Operator

Good day, everyone, and welcome to today's program. (Operator instructions) It is now my pleasure to turn the conference over to Mr. Lee McEntire. Please go ahead.

Lee McEntire

Good morning, thanks for joining us on the web as well as the phone this morning. Before I turn the call over to CEO, Brian Moynihan and CFO Bruce Thompson, let me just say that we may make some forward-looking statements. For details on those I will refer you to our Page 24 and 25 in our earnings deck material, either the website or our SEC filings.

With that I'll turn it over to Brian.

Brian Moynihan

Thank you, Lee. Good morning everyone, and thank you for joining us to review the first quarter results. As you can see from our numbers, we report a loss this quarter. That loss reflects the cost of resolving more of our legacy mortgage issues, as well as adding reserves primarily for previously disclosed legacy mortgage related matters. As disappointed as we are in the bottom-line results; we're pleased to report that the businesses reported earnings at a level that will allow us to substantially offset these losses. And also at the same time we were able to sell grow and improve our Basel III standardized regulatory capital ratio during the quarter.

Bruce will take you through the particulars of our results. But first I want to spend a couple of minutes looking at the progress we continue to make across the customer groups that we serve. In particular, we added some slides to the appendix on pages 17 and 18, which highlight multi-year trends across our customer groups. Let me just touch on a few of those and connect them to our results.

When you think about broad consumer franchise for mass-market consumers, affluent and wealthy consumers, as we think about the mass-market group, the strategy in our retail segment has been to lower the cost of service, so we could improve our customer experience. We do that by continuing to optimize our delivery networks of all types in response to customer behavior changes. Banking centers and basic teller transactions continue to decline as customers move their business to mobile and online transactions. Yet we still have many millions of visits each week to our branches. But in the aggregate, our self-service channels of ATM, online and mobile transactions continue to grow.

This quarter, more than 10%, of all of the deposit transactions that consumers make in our Company are now done through mobile devices, as people effectively carry a branch in their pocket. This, coupled with other measures allowed us to reduce our cost in our consumer banking business, 4% from last year's first quarter. It allows us to continue to invest in other areas to further improve customer satisfaction and grow sales.

On the preferred side of our consumer business, where we serve mass-affluent clients we continue investing in this group by adding sales specialists. We now have more than 6500 sales specialists concentrated in the top banking centers. We have also increased service associates to drive satisfaction of these clients as well. The end result, when you put all consumer business together is a segment -- is organic deposit growth of $23 billion from last year to a total of $535 billion in deposits. On investment side of this general consumer client base, our Merrill Edge assets grew 21% from last year. When we put the segment together, the earnings in our consumer and business banking business improved 50% year-over-year to nearly $1.7 billion this quarter.

As we move to the wealthy part of our consumer client base, in our wealth management business with U.S. Trust of Merrill Lynch, client balances again grew this quarter and now total over $2.4 trillion. This has driven record asset management fees in the segment and we are seeing growing demand from these customers for other banking products as loans and deposits continue to increase. This business made over $700 million after tax this quarter and had a pre-tax margin of more than 25% for the fifth consecutive quarter.

We will move to our Company side of our house, our commercial and corporate client base. We continue to retain our leadership position investment banking fees with $1.5 billion in fees received this quarter. We also saw solid loan and deposit flows this quarter from our commercial customers. These activities drove a 6% increase in revenue in our global banking business from last year.

In a global markets business, which serves investing clients, we are at $1.3 billion after tax, as our top tier sales and trading platforms generated over $4 billion in revenue this quarter. So we put it all together, we have leadership positions that we continue to work on in each area and continue to see good momentum across the year quarter. We're pleased also to be in a position of returning capital to shareholders as we increased dividends in addition to our newly authorized share purchase program. As usual, as we say each quarter, we remain focused on executing the strategy to connect the capabilities of this company with its customers and shareholders for your benefit.

With that, I want to turn it over to Bruce to cover the earnings results.

Bruce Thompson

Thanks, Brian, and good morning everyone. I'm going to start on Slide 2, and work through the first quarter results. We did record a loss of $276 million, or $0.05 per diluted share this quarter. Driving the loss during the quarter was litigation expense of $6 billion, which cost us roughly $0.40 a share during the quarter. We recorded $3.6 billion in litigation expense for the previously announced FHFA settlement and we recorded another $2.4 billion primarily associated with the increase in reserves for previously disclosed legacy mortgage related matters.

Revenue during the quarter on an FTE basis was $22.8 billion, which was $1.1 billion higher than the fourth quarter of '13, but below the $23.4 billion we saw in the first quarter of 2013. On a linked quarter basis, our revenues benefitted from improved sales and trading results in asset management fees and were offset by lower net interest income as well as lower mortgage banking revenue.

Compared to the prior year period, revenue was down slightly on lower net interest income, mortgage revenue in sales and trading, but did benefit from higher asset management fees. Total non-interest expense during the quarter was $22.2 billion but did include $6 billion of litigation expense, as well as $1 billion of retirement eligible incentive cost that we recognized during the first quarter of each year.

If we exclude these items from both the first quarter periods, for comparability of the underlying trends that we saw within the Company, expenses did improve by $1.2 billion, or 7% and were driven by lower LAS non-litigation cost as well as some of the new BAC improvements that we saw. Versus the fourth quarter of '13, the slight increase in non-interest expense reflects increased revenue related compensation in our markets business and was partially offset by the decline that we saw in our LAS non-litigation expense reductions.

Provision for credit losses was $1 billion during the quarter and increased $673 million versus the fourth quarter of 2013. In the first quarter of this year, we released $379 million from our loan loss reserves and that compares to a release of $1.2 billion in the fourth quarter of 2013.

Before we move off of this slide, let me mention that we had a few other items in the quarter that in the aggregate benefited EPS by above $0.04 a share, as higher equity and debt security gains, net DVA and the resolution of tax matters were positives and they were offset in part, by the cost of retirement eligible incentives, as well as the negative market related impacts on our net interest income. One last point on FBO and DVA. This quarter and moving forward, we report the net impact of these two items as one net DVA valuation number for derivatives and structured liabilities within our global markets business.

On Slide 3, you can see our period end balance sheet increased from the end of 2013 as we grew both cash and securities in light of increasing liquidity requirements in our primary banking subsidiaries. Ending loans declined $12 billion led by lower residential mortgages, principally within our discretionary loan portfolio, as well as seasonal declines in credit cards. Loans were up in our global banking segment which I'll cover in a bit. Period end deposits were up $40 billion from the fourth quarter and are up year-over-year by more than $38 billion. Our tangible common equity ratio declined to 7% due to the increase in liquidity that I mentioned earlier.

Tangible book value did increase slightly during the quarter and we repurchased 87 million shares for $1.4 billion, which completed our share repurchase program that we established at this time last year. In following our CCAR results, we announced a new $4 billion share repurchase plan as well as the intention to increase the quarterly common dividend to a nickel a share in the second quarter of 2014.

We move to Slide 4, we look at our capital ratios under Basel III. Recall this is the first period reporting under Basel III transition which became effective January 1 of this year. Under the transition rules, our common equity Tier I capital was a $151.6 billion, well risk weighted assets were $1.28 trillion, which resulted in a [audio gap] we move to the advanced method, our CET1 ratio was 9.9% and was impacted by the increased level of risk weighted assets related to operational risk, which were largely offset by reduction in other risk weighted assets, as well as the increase in capital.

We move to supplementary leverage ratios, we estimate at the end of the first quarter of '14 we exceed the recently updated U.S. rule that apply in 2018. Once again that would mean our bank holding company is above the 5% minimum and our primary banking subsidiary BANA and FIA are both in excess of their 6% minimums. I also want to remind you that our tier one capital and supplemental leverage ratios will benefit by approximately $2.9 billion in the second quarter of '14 if we receive shareholder approval to amend our series T preferred stock.

