but it's always subject to making sure we do it right, and then we are not going to bring the headcount down until we got the job done well.

Brennan Hawken – UBS

Right. Yeah. As I said, I get it, it's been a challenging environment. So that's probably been real difficult. Last, not to beat the dead horse here, but the putback claims, just on the GSC side, because I get it the private label right, that's going to be solved by the courts and probably pretty difficult, but at least with GSCs is a lot more history. And when you look at some of the Fannie and Freddie filings, BOA, Countrywide really standout on the pending and disputed claims that you are about 6.5 times your closest peer even though the repurchase levels are about in line and withdrawn claims are only about 1.8 times your closest peer. so it seems as though these disputes are BOA specific issue. what gives you confidence that you're going to be able to buck the trend of the entire industry and can you help us out on that front?

Bruce R. Thompson

I think all we can really say at this point quite frankly is that the way that we look at this in the reserving is based on our view of what our understanding agreements are. We've said that there are disagreements that are out there. And I'm not sure there's a lot more saving in that, I think the only other thing that I would say those is that as you look out at and you look at these agreements and you go back, we were able on a look-back basis to get a deal done with Freddie Mac on a global basis to resolve all the Countrywide claims prior to the end of 2008. So I think that the way that we're going about and looking to solve these challenges, this has not changed a bit.

Brian T. Moynihan

I think you also have to remember that if you go and look at 32 and things grew the categories where there's resolution on. and so that clients are really coming through, there's obviously disputes are in the sense that the private labels, the FTE issues have been resolved back in New York for over a year now, and we're waiting for the core process to take place as Bruce mentioned in the Countrywide. So I think the issues have – the volumes we would have are not coming through a big parts of the production at the time of 2004, 2008 production, because they are settled and monolines with same thing. So obviously the people that I think specifically Fannie that we are going to have biggest target of whether the people still see so many clients.

Brennan Hawken – UBS

Right, okay. and then the last one, just on the wealth management, can you give us a sense for net new assets and what they were and what they have been over the last few years, because it seems as though that that's not a disclosed number anymore? It'd be really helpful to get that figure?

Bruce R. Thompson

Okay, which number you're looking for?

Brennan Hawken – UBS

The net new assets in the brokerage business, not necessarily asset management, but to wealth management?

Brian T. Moynihan

We'll really get back to you on that. You can see there's long-term AUM flows, which has been driving the business to be more of a, in the financial plans with the customers and clients. The AUM flows where we focus as we move from sort of the transaction based to the more of money-managed basis and you can see those flows went strong, we'll get through the net new asset side.

Brennan Hawken – UBS

Sure, thanks.

Operator

Your next from the site of Chris Kotowski with Oppenheimer & Company. Your line is open.

Christopher Kotowski – Oppenheimer & Co.

Yeah, good morning. Syncora's press release sided that they received $375 million in the settlement. And you said that it was about 20% of the $3.1 billion, which is a bit more than $600 million. So that implies the settlement rate of – at about $0.60 on the dollar. And I wondered is there anything that would make Syncora better or worse exposure than the rest of the monoline claims? And then secondly, why would the settlement rate on the private-label be radically lower than what it is on the monolines?

Bruce R. Thompson

Yeah, I think you have to be careful Chris, I can assure you that the rate if which was paid was not anywhere near the number that you quoted, and the reason is keep in mind with the monolines. As we've talked about, you've got a couple different buckets that go into what you think a monoline exposure is that drive that number significantly lower than what you just quoted. The first is, there are claims that come in that monolines have submitted. At points in time, monolines have stopped submitting claims, because they believe that they're going the route of litigation. And then third, over above those two buckets you have things that may happen in the future that have not been realized or worked through. So when I quoted the fact that, the Syncora settlement was 20% of those claims, you should not in any way extrapolate out that, that's the payment percentage.

Christopher Kotowski – Oppenheimer & Co.

I try to understand that, but I'll follow up. Thank you.

Operator

And we'll take our final questions from the site of Mike Mayo with CLSA. Your line is open.

Mike Mayo – CLSA

Hi, just a real big picture question. What inning are we in from the negative impact from this very low interest rate environment? You had one bank, say it was pretty much done; you're not going to have a whole lot more negative impact. You had another large bank saying, well it's more than half done, it's mostly done. And a third bank has said, well actually it's going to hurt a lot more for you to stay here. So where do you stand on that question? And specifically, I know that this quarter the deposit rates only declined by two basis points whereas the yield on loans were down 11 and commercial loan yields were down 17?

Brian T. Moynihan

I'd say a couple of things on that, Mike. The first thing I'll address is just your last question, which is that where do you – we continue to look at, and given this rate environment to be very disciplined is what – with respect to what we do on the deposit pricing, if rates persists we'll continue to revisit that; realizing that when you get to the levels that we're at with perspective deposit pricing, there's only so much further that you can go. I think with respect to the rest of your question, I think you need to split the rate question really into two pieces. The first piece is that, as you look at loan spreads in what we're seeing from a loan spread perspective, on those things that are floating rate base, the spreads at this point in some of the new origination spread that we've seen, that the spreads on those have stabilized.