One last item I want to note regarding capital in the first quarter of '14, it includes the adjustment, the capital allocations across our business line. We included a slide in the appendix that notes the new allocation. As you look at that, you'll see that the primary adjustments were allocating more capital to our global banking business given the loan growth we've seen in that segment and to a lesser extent increases in both our global market as well as our global wealth management business. As a result of these changes, the amount of unallocated capital that tell that's held at the parent declined from $16 billion to $5 billion at the end of the first quarter of 2014.

We move to the Slide 5, funding and liquidity. Our global excess liquidity sources increased more than $50 billion to a record level of $427 billion as a result of seasonally strong deposit flows as well as some of the bank debt issuance that we did earlier in the quarter.

Our total long term debt of $255 billion was $5 billion higher than the fourth quarter of 2013. These figures do not include the $7.6 billion of debt issuance that settled on April 1st, and was executed at more favorable spread than our existing debt footprint. That issuance has enabled us to maintain our strong excess liquidity position of the parent despite the cash flows required by both scheduled debt maturities as well as recent litigation settlement.

Our time to acquire funding remained very strong at 35 months, with parent company liquidity unchanged at $95 billion. Moving forward and as we consider the FHFA settlement, we would expect parent issuance to be below maturity as the focus evolves towards continued yield improvement following the past several years of sizeable balance reductions within our debt footprint.

We move to Slide 6 on net interest income. Net interest income on a reported FTE basis was $10.3 billion, which was a decline of $700 million from the fourth quarter of 2013. That decline was driven by a swing of roughly $500 million associated with our market related adjustment or FAS 91. FAS 91 was approximately $300 million negative in the first quarter of '14, compared to the $200 million benefit that we saw in the fourth quarter of '13. The balance of the decline was largely due to two less interest accrual days in the first quarter of '14 relative to the fourth quarter of '13.

Our net interest income, if we exclude those market related adjustments was $10.6 billion, once again down a little over $200 million from the fourth quarter of '13. Other drivers in the quarter were lower average consumer balances in yields which were largely offset by a reduction in long term debt cost as well as continued decline in our deposit pricing.

As a result of these net interest income impacts, as well as the higher earning assets, the net interest yield, once again adjusting for FAS 91, declined 3 basis points to 0.36% in the first quarter of '14. As it relates to asset sensitivity in the balance sheet, we continue to remain poised to benefit from higher rates particularly when the short end of the curve moves up. As we continue to manage our OCI sensitivity, we're also mindful of both liquidity and leverage roles. Our first quarter 2014 increase in securities included shorter duration treasury security, instead of mortgage backed securities and these treasury securities are much more LCR and OCI friendly but do have lower yields.

Given the continued growth that we've seen in our cash balances at central banks as we increase liquidity, we have adjusted our net interest yield to reflect the impact of adding these low yielding cash deposits once again at central banks into earning assets. This had no impact on net interest income, but prior period net interest yields have been adjusted to reflect the change. Given the added liquidity during the quarter coupled with the average balance impact of seasonally lower consumer balances, we expect net interest income in the second quarter of '14 may be slightly lower compared to this quarter's $10.6 billion level, excluding market related adjustments before moving up modestly throughout the second half of 2014.

We move to our expense highlights on Slide 7. Non-interest expense was $22.2 billion in the first quarter of '14 and once again included $6 billion charge for litigation expense and $1 billion cost for retirement eligible incentives. As previously mentioned, $6 billion litigation expense did include the cost of the FHFA settlement as well as $2.4 billion in increased reserves associated with our previously disclosed legacy mortgage related matters.

If we exclude the litigation in retirement eligible incentive cost, our total expenses were $15.2 billion and declined $1.2 billion from the first quarter of '13 driven by lower LAS cost, but were up roughly 200 million from the fourth quarter of '13 on incentives related to improved sales and trading revenue.

Legacy assets and servicing cost ex-litigation of $1.6 billion declined more than $250 million from the fourth quarter of 2013. As you look at that $1.6 billion number, the savings we generated during the quarter were 40% of our targeted quarterly reductions that we've communicated to you previously. We continue to make progress on cost savings and as a result, our expense program targets for New BAC as well as LAS remain unchanged.

Turning to Slide 8; you can see our credit quality continue to improve again. Net charge offs declined $194 million to $1.4 billion or a 62 basis point net loss ratio. Delinquencies, a leading indicator of charge offs showed improvement again as well. In our first quarter of '14, provision expense was $1.0 billion and we released approximately $400 million of reserves during the quarter. Looking forward, we would expect provision expense for the balance of the year to reflect both modest reductions in net charge-offs as well as reserve releases.

Let's move to Slide 9 and go through the different business segments, starting with consumer and business banking. Net income of nearly $1.7 billion in the first quarter of '14 was up 15% from the first quarter of 2013. Lower expenses, higher service charges a portfolio divestiture gain in lower credit costs all drove that improvement in the first quarter of '13. Return on allocated capital within the segment remains very strong at 23% this quarter.

As we reflect on customer activity during the quarter, mobile banking customers grew 19% from the first quarter of 2013 to 15 million customers and customer deposit transactions using these devices now represent 10% of all transactions. Average deposits of $535 billion are up organically $23 billion or 5% compared to the first quarter of '13 and our rates paid were reduced nearly in half to 7 basis points. Our brokerage assets surpassed the $100 billion in the quarter and are up 21% year-over-year with the growth split fairly evenly between both increases in flows as well as valuations within the market.

Our card issuance remains strong at a million new accounts in the first quarter of 2014 but our ended period balances are down seasonally from the fourth quarter of 2013. Importantly, our risk adjusted margin remained above 9%. Overall our credit quality within this segment remained strong as our net charge offs declined versus both the linked quarter period as well as the year ago period.

Provision expense was $812 million during the quarter. Net charge offs improved $360 million from the year ago quarter and we released $69 million in reserves this quarter which is $220 million less than the first quarter of last year and down $426 million from the fourth quarter of '13.

One litigation item to note before we move off the consumer results is the resolution we reached last week with the CFPB and the OCC on issues related to the marketing, sale and billing of credit cards, debt cancellation, ID theft protection products. This settlement included cash payments to both regulators and provides for redress the customers and was covered by reserves that had been established in prior periods.

We move to Slide 10; consumer real estate services. The higher loss in the quarter was driven by $5.8 billion of litigation within the segment. Let's first focus on the reported sub-segment of home loans where we recorded the origination of consumer real estate. Our first mortgage retail originations of $8.9 billion were down 24% from the fourth quarter of '13, in-line with overall market demand and drove a 32% reduction in core production revenue as margins held relatively steady compared to the fourth quarter of ’13.

We continue to reduce production staffing levels in the quarter, consistent with the volumes that we’re seeing but those expenses will flow through the P&L immediately. Home equity originations of $2 billion were up from the fourth quarter of ‘13 level. We moved the legacy assets in servicing sub-segment. Once again the driver here is the previously mentioned litigation cost. On litigation cost, you saw the press release on March 26th regarding our settlement with FHFA, which identified the $6.3 billion payment and led to the $3.6 million litigation charge this quarter.

We’re obviously pleased to have this matter put behind us. Within our earnings release, we also included information regarding a settlement with FGIC and related parties on involved securitization trust which resolves all outstanding litigation in rep and warrant claims on second lean loans for approximately $900 million to $950 million depending on the final outcome of two of the remaining trust, two of the nine remaining trusts excuse me.

This settlement was covered by reserves that we had established in previous periods. The primary revenue component within the LAS sub-segment servicing revenue declined $205 million versus the fourth quarter as the size of our servicing portfolio continues to decline as it aligns with our market share of production and we also have less favorable MSR net hedge performance during the quarter. Also impacting revenue during the quarter was rep and warrant expense of $178 million, which increased by roughly $100 million from the fourth quarter of ’13, given the settlement during the quarter with FHFA. From a cost of servicing perspective, our 60 plus day delinquent loans will reduce by 15%, 277,000 units at the end of the first quarter of 2014 and once again our LAS expense ex-litigation declined $262 million to $1.6 billion.

We move to Slide 11, global wealth and investment management. During the quarter we achieved record revenue of $4.5 billion, which was up 3% from the first quarter of ‘13 and 2% from the fourth quarter of ‘13. The improvement was driven by record asset management fees during the quarter. Net income of $729 million was slightly higher than the first quarter of ‘13 but was down modestly from the fourth quarter of ‘13 as expense was 3% higher than both periods. Expense increase compared to both periods and higher revenue related incentives increased volume related cost as well as certain investments in technology.

Notwithstanding those increases, our pretax margin remains strong, north of 25% for the fifth consecutive quarter. Our return on allocated capital was

25% but declined from prior period as the relative earnings stability was coupled with the increased capital allocations that I mentioned previously.

Client engagement remains strong in the markets providing additional tailwind as our client balances increased $30 billion from the year-end 2013 to $2.4 trillion. Long-term AUM flows of $17.4 billion for the quarter were the second highest in our Company's history. Ending client loan balances of $120 billion reached record levels and are up 9% year-over-year. One other highlight I'd like to mention is the coordinated referral efforts that we're seeing across wealth management and the banking groups as we funded more than 300 institutional retirement plans worth more than 2.4 billion in client assets during the quarter.

On Slide 12 global banking, earnings during the quarter were $1.24 billion. Earnings compared to the first quarter of '13 show a 6% improvement in revenue that were offset by higher expense. Investment banking fees for the quarter were $1.54 billion, consistent with what we saw during the first quarter of '13 but 11% lower than the record level that we saw during the fourth quarter of '13. We do believe for the second consecutive quarter, this would rank us as a global leader in investment banking fees.

The remaining revenue drivers in this business, treasury services and business lending show very positive trends year-over-year across both our commercial as well as our corporate client base. You can see some of these metrics on Page 26 of the supplemental information that we provide to you.

Provision was up $160 million from the first quarter of '13, driven by additions to our loan loss reserves. The first quarter of '14 included a build of $282 million, versus the build of $81 million in the first quarter of '13 and $434 million in the fourth quarter of '13.

The expense increase in the quarter of $186 million on a year-over-year basis relates to investments in technology for our global treasury services and lending platforms, additional client basing personnel and to a lesser degree some litigation that we saw during the quarter within this segment. When you look at the balance sheet, average loans are up $27.4 billion or 11% compared to the first quarter of '13 and are up $2.6 billion compared to the fourth quarter of '13.

The overall pace of growth that we're seeing has slowed from the past few quarters as pricing for loans is quite competitive and we've chosen returns over growth in certain cases. Return on allocated capital was 16% and is down from prior periods reflecting stable earnings that were more than offset by a 35% increase in allocated capital.

We switch to global markets on Slide 13. Excluding net DBA, we earned $1.24 billion in the first quarter which is in line with the first quarter of ’13 and up $893 million from the fourth quarter of ’13. Ex-DBA sales and trading revenue was $4.1 billion, 1% lower than the first quarter of ’13 but 37% higher in the fourth quarter of ’13. Our fixed sales and trading revenue was down 2% compared to the first quarter of ’13 but we would note it would be down 15% after adjusting for a monoline write down that we incurred in the first quarter of ’13.

Our rates and currencies experienced declines from market volumes and lower volatility during the quarter. I would note that our fixed business did increase 42% over the fourth quarter of 2013. Equity sales and trading, flat with the first quarter of 2013 and up 28% from the fourth quarter of ’13. Expenses were stable compared to the first quarter of ’13 and when we compare expenses to the fourth quarter of ’13, they increased $453 million on higher revenue related expenses after excluding litigation of $655 million that we recorded in the fourth quarter of ’13 within this segment. Our trading related assets on average remain flat at $440 billion on a linked quarter basis. Our return on allocated capital during the quarter was 16%, even after we consider a 13% increase in allocated capital.

On Slide 14, we show all other. Revenue was down $193 million in the fourth quarter of ’13 on lower net interest income which was driven by the swing in market related adjustments that I discussed earlier and was partially offset by higher equity investment gains which were driven by the final monetization of an investment. First quarter ’14 expense includes the retirement eligible incentive cost, which are in line with last year but still drive the expense variance compared to the fourth quarter of ’13 and was partially offset by lower litigation cost. Provision benefit in the quarter was relatively flat to the fourth quarter of ’13 but did improve $385 million from the first quarter of ’13. Net charge-offs of $206 million improved $88 million from the fourth quarter of ’13 and $279 million in the first quarter of ’13.

Our first quarter of ’14 results in this segment included $341 million reserve release, compared to a release of $482 million in the fourth quarter and $235 million in the first quarter of ’13. During the quarter our effective tax rate was impacted by our loss position. For the rest of 2014, we would expect an effective tax rate of approximately 31%, absent any unusual items.

We’ll make a few comments before we open it up for questions. We obviously don’t like to report a loss to shareholders but this quarter we achieved resolution of rulings around significant legacy matters. FHFA, FGIC, CFPB and OCC, as well as the positive court ruling on Bank of New York Mellon private label securities matters which is under appeal just to name a few. We established additional reserves to help address previously disclosed mortgage related issues and we did that and still built our already strong Basel III standardized capital ratio. Our supplemental leverage ratios at both parent and banks are compliant well and advanced of the 2018 implementation date, under the more stringent new rule.

Our liquidity is at record levels and we're well positioned to meet the new LTR requirements. Asset quality is strong in improving. Our expense program show good progress and most importantly, four of our five operating segments reported revenue and earnings that were essentially flat or higher than the prior year. In our fifth segment, legacy assets and servicing, we made progress on legacy issues, we drove down 60 days plus delinquent loan and our cost excluding litigation declined $1 billion from last year's first quarter.

So as we move into the second quarter of this year, we feel that we're better positioned than we were coming into 2014. And with that we will go ahead and open it up for questions.

Question-and-Answer Session

Operator

(Operator Instructions) And we'll go first to Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck - Morgan Stanley

Couple of questions. One on the litigation reserve bill that you did in the quarter. You mentioned that FGIC and the trust settlement were fully reserved for. So that means that none of the 2.4 billion increase reserves in 1Q that you called out was for that settlement?

Bruce Thompson

That's correct. As we said, substantially all of the $2.4 billion related to a bill in our litigation reserves for matters that we've disclosed previously.

Betsy Graseck - Morgan Stanley

And I guess, I'm just wondering, if you could give us a sense or color as to what you're referring to there. It doesn't look like it went to the monolines or the PLS. So it is something that's broadly mortgage related or is it something else? And given that it's such a large reserve bill, does it suggest that there's another settlement in the near term?

Bruce Thompson

You bring up a good point. It does not relate to the previously announced Article 77. It is not relate to the remaining monoline exposure given that we settled the FGIC exposure within the context of our reserve level. So it relates to other mortgage related matters, outside of those that we have disclosed previously.

Betsy Graseck - Morgan Stanley

Okay.

Bruce Thompson

And I wouldn't interpret or not fairly assume that the bills and reserve suggest that the settlement is limited.

Betsy Graseck - Morgan Stanley

Okay. Just moving to capital on Basel III, you give us some great information on transitional to the fully phased in walk there and the appendix. I guess I'm just wondering, you did narrow the gap between the standardized and advanced by 30 bps. Could you run through how you did that in the quarter?

Bruce Thompson

Sure. I think if you -- obviously the numerator in both is the same and we saw -- during the quarter we saw improvement in OCI as a numerator and we saw some significant improvement in our threshold deductions. That numerator applies to both standardized as well as the advance approaches. If you look at the standardized risk weighted asset, the big driver down there related to the reduction in our consumer real-estate, both first mortgage, as well as home equity and those portfolios reduced from longer dated assets.

In addition, you had the seasonal decline within the card portfolio that helped and that was moderated a little bit by the growth that we saw in commercial loan. So I think as you look at that Basel III standardized ratio, what was driving risk weighted assets were actual reduction in exposure. There wasn't anything related to models or assumptions that factored into that.