So I think as it relates to – is there more downside or you're concerned more on rates with respect to that. At this point, I think we feel okay with that. The last piece is, where it is with respect to those fixed rate instruments. We've been very careful at this point to manage, and to manage the duration such that we don't have OCI issues with respect to Basel 3.

And if you look at on a swapped basis with respect to duration on the securities portfolio, we're just over a year on a swapped basis realizing it's a couple more years if you didn't take into account swap.

So I think, as we look at it, the piece that probably has some element of risk over time is that these rates stay at this point, the overall securities portfolio, but I think a lot of what we do at this point, the low rate environment is baked into it.

Mike Mayo – CLSA

Just one follow-up, as I'm looking at page 10 of the supplement, and I'm sure you know these numbers, total commercial yield from the first quarter to the second quarter went from 3.52% to 3.35% that's a 17 basis point decline in the commercial loan yield, so is there noise there, what gives you such good confidence that, that decline is pretty done?

Brian T. Moynihan

I think if you go into it that, if you look at where the majority of the noise came in, and if you look at – there are two pieces that moves, the first and probably the most significant was when we disclosed this back in the first quarter, we had some gains on the overall leasing portfolio that settled up during the first quarter.

So if you look at that, if you look at the number, you can see the leasing portfolio came in by about 100 basis points, that's clearly something as we look out at that we don't expect to repeat.

So I think as you look at those two buckets, that's the reason both – so if you look at U.S. commercial, it was down a little bit, commercial real estate was effectively flat, commercial lease is where you saw the biggest change, and on the non-U.S. commercial stuff, we will see that number bounce around a little bit as if we're doing trade financing, it tends to have a little bit lower rate than some of the straight-up corporate stuff. But I would say, as we look out at and look at the new origination spreads that we're seeing on the base business, we really didn't see any erosion of spreads that we booked with respect to newer loans.

Mike Mayo – CLSA

For that jumping off point of what, would you say 10.2 billion of NII, you expect that to probably be flat or higher than?

Brian T. Moynihan

What we said at this point is that, we think that's the jumping off point, we mentioned the benefits that we have from the long-term debt footprint, and then we'll obviously need to see activities during the quarter.

Mike Mayo – CLSA

All right, thank you.

Bruce R. Thompson

Mike, to back up to the broader level, think about two or three things, one is the loan rate environment has been impacting us, and that's why one of the issues about the – you have to go out to the cost side and get the cost structured in line, because low and straight volume with respect to revenues.

Secondly, remembering these one-off portfolios we are giving up net interest margin gross yield, bit if you look at net interest margin minus charge-offs you'll see that it's actually growing year-over-year second quarter last year, second quarter this year. So what is running off is costing us money that is contributing a lot for the pre-tax volumes we said. And the third is, we continue to have benefits that we think that are unique to this franchise because of the amount of acquisition debt we've build up in the long term debt size to continue to drive that down, so as you watch the balance sheet shift across time the non-interest bearing sources, deposit funding sources become more and more, higher and higher percentage of which they are already high of the total funding.

And if you think about it very simply, we pay about a $0.5 billion a quarter for all the deposit funding, $1 trillion and we pay about $2.5 billion round numbers a quarter for the $308 billion of long-term debt. So the effectiveness of moving that down, because just don't need the size, we have the – because we are running of late, as we switch [on gear] yielding as much is very beneficial going forward. So we are fighting the trend, this is a trend that's held so longer than most have expected, but we're fighting with all the areas and the corporate that we have.

Mike Mayo – CLSA

All right. Thank you.

Operator

And we do have one more question queuing in the site of Matt Burnell with Wells Fargo. Your line is open.

Matthew H. Burnell – Wells Fargo Securities, LLC

Good morning, just a administrative question, you noted that your tax guidance for the reminder of the year is around 22% excluding the effects of the UK tax. Last quarter you noted that, you thought the tax rate was going to be about 30%, I'm just curious as to what's driving the decline in the tax rate guidance.

Bruce R. Thompson

I believe and I'd have to go back and look, I think if you look at it and what we are saying now is that, the 22% includes the different preference items that we have based on where we are today. And as we look out, that 22% is a good number as it relates to what we'd expect before as we've said adjusting for what we'd see coming out of UK tax.

Matthew H. Burnell – Wells Fargo Securities, LLC

All right. And then again another – one final administrative question, you mentioned about $300 million in benefits from your actions reducing higher cost debt, $60 million of debt was recognized in the second quarter. Then on page 8 of the slide deck, you say that there's about a $100 million of savings from those actions in 2012, and another $180 million expected in 2013. Is that $300 million number you're talking about the equivalent of the $280 million in combined savings in '12 and '13?

Bruce R. Thompson

We gave you the information on the liability management action to give you a senses to the benefit that they would provide. So the way to think about those savings that we've talked about in the liability management, is they're embedded in the $300 million quarterly benefit of which $240 million will be incremental in the third quarter of this year relative to the second quarter of this year.

Matthew H. Burnell – Wells Fargo Securities, LLC

Okay, that's helpful. Thank you very much.

Bruce R. Thompson

Thank you.

Operator

We have no further questions at this time.

Bruce R. Thompson

Thank you everybody. We look forward talking to you next quarter.