If you move over to the advanced approach, where we reported at 9.9%, which was down a touch, the biggest change and we continue to work with and look to refine and take guidance that we're getting with respect to operational risk, the operational risk -- the operational risk weighted assets during the quarter as we continue to refine that, we're up about $50 billion and now represent almost 25% of our overall Basel III advanced risk weighted assets. And I think as you look at relative to our peers, it brings us, and puts us in line with where our peers are with that and we'll continue to refine it and work through that in the future.

Betsy Graseck - Morgan Stanley

Okay. Just lastly on expenses, you did show a nice reduction in core expenses. Could speak to some of the things that have been hitting the headlines recently, cuts in global markets 5%. Is this accurate? Is it part of new BAC or is it more normal course expense management and then the branches are down 10% over the last two years. How much more optimization is there?

Bruce Thompson

I am sorry Betsy; I missed the first part of your question.

Brian Moynihan

On the global market, the trimming that we did, it was announced as sort of annual term that goes on. Remember we're -- always we're adding and we had frankly record hiring from schools this year coming. So we always are, sort of adjusting the headcount, keep the expenses in mind based on -- we have a lot new people join us here, as we go into the summer that we've already made offers to and it's kind of a general betting. So I wouldn't put that as anything other than just sort of day-to-day expense management and also just a natural turn up in the business.

The second part, Bruce?

Bruce Thompson

Yes, on branch optimization as we look at that and I think you really get a sense for the progress within branch optimization when you flip through the consumer and business banking segment. A chunk of that relates to new BAC and you can see over the course of 12 months as we've taken the branches down by about 300 units, that's contributed to on a year-over-year basis a $180 million of expenses that we saw during the quarter. Betsy, so, this is a long term strategy. So whether it's in the BAC or not, we'll continue to optimize the platform and what we show you back in the appendix slide is the mobile banking growth is pretty strong.

So at the end of day if you look at it across the last five or six years, we have more customers, a lot more deposits and a lot less cost structure as we reposition to meet the customers' changing issues of first computers, then phones and the enhanced effectiveness of the ATM. So you should expect that -- those techniques to continue but be that as it may, we also had -- still have 7 million, 7.5 million people coming in our branches every week that are great opportunities to engage with customers that we also continue to see strong foot traffic. So we are managing this to meet those needs from both the people coming to the branch and the people who use the automated techniques and that is the challenge as we go forward. I think we've done a pretty good job of bringing them down and keeping the expenses kind of moving with the customer flow.

Betsy Graseck - Morgan Stanley

Great, but from here, this branch level you think holds or you still have more work to do on pulling it down?

Bruce Thompson

We will adjust it every month and keep looking at it and making adjustments as they look over multiple years in the future. But if you, remember originally we said we get around 5,000 out of new BAC. That was kind of the number we gave you and move there. But also remember that what you define as a branch will change. We have these express branch formats where there is sales people plus what we call ATAs which are ATM machines that you could actually call up -- work with tellers directly. It allows you to cash checks to penny, authenticate without your -- your card is stuck in the machine, with anything to do with a regular teller. And so it's all important to us. So I think focusing on the numbers of course, the overall cost of this structure -- all the parts is -- and that's what I focus on. If you look at that we continue to drive that down taking all the cost of the whole infrastructure relative to the deposit base that's down from down there 200 basis points.

Operator

And we'll go next to Glenn Schorr with ISI. Please go ahead.

Glenn Schorr - ISI

Looking for a quick comment on the overall loan picture. There is always a lot of puts and takes. So the commercial side grew by 8% year over year. The consumer shrunk by 0.7%. A lot of that's run off. So can you just give a general comment on how you're feeling about loan growth and then we've been there -- your commentary on the mortgage originations pipeline being up 23% in the first quarter. Thank you.

Brian Moynihan

Sure. The first is why don't we start -- if you start with the, within the global banking segment, we saw loans relative to year end up about $2.5 billion and up more significantly on a year-over-year basis and say that we continue to see good loan demand within the commercial space. It's across both BNI as well as real estate. So we feel good about that. But as I did note, that during the quarter there were certain opportunities and things that we looked at, that we did not do in that we very much have a focus, not just on growing the loans but the return that's generated from those loans. And I think going forward you should expect to see us grow loans but we're going to be prudent and it needs to be at returns that make sense and for those customers that we have good relationships with.

If you move to the consumer side, as I did note and you can see it when you look within the CSBB segment, that the majority of the loan reduction we saw in consumer was really three things. It was the pay-off of first mortgage loans that were held for investment purpose within the investment portfolio. It was the continued reduction within the home equity business where we have about $3.5 billion of home equity loans that repay each quarter but those tend to be older vintages and get back to the home equities we're doing when it finish and then the third was the overall card balances were down about $4 billion, which on a seasonal basis is what we would expect and we would look to see those card balances stabilize as we go throughout 2014.

As it relates to new activity, we did note that the pipeline is up about 23%. What we saw was not materially different than others in that the first month, two months of the quarter applications and volume were down with some of the weather but we did see a pickup in that activity which led to -- obviously off of a low base, a 23% increase in the pipeline as we go into the second quarter.

Bruce Thompson

The other thing I would reference is if you look back, you can see that we have been able to increase and move up what we were doing on the home equity front where we had $2 billion of originations during the quarter. And I would just note from a credit quality perspective, and what we're seeing there, those loan-to-values tend to be in the 60s with FICO scores deep into the 700. So that area is providing an opportunity for us as well.

Glenn Schorr - ISI

In some -- I think, I just - I don't want to put words in your mouth, but if you look at the net of just 50 basis points for total loans, year-on-year, it sounds like it’s better than that just because of the run-off, I just want to make sure that I get that specifics comment.

Bruce Thompson

Yes, especially in the consumer business, the runoff affects the overall numbers. Because remember, we still got the portfolios that we inherited from acquisitions. They are still running through it.

Glenn Schorr - ISI

Follow up on the legal -- you mentioned the first two were fully reserved for. The 2.4 adds to the reserve. Where are we now in terms of the estimated losses above and beyond what you reserved for? In other words, I would think it could go down as you continue to add further reserve?

Bruce Thompson

Are you referring to the range of possible losses that we disclosed when we put the Q out?

Glenn Schorr - ISI

Correct.

Bruce Thompson

Yes I think -- we're working through in refining that. We don’t put that out with earnings. We put it out when we file the 10-Q. But to your point, I don’t think there’s - we obviously made progress with getting FHFA put behind us, as well as FGIC and some other related matters and we’re working through where exactly that range of possible loss comes out, but hear your point.

Glenn Schorr - ISI

Okay, I appreciate it. And then last one on slide, I think it’s 14. Just curious, the equity investment income, what’s driving that? It seems to have a nice steady and upward trending slope.

Bruce Thompson

Yes. As we noted in the script, that we did complete the final monetization of an investment that was a decent chunk of that. So I would not expect to see those revenues at those levels going forward.

Operator

And we'll go next to Jonathan McDonald with Sanford Bernstein. Please go ahead.

Jonathan McDonald - Sanford Bernstein

Bruce, I was wondering if -- just want to understand the dynamic of the net interest income outlook. I guess in the second quarter, it's the increase in lower yielding liquidity on an average basis and that's going to push the NRI down a little bit. That overwhelms the day count. Is that what's happening in the second quarter?

Bruce Thompson

Yes. Keep in mind, you only pick up one day Q1 to Q2. I think you have a couple of things as I mentioned. You've got -- relative to first quarter, you do have more card balances given the seasonal bump that you see at year-end that you carry; a fair bit of during the first quarter. We did build up throughout the first quarter, a significant amount of liquidity in anticipation of those rules. That will contribute a little bit to the decline in the second quarter and then as we saw for that you'd expect to see that move up. Nothing structural. We do have some seasonal stuff in the markets business that we do, that depresses things and touch in the second quarter. So as we said it's obviously early in the quarter but we're expecting a slight decline, but then we'd expect the trajectory to get back to the levels that we've previously talked about.

Jonathan McDonald - Sanford Bernstein

Okay, and what's helping it grind higher beyond the second quarter, Bruce, just as a reminder? What helps it grow in the third and fourth quarter and beyond?

Bruce Thompson

Sure. I think, as you would look at it, one of the things that we continue to work through is that the debt footprint will come down, although more modestly, but what we are seeing is as we look at the levels at which we raise debt going forward, the cost of that has come down significantly. So you have some pickup there. You obviously have some pickup with some of the loan growth that we're seeing within the commercial space and we continue to take deposit pricing down as well, although we're down to levels that are harder to get much lower. And I do just want to remind you Jon, and I know you know this that as we give this guidance, it's backed up and it excludes market related impacts that come out of FAS 91.

Jonathan McDonald - Sanford Bernstein

Okay, and then on litigation expense, Bruce, with the big reserve build and the settlements this quarter, what's the outlook there? I know it's tough to forecast. But should we assume that a few hundred million of litigation expense will process through the next several quarters?

Bruce Thompson

I think you have to look between -- we've continued and I just reminded -- as you look at the litigation pipeline and you look at where we are; we've obviously gotten through the base rep and warrant with respect to the GSEs. We were able to get through and reach an agreement with FGIC, which is the fourth monoline settlement that we have. And then we are working through in the Article 77 case that is going through the judicial process. So as we continue to reduce the number of outstanding litigation items that we have, that should obviously bode well for what I would characterize as the kind of base litigation expense. That being said, I think we need to be realistic and you saw it this quarter that as it relates to the remaining couple of matters that we disclosed, it can be lumpy in that it's just very hard to predict. But as we talked about it in the presentation, during the quarter we did have a pretty significant build as we continue to evaluate those positions, as well as the discussions that we have, that our parties do the litigation.

Brian Moynihan

Jon I think the simple way. If you think about things that -- litigation matters that sort of arise after '08, '09, the cost of those are very modest, anything new exist. These all cost really relates to the stuff before the price [indiscernible] cleanup. So your point about what would be ongoing litigation, trust me, much, much lower but the question is the lumpiness refers to the transition we got left on a few of these matters.

Jonathan McDonald - Sanford Bernstein

Okay, and then Bruce just to clarify the provision commentary that you made. Your outlook is for net charge offs to kind of grind lower modestly but -- and reserve release to continue but probably at a smaller level than the 380 we saw this quarter?

Bruce Thompson

Yes, I think that's fair Jon. It can bounce around in any one quarter but the provision number, broadly speaking is in line with what we'd expect over the next couple of quarters.

Brian Moynihan

So Jon, another way is if you look at the supplemental material and the pages on the charge offs by product. You got to remember that there is - if you look at the credit card charge offs in U.S. and domestic, they're down. This quarter was 700 million and 3.25% charge off rate. You are kind of hitting a place where the business is geared to have some amount of charge offs and it's the way the business works, part of the cost of doing business as a credit cost. If you look outside that number, that is -- card charge offs are like 80% of the charge offs, 60% 70% of charge offs, and they are going to be hard to get down a lot more. So there is work to do on mortgage charge offs, home equity charge offs. If you look across the rest of the board, they're in pretty good shape.

Jonathan McDonald - Sanford Bernstein

And last thing from me; just wondering if trading and fixed income in particular, do they have any notable sequential trends in the quarter? Did trading get better in March and early April as rate volatility started to pick up a little bit or anything like that?

Brian Moynihan

I wouldn't highlight any real seasonality of note as it relates to drastic ups or downs throughout the quarter. The one piece that I would say that I think generally rates in foreign exchange, given where the market was in the back that there was not a lot of volatility in the quarter was clearly negatively affected. And on the positive side I would say that the overall credit trading businesses, whether it be loans, high grade bond trading or high yield bond trading, given market activity levels as well as our position from an underwriting perspective, were very strong during the quarter.

Operator

And we'll go next to Paul Miller with FBR. Please go ahead.

Thomas LeTrent - FBR

This is Thomas LeTrent on behalf of Paul. Another sort of expense theme question; there has obviously been an increased amount of regulatory scrutiny on MSR transfers. Can you touch for me a little bit, whether, if those transactions got delayed or pushed out, if it would impact your ability to meet expense targets or just a little color there?

Brian Moynihan

A very good question. What I would point out is, and if you go back to the fourth quarter of 2012, that was when we announced our significant MSR transfers. And so if you look at where we are, as it relates to just pure MSR transfers or through the significant majority of what we would expect, we've got some clean up and far smaller ones during the second quarter, third quarter and fourth quarters. We don't have any reason to believe, given they're small and who they're going to, that there'll be a problem with the transfer. So we feel, and as it relates to getting to the expense targets with what's left to go, that will not be an issue for us.

Operator

We'll go next to Ken Usdin with Jefferies. Please go ahead.

Ken Usdin - Jefferies

I wanted to ask you about just operating leverage and again expense progress. So year-over-year revenues plus or minus were down $1 billion and if I'm looking at Slide 7, I'm looking at -- the core expenses were down a few hundred million and that's net of all the New BAC benefits. So can you talk to us about just the push and pull between the net BFA -- the New BFA, New BAC reductions and then what cost inflation you're seeing any underneath the core. And then as you look forward, just how we should expect that core line to traject, the '13 excluding the retirement eligible?

Brian Moynihan

Sure let me answer the last of your question first, which is we would expect the core trajectory to trend down as we go throughout 2014. When you look at the, and if you're looking on Slide 7 and we compare the $13.8 billion to the $13.6 billion, let me just consider and give you a couple of numbers that affected that core.

During the first quarter of '14, as we continue to reduce headcount, we incurred over a $100 million of severance expense on both an absolute basis as well as a year-over-year basis within those numbers. So you had a $100 million to the negative there. The second thing is and as we disclosed, we have been investing within corporate banking, cash management sales people, to a lesser extent capital markets people and some of the technology that goes along with that and we think as we look going forward, we're through a lot of that investment but as I referenced in my comments, I would ask you to flip back up to page 26 because we are seeing the benefit from revenue growth from those investments and we'd obviously expect those to moderate going forward.

The other couple of things that I would note there is if you look at within the wealth management business, you need to consider within that area that we did have $200 million plus increase in revenue from asset management fees.

So there's obviously compensation that goes out with that as well as some of the technology dollars that were spent for our Merrill 1 project that we rolled out within the wealth management area. So I would just say, as you look at that 200, the benefit from New BAC was clearly on a year-over-year, much more significant from that. But we are investing in the areas where we think and where we're seeing revenue growth and we would obviously expect those investments, given that they've been made and are generating the revenues that you'd expect those to moderate going forward.

Ken Usdin - Jefferies

And just a follow-up to that then, we are going to continue to see improvements to get to that 2 billion New BAC level by mid-next year. But given what you anticipate on the revenue side, do you feel that that's enough to get you where you want to go in terms of profitability improvement or is there anything you can contemplate or need to contemplate as far as finding other incremental ways to fund those investments or drive more to the bottom line?

Brian Moynihan

Obviously we continue to look at that and we continue, we started after this, as you know in '11 and so if you go back, I think we had $80 odd billion expenses when we started this thing and so we've been driving it down year after year after year. But that doesn't mean it stops at New BAC. It's just the challenge inherent in the slow growth environment is how to manage the relative investment rate, expense growth rate versus revenue growth rate. And so that's something we as management continue to focus on.

But if you think about the $13.6 billion and think about continue make some improvement against it, sort of annualize that add back, whatever $1 billion to the one time retirement cost and then some litigation, you start to get into levels that we think are consistent with the earnings, sort of restoring the normalized earnings pool. The question is, and you are right is that we got to make sure that the investments we make are yielding the revenue benefits and we got to keep the total expenses overall and that's we are up to. And I think the way to think about that is, look at 3,500 more employees' headcount reduction this quarter and you'll continue to see that work its way down. That is a leading indicator of what's going to happen next quarter because those employees, that the spot-to-spot number went out during the quarter but they're still on the payroll for the quarter.

Ken Usdin - Jefferies

Got it. And one last one, just card income and service charges -- a lot of other banks have been seeing weakness there, partially weather, partially regulatory, partial pricing changes. Anything that you guys are seeing or anticipate seeing on any of those fronts looking ahead?

Bruce Thompson

If you think about the longer term trend there, we had a big change in terms of fee structures in the consumer business, broadly going back a few years ago and you kind of came through all that and that affected. What's happened now as if you just look at our card activity, our purchases on our cards are up by 5% or so quarter to last year this quarter -- first quarter last year to first quarter this year. So, we continue to see better than market growth in the activity levels -- general spending levels and things like that -- which helps them interchange that once we got off, sort of the reduction that were due to the change in interchange rules, and so I think they'll keep driving forward based on just general activity but most of the real down draft came out in '11, '12, early '13 timeframe.

Brian Moynihan

Yes, I think the other point is, if you look at within the consumer business, we actually saw the service charges during the quarter were up about 3% on a year-over-year basis. So some of the card income tends to be seasonally higher in the fourth quarter. It dropped in the first quarter then builds back up but within the consumer space we were pleased with what we saw on the service charge line during the quarter.

Bruce Thompson

So, if you go back and look at 17, we got, we have been producing from a sort of 700,000 to 800,000 run rate new cards to a 1 million plus and those cards are being used as a core card by the customers, in such driving up -- the pay rate is still high. So the balances aren't moving much but the activity underneath is moving and we're still replacing some affinity portfolios that we sold and things like that. So our view is that the transactional behavior of our customers continues to grow and will benefit some of the fee lines too.

Operator

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

Mike Mayo - CLSA

First, just a couple of follow ups. So how much of the new BAC savings were achieved by the end of the quarter?

Bruce Thompson

You should look at relative to the $2 billion a quarter. We're in the $1.7 billion area.

Mike Mayo - CLSA

All right, so you have $300 million left per quarter to be achieved by mid-2015?

Bruce Thompson

That's correct.

Mike Mayo - CLSA

Okay. And then the LAS savings, you have another $500 million a quarter to be achieved by the end of the year?

Bruce Thompson

That's correct.

Mike Mayo - CLSA

All right. So, $800 million total quarterly expense savings we should expect over the next year or so. So, should we expect all that to hit the bottom line?

Bruce Thompson

You should expect it to hit the bottom line with just the one caveat, that to the extent that there are revenue related things that have cost attached to them that could moderate that reduction but ultimately that would be a positive to the pre-tax income line.

Mike Mayo - CLSA

Okay. And do you have an efficiency target for the firm? Because I'm just looking at Page 3 of the supplement and the efficiency ratio is kind of thrown off by the charges and it's been in the 70s the last few quarters and 97.68%, I don't think you consider that your core efficiency ratio. So what do you consider your core efficiency ratio and where should it be and where you hope to get -- when do you hope to get there?

Bruce Thompson

I think if you go back and look at what we talked about in the fourth quarter, where we talked about where we'd like to get to from an ROA return on tangible common equity and we talked about once rate started to move up that and as we looked out, we look out in a couple of years, that efficiency ratio should be in the high 50s.

Mike Mayo - CLSA

Okay. So do you have a specific time frame for that or just when rates go up?

Bruce Thompson

I think as we look at it, it's just at a point in time that rates are up roughly 100 basis points across the curve and obviously to the extent that we don't see rates move up, we're going to need to run harder on expenses to try to get it to the extent that the rate environment doesn't move up.

Mike Mayo - CLSA

Shifting gears, the tax rate excluding the mortgage charge to the first quarter was what?

Bruce Thompson

I believe it was roughly I guess about 50% -- somewhere between 58% and 60%.

Mike Mayo - CLSA

I'm sorry the tax rate? You said the tax rate going ahead will be 31%.

Bruce Thompson

Right.

Mike Mayo - CLSA

I'm just trying to figure out, what was the core tax rate for this quarter, excluding the charge?

Bruce Thompson

It would be -- I mean the core tax rate we project out and look out over the years. Still the core would have been 31, but you always have a little bit of noise when you -- and obviously it was a pretax loss but the discrete item always kind of overwhelms things a low period. But the base rate from which you're starting from is 31% and it was just a little bit skewed given what we saw from a pretax loss perspective.

Mike Mayo - CLSA

Okay. You had record wealth management for the quarter, and one of the online brokers recently said that the big brokerage firms are doing better. How much do you attribute the record wealth management to the environment versus what you're doing versus it's better to be a big broker?

Brian Moynihan

I'm not sure what the context is Mike but the net flows in the wealth management business were around $11 billion -- $12 billion this quarter which was nearly 17 to 18 due to long term flows and $6 billion of short term liquidity flows out for net of around $12 billion. If you look in the Merrill Edge platform, which is more akin to the sort of the online type of thing, I think we had 80,000 plus to account this quarter. We asked continue to grow and top to 100 billion daily average trades are up I think 25% to 30% year-over-year. And so it continues to progress and we continue to see good asset flows there too. So big, small, large, traditional, all that sort of blended together, we operate as a core consolidated franchise you're seeing good momentum in both.

Mike Mayo - CLSA

You're allocating more capital at GWIM as well as global banking and global markets. Is that increased capital allocation due to regulatory capital changes or a deliberate move by you guys to invest more for growth in those segments?

Brian Moynihan

Well, let me just start -- the allocation of capital is how we think the capital that we have the Company and push it out to the businesses - I think you need to go segment by segment within that Mike. I think the first is that as you look at the global banking segment and look at the allocation and what we've done, the first is on a year-over-year basis you had average loans up about $30 billion. So there were more loan balances against which you need to allocate capital. The second thing that I would say is as you look at that segment and you consider Basel III standardized ratios, they tend to risk weight almost all commercial loans at 100% regardless of what the models would suggest they should be risk weighted at.

So I think the combination of the loan growth, along with some of the impacts from regulatory capital led us to increase what we did with respect to global banking. Within global wealth management, as you go back and refine operational loss models and assign operational risk capital, that was topped up as well as reflecting the fact within wealth management business that we've seen loan growth within that segment. So there was additional money allocated there and then as we look at and just continue to refine and look at both comparables as well as asset mix, we thought it was prudent to increase modestly what we saw with a global market and as I said in my comments, when you consider the aggregate and we look at where we are relative to peers, we've got virtually all of our capital at this point pushed out to the different businesses which is the way it should be.

Mike Mayo - CLSA

I agree. So it sounds like it's partly business growth and partly regulatory related and partly a desire simply to have less unallocated capital.

Bruce Thompson

I think the last one is what you got to keep up.

Mike Mayo - CLSA

Okay and then lastly, the Bank of New York ruling was good. I did not expect that, but you still had a $6 billion charge this quarter and another $2.4 billion extra charge in the last 15 workdays since the FHFA amount was announced and I know you've had several questions in the call but what's left as far as potential legal charges, because the teams are so lumpy and if in just a few weeks you can have another $2.4 billion charge seemingly out of the blue for some of us, what's left?

Bruce Thompson

I think when you look at it, as I commented that I think we give fairly wholesome disclosure in the 10-K as it relates to the matters that are out there and when you look at the matters and compare where we are now to what's out there, that obviously from the case that FHFA was resolved and that was the $3.6 billion number we mentioned. You've seen resolutions during the quarter from an Allstate RMBS perspective. You saw a resolution of force-placed lace insurance. You saw CFPB/OCC, and you saw the deal that we completed and announced with FGIC today. So as you work through and look at those matters it's largely with what's disclosed leaves you with respect to one monoline and then in addition to the monoline, the other remaining legacy mortgage related matters that we put out in our disclosure.

Operator

We'll go next to Guy Moszkowski with Autonomous Research. Please go ahead.

Guy Moszkowski - Autonomous Research

Let me just start out by saying on the litigation front, I actually thought it was very good that you've provided now for a bunch of the issues that are actually still pretty visible out there. So let's just a thank you for having done that. I have a question for you on the control environment cost. Some of your competitors, JPMorgan and Citi have spoken to you know billion dollar type numbers for increased control environment cost in the wake of CCAR issues over the last few years and obviously all of the -- the heightened scrutiny and I was wondering if you could give us a sense for what your control cost increase has been over the last year or two.

Bruce Thompson

I'll give you a number, let me give you a way to think about it. In our environment, coming out of the same issues in '08 and '09, we built a lot of personnel and headcount to get after the stuff and we're still finishing up to clean up and so if you look in the expense base, a lot of that's been in the expense base for a couple of years and then and so if you think about something like our audit team, we doubled the size of our audit team probably in 2010 and it's been held fairly constant against that. Against the back drop, we probably divested tons of businesses and the rest of the headcount the Company has come down you know fairly dramatically from a high of 305,000 I think.

So the amount of control environment relative to the total cost structure has gone up but the raw numbers haven't gone up as dramatically because frankly we put a lot of men in '10 - '11 timeframe. So it is our duty to get it right. It's our duty to keep working on it and make sure that we get these things right to the ground but one of the key ways that we're doing this is by focusing the scope of the Company. So the fourth place, excuse me, the add on products build up this quarter, we quit offering those products a while ago. It just took a while with the OCC and the consumer bureau to finish up the negotiations and finish up the rebate. We've been sending money back to customers, but we quit offering the products as an example and so the idea of narrowing the products, that's narrowing the geographic scope of the Company, making the Company a lot less complex. We'll always be big but we make ourselves less complex, but against that a growing -- a strong growth in the control cost in the '9-'10-'11 timeframe and in the flattening of that, but relative to smaller companies is actually an increase.

Guy Moszkowski - Autonomous Research

Thanks. That's helpful color, certainly in terms of thinking about the timing. You did allude to some increase in technology investment in GWIM and obviously the margin there contracted a little bit. Maybe you can give us a little bit of a sense for what this - I think you alluded to Merrill One?

Brian Moynihan

Well, Merrill One is a new product they brought out that's been successful and like anything else, you put the product after you've spent all the money to put the product together and the assets come on it. And so we are feeling good about that, tens of billions of dollars of that's been moved to the platform. It is a good platform for customers and for the advisors.

I think more broadly I talked about technology. If you looked at the expenses we had going back, sort of at the prices, we saw the Merrill transition expenses and all in we're spending around $3 billion in technology development a year. We now spend about 3.5 billion. And then obviously the transition expenses are out there. So everything we're spending is to better the platform, better the business, invest in the growth.

And again some of your questions about cost, that number, I don't expect to change going forward because it takes that kind of technology investment to drive the product capabilities of our company; Merrill One being one product this quarter along with a new card system, a new trading platform. Tom and his team are in the middle of putting in a new backbone for the Company in terms of our general accounting systems, which has been the tailwind going in and across the board. So across a four five year format, the timeframe will replace almost every system in the Company, but we would expect that to continue.

So the GWIN, we swung around, last we did more in other businesses cash management, we started building -- rebuilt the front end mortgage process and a lot of other things. This year we swung the GWIN and it's really a decision of which business we invest in at which time and they ask more investment this year.

Guy Moszkowski - Autonomous Research

And then final one for me. You gave the leverage ratios being above the 5% and the 6% requirements based on the most recent NPR. Subsequent to that -- I guess Basel came out in March with some suggested changes to the netting on a standardized basis for counter party credit and I was wondering if you have any sense at this point, what the impact on the leverage ratio would be of those changes if implemented.

Brian Moynihan

I think the final supplementary leverage ratio rules that reflected that came out in April and so the numbers that we've given you where we're above the 5% were 6% at the bank, reflects the impact of those rules with respect to netting and the other changes. The numbers we have given you reflect that April release.

Guy Moszkowski - Autonomous Research

That's from the Fed right, the April release from the Fed?

Brian Moynihan

That's correct.

Guy Moszkowski - Autonomous Research

No. What I was referring to is that Basel had come out with something in March, which one would assume that eventually the Fed will adopt for the standardized approach to counter party credit, and I think JPM alluded on Slide 8 to the idea that could add depending on whether you look at the whole Company, whether the holding company or the bank units upwards of 20 basis points to the leverage ratio because it takes into account the net integrated expense. I was wondering if you had done any preliminary work on that.

Brian Moynihan

I think, I we'll say that our focus has been on wrapping up the work, given what the April pronouncement is. I'm not -- my understanding was that the Fed, I think what came out in April is what we're assuming that we're going to need to operate in and there is something else that changes whether the benefit that's great. But our assumption is we're going to be living on what came out on April 8th.

Operator

We'll go next to Matt O'Connor with Deutsche Bank. Please go ahead.

Matt O'Connor - Deutsche Bank

If I could just follow up on the net interest income comment, I guess just bigger picture. It seems like the outlook is a little bit lower than what you had previously thought? And I just want to think about building liquidity tends to be dilutive to NIM but not net interest income dollars. Some of the things you point to are seasonal. So just like big picture, as we think about where you had thought NII [ph] might be a couple of quarters ago looking out -- what's worse? Is it more run off than you thought? Less loan growth because you're tightening up versus what some others are doing or is it just the rates haven't moved at all or some combination of all that?

Brian Moynihan

I'd make a couple of points. If you go back -- the guidance that we've given is that we've lined up from roughly $10.5 billion number and as we look out to third quarter and fourth quarter, that's what we see in our numbers. I do think there have been, relative to -- if you go back two, three, four quarters ago, several things that have changed. The first is that as we've worked hard to get in the position that we're in from an LCR perspective, we have -- LCR but with the rate environment that we're managing the OCI risk that we have directed more of the investment portfolio to shorter daily treasuries, is mortgage backed securities and as you go out over a couple of quarters, that has a negative impact.

The second thing, as you look at where we are and you look at the forward curve, our assumptions on what yields are going to be that we can reinvest in outside of the switch and mix, obviously those yields have not moved to the extent that the forward curves would have suggested at that point. And I would say generally with respect to the loan portfolio, I wouldn't say there is much change. I do think that the one thing to note that we've not talked about, if you look at within our global banking segment, this is the first quarter in a while where we've actually see the loan pricing spread stabilize and actually in certain of the portfolios move up at touch. So that's a positive. So I don't think there's anything to your question -- that material that there are just some small things here and there and we wanted to update and share our thoughts with what we thought the second quarter would be but longer term I think we're still in the same place as far as the 10.5 [ph] grinding up.

Matt O'Connor - Deutsche Bank

Okay. And then just switching topics on the core LAS cost. So ex all the litigation, you iterated the target for year-end, I think of about a $1 billion or $1.1 billion. Still feel good about the $500 million per quarter late next year?

Brian Moynihan

Yes.

Matt O'Connor - Deutsche Bank

And is that something that we could see overshoots the downside like we're seeing in charge-offs. Obviously like credit is getting much better than a lot of us would have thought a couple of years ago. Do you think those core LAS cost end up just being much lower than expected once you work through all the issues?

Brian Moynihan

I just said, I hope so, but I wouldn't. Let's just get it down to that level and we'll figure out what we can do from there. I mean its arduous task and there's still lot of work at it.

Matt O'Connor - Deutsche Bank

Okay. And then just lastly on SLR again, just care to provide any more details in terms of how much above 5%, how much above 6% roughly.

Brian Moynihan

So I would say that, we've said we're above 5%. We've said that. Assuming that Buffett preferred amendment gets done, that adds up to another 10 basis points, which obviously move this up. And you can assume that the only other guidance that says that -- the bank ratio relative to the limit is stronger than where we are with the parent today but once again, the Buffett amendment will help.

Operator

We will go next to Marty Mosby with Guggenheim. Please go ahead.

Marty Mosby - Guggenheim

Thank you. Three questions. One is operational risk you talked about, and that represents about 25% of your risk weighted asset. So in doing that and in the past, that is very sticky and how do you think you can manage around the amount of capital just been trapped with the fact of all these past settlements that you had to kind of live through?

Brian Moynihan

Yes. Your point Marty is a good one, which is the operational risk model are based on a fairly long time series as we look at it. And one of the things that we do, continue to try to discuss this stress is that, a lot of those operational risk losses are with respect to activity that we no longer engage and have no intention to engage. So there are some of that dialog that continue but your point which is a fair one is that the time series are fairly long and it will remain out there and till the data runs out and I wish there was more that I can say but your point is a fair one.

Marty Mosby - Guggenheim

Is the only true way, is it almost disembarked from mortgage because there were so much in that particular area. The only way to clean it up is to say maybe if that's all related to those mortgage settlement -- mortgage related settlement, it's just not worth carrying that baggage going forward, even though it wasn't really your fault. It was the country wide legacy more than it was your own operations.

Brian Moynihan

I think your point Marty is the one that we're working through, and in fact we've done like you suggested that we've done and this is if you look at those activities that led to those losses, we are no longer engaged in those activities. If you look out at -- we are not doing business with monolines from a new rep perspective. You look at private label securitization. That activity with rep and warrant is not continuing. So we think we've largely done that and I think the question just going forward is, if you've proven and you clearly are outside of the activity, is there any release to be had, not the way that it worked now, we'll just have to work through and deal with it.

Marty Mosby - Guggenheim

Got you. Secondly, you called out that mortgage servicing hedging was unfavorable this quarter. If you kind of look at the environment, it seemed like I've seen in others that it was actually a positive, not a negative. What was in particular happening in your mortgage servicing hedging?

Brian Moynihan

There was really nothing. I think the comment that we made was that the question of the hedging performance this quarter relative to a year ago. So the hedging was still a positive number. It was just less so on a year-over-year basis.

Marty Mosby - Guggenheim

Got you. And then lastly, when you think about moving from your mortgage backed securities into agencies and treasuries that have shorter durations, that's kind of throwing you to become more assets sensitive. Are you thinking about -- because liquidity rules are making the balance sheet become more asset sensitive, employing more interest rates swaps or off balance sheet hedging to rebalance and not become so much more effort sensitive vis-à-vis other pressures.

Brian Moynihan

If you go back, we have been pretty consistent at the -- the reason for the investment portfolio is to preserve the long-term value of the deposit and as you look at that portfolio, it's very clear there are only three things that we do within that portfolio. There is treasury security, there's agency security and there is AA and AAA super-sovereign type activities. And as it relates to becoming a little bit more asset sensitive, we just think, given the first and you've seen a large portion of it happen that -- just to drive and get to the point we have with LCR, the shift in the portfolio helped this quarter. It has the same benefit as I said of shrinking and reducing your OCI risk as you go through this and we're not interested in starting to try to do things from a derivative and other perspective that somehow changed that. The investment portfolio needs the work with how we set it up and we're going to be prudent with respect to how we do it.

Operator

And we will go next with Nancy Bush with NAB Research LLC. Please go ahead.

Nancy Bush - NAB Research LLC

Question on the mortgage business. I think there was an article on The Wall Street Journal this morning or somewhere that the business is getting off to a slower start than we would have thought, given the spring bounce back that was expected from the winter weather. Has there been any rethinking Brian on sort of the eventual size and direction of the mortgage business there?

Brian Moynihan

Nancy we kind of did that in 2011. We got out of all but direct-to-consumer. So basically we have focused a business on really supporting the core customer base and not trying to drive standalone market shares in the scheme of things. And so what has happened to that is that as we sold off the non-core servicing, we've gotten down to a significant less number of loans serviced and the originations, $10 billion just quarter, all direct-to-consumer which is a second highest total in the country, direct-to-consumer mortgages. So, I think we are comfortable where we are. Now the question is with the LAS aside, the core business, what does it look like and it will be a small business, smaller business, it will generate customer, mortgages for our customers because it's the core product they need but also that sales force quite frankly sells other products and does other things for us, refers people for other products.

So, I think that the days of being a 20% market share and suffer far behind is the days of being 4% market share direct-to-consumer and growing there.

And we will make some money in it and we will make some money servicing those four loans to delinquencies, just those six and those on what we have been doing and that are far superior to even what we would have predicted and that's how we run the business. So effectively we've done what you said. It's just we're still sort of down by the overhang of effectively -- the LAS portfolio is still working through the system and 300,000 delinquent mortgages of which only about -- the delinquency of the core portfolio is about 50,000, 60,000.

Nancy Bush - NAB Research LLC

Also could you make sort of a similar pronouncement about the card business? Where you stand in terms of chair and growth right now and are you where you want to be?

Brian Moynihan

That's different in a sense that on the card side, we actually took it down unfortunately through charge-offs and might [ph] have been more than not but I think we have been relatively consistent on a domestic piece around $90 odd billion of outstanding and kind of grinding up and down from there and producing more cards that are coming out of the wall first from our customer from 700,000 we showed you two years ago first quarter to million plus this quarter and pretty consistently with a 1 million plus the third quarter of almost a 1 million in the fourth quarter, another 1 million plus this quarter.

But the total we see there is actually usage of those cards. They sold 60% plus to our primary customers but also the usage of the card because of the core three or four card product is driving it and we have some affiliate programs. I think the card business is likewise. It is where we want it but it's a bit more of a payment stream business than it is a pure lending business as it was in the some of the past. So the balances ought to be stable and ought to grow but with the high quality portfolio the payments rates in the 20s now -- I mean people pay us off because they are using the transaction card.

Nancy Bush - NAB Research LLC

And just finally, Bruce you have indicated that net interest income is going to decline somewhat due to liquidity issues et cetera. Is that same going to be true of the NIM or is there anything in the mix change coming in the near term that can send the NIM up from -- the adjusted NIM up from this 236 level?

Bruce Thompson

I think we said that we thought that the core NII ex-market related impact to be down slightly in the second quarter and then grow modestly through the rest of the year. What you will see in the second quarter given that you have the full quarter -- the liquidity that's on the book, you would expect to see that the NIM in the second quarter moderate a little bit, given that you've got the full quarter of the liquidity and then obviously as it starts to grow during the latter half of the year, you'd expect the NIM to follow that.

Brian Moynihan

And that's the overall, now that we have better insight as to what these rules are, we don't have to go back and go get 7% common equity ratio, so we have very strong common equity ratio. We have to go back and sort of look at, Bruce and I think, with the rules now in hand, you can start to go work and say okay, how do we optimize the next round because in terms of how we create maximum liquidity per dollar balance sheet of that size, right?

Operator

And we will take our last question from Jim Mitchell with Buckingham Research; please go ahead.

Jim Mitchell - Buckingham Research

Two quick. Just first on home equity net charge-off, I guess if you exclude the TDR impact last quarter, they were up. And so we're home equity NPLs. You just sort of walk through what's going on there.

Bruce Thompson

Sure. There were two things that Jim banged us up -- good question -- to the tune of about $50 million each. And there were some home-equity stuff that we just rolled up, that was going to have foreclosure cost, that were greater than what it was going to be worth to try to get repaid. So that happened during the quarter. And then the second thing is there was some regulatory guidance that was given as it related to second lien loans that will be high and first lien that have been modified or charged-off, that we saw during the quarter. We think we got most of it in this quarter. There maybe a little bit left in the second quarter. But it's a good question; that those two items, banged us up to the tune of about $100 million and that was the reason for the change.

Jim Mitchell - Buckingham Research

Okay, that’s helpful and then, just on the investment banking pipeline, any commentary?

Bruce Thompson

I think what we see is, the overall markets continue to be strong. The pipeline and the amount of activity in discussions from an M&A perspective is encouraging. And I would say as we go forward that -- we talked about, we felt the pipeline was strong at the end of the year, and as we look at the pipeline, it did not change materially, one way or the other at the end of the first quarter versus the end of the year. And as we said, we feel very good about the quarter with revenue side being north of a $1.5 billion and the highest than any firm that has reported at this point.