Operator

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

Lee McEntire

Good morning. Thanks to everyone on the phone, as well as the webcast, for joining us this morning for the First Quarter 2016 Results. Hopefully everybody has had a chance to review the earnings release. The documents are available on our website. Before I turn the call over to Brian and Paul, let me remind you we may make some forward-looking statements. For further information on those, please refer to either our earnings release docs or our website or the SEC filings.

Let me just remind you, please limit the number of questions so that we can get to everyone's – so we can get through all the questions that everyone has. And with that, I'm pleased to now turn it over to Brian Moynihan, our Chairman, CEO, for some opening comments before Paul Donofrio, our CFO, goes through the details. Brian?

Brian Moynihan

Thank you, Lee, and good morning to everyone. We want to thank you for joining us to review our first quarter results. Today we reported $2.7 billion in earnings this quarter, or $0.21 per diluted share. As you can see in the results, two large items impacted this quarter's results. We recorded negative market related NII adjustments for bond premium amortization. That adjustment alone cost us $0.07 per diluted share. And we also recorded a $0.05 per share diluted share cost of seasonal retirement eligible incentives.

When you think about revenue, net interest income, excluding that bond premium adjustment, was $10.6 billion this quarter. This is improvement linked quarter and year-over-year. Our loans are growing across the franchise and, compared to the prior year, are up 11% in our business segments. In addition, deposit growth remains very strong. Our deposits were up $64 billion from last year or 6% to over $1.2 trillion.

This growth reflects our progress to grow responsibly and deepen relationships with all of our core customers. Moving to non-interest income, it declined year-over-year. Of note, the downdraft in that was driven by Capital Markets and related activities and, to a lesser degree, mortgage servicing and other fees as we continue to wind down our third-party servicing book.

However, the other banking sources of non-interest income were relatively stable. Switching to costs we continue to drive costs down in this Company. Costs year-over-year in the first quarter were down 6%. FTEs were down 3%. That is $1 billion per quarter, $4 billion on an annualized basis. And if you focus just on the core costs excluding our LAS and litigation, those were down $600 million quarter – from first quarter of last year or $2.4 billion annualized. We're going to keep driving those costs own as we continue to move forward through 2016.

Turning to Slide 3 and looking at the business segment earnings, you can see the good year-over-year results because of the operating leverage in those businesses. The only exception is the results in Global Banking, which were negatively impacted by the increased energy related reserves. The combination of business segments outside the All Other group earned $4.5 billion in quarter one this year compared to $3.9 billion in quarter one of 2015.

Offsetting those earnings were the $1.9 billion loss in All Other. That loss primarily reflects the two large adjustments I mentioned earlier and some legacy litigation costs. You can also see the returns and efficiency ratios for each of our segments and note, with the exception of LAS, which came close to breaking even this quarter, they earned above their cost of capital.

Moving to Slide 4, during the period of – during the first quarter, there was a lot of talk with the market volatility, the Company buying surrounding the question about global growth and the forward-looking economic picture. However, we don't see any evidence of our customer base changing. Spending by consumers remains strong and is up year-over-year over 4%.

Loan demand remains solid throughout the franchise. And we continue to position our Company to face any potential economic outcome. When you think about this, it's important to remember the work we've done over the past years to simplify and strengthen our foundation. We remain a different Company today than that which had entered the last downturn. We start with a clear strategy to serve the core financial needs of the customers. We've gotten out of businesses, portfolios, products and client relationships that don't meet those strategic goals.

We simplified the Company in every area. We cut the number of legal entities in half and we also reduced costs through programs like New BAC that produced a loan more than $8 billion in annual savings and our SIM program which continues to operate today. At the same time we've continued to invest in the areas we can grow. $3 billion in technology-related growth initiatives, especially in areas of digital practice, whether it's in Consumer Banking, Commercial Banking, where we lead the industry with mobile and online platforms.

We've also invested more in client facing teammates, funding that investment through elimination of bureaucracy and simplification and elimination of management jobs. We believe that we have to continue to drive the productivity and will continue to do so in 2016. In the end, when you think about all this, it makes our Company more resolvable. As you all know, we received the latest input from our regulators on our resolution plans yesterday. Those plans were filed nine months ago and we've been busy at work since the day they were filed to continue to remedy the deficiencies and shortcomings stated in those plans and we will do so by the October submission date.

As you move to Slide 5 you can also see the financial foundation that we've built in this Company. Liquidity and capital at record levels. Tangible book value per share, the marker of what we as shareholders own in our Company now stands at $16.17 and has improved over $5 a share over the last few years even as we've taken the hits that are now largely behind us. Our funding structure continues to improve. Long-term debt has been cut dramatically; deposits have increased over 20% and most of that growth is coming through our Consumer Banking and Wealth Management segments.

Our loan book is now well balanced, half consumer, half commercial. And importantly, the consumer piece is much more secured lending than it was before the last crisis. As we look in Global Markets, whether it's our Level 3 assets which are more risky, the total trading assets or VaR, they are all down significantly over the last few years. So as you can see we've simplified our Company and our operating structure. As we look ahead to 2016, we remain focused on what we can control.

We intend to keep driving the core customer activity you see on the loan and deposit and customer flow growth in each and every business, focusing intently on the Wealth Management and Global Markets businesses to take advantage as markets have stabilized. We'll continue to drive on focusing on costs and drive those costs down and we'll continue to drive to deliver more capital to you as we did in the first quarter as investors.

With that, let me hand it over to Paul.

Paul Donofrio

Thanks, Brian. Good morning, everybody, and thanks for joining us. Starting on Slide 6, we present a summary of the income statement returns for this quarter, highlighting comparisons to Q4 2015 as well as Q1 2015. Earnings this quarter were $2.7 billion or $0.21 per share. These earnings include the negative impact of the FAS 91 market-related adjustment, which reduced EPS by $0.07. They also include $850 million of FAS 123 retirement eligible incentive expense, which reduced EPS by $0.05.

For comparative purposes, the aggregate impact of these two same items in Q1 2015 reduced EPS by $0.08. Revenue on an FTE basis was $19.7 billion this quarter. Adjusted for FAS 91, revenue was $20.9 billion, a decline of $700 million from Q1 2015 on a similarly adjusted basis. This decline was driven by the reduction in sales and trading revenue and IB fees, as well as mortgage banking income offset by improvement in adjusted NII.

Expenses were $14.8 billion, approximately $1 billion or 6% lower than a year ago, driven by good discipline across the entire Company. Before moving to the balance sheet I want to note an adjustment to the financial statements this quarter, reclassifying some operating leases. We moved $6 billion of leases to other assets and we made conforming reclassifications to prior periods to improve comparability. This reclassification had no effect on net income.

However, as a result of this reclassification, quarterly NII is lower by approximately $50 million, other income is higher by approximately $180 billion and depreciation expense is higher by about $130 million. While these changes are small and don’t affect profits, I wanted to note them so that you can more easily adjust your models.

Turning to Slide 7 and the balance sheet in the balance sheet. Total assets increased $41 billion from Q4 driven by higher Global Markets repo activity as well as increased cash. Deposits rose $20 billion from Q4 while loans increased $4 billion. Driven by deposit inflows, liquidity rose to $525 billion. Time to required funding, while down, remains strong at three years. And note that the first quarter included the $8.5 billion settlement payment to Bank of New York Mellon as trustee in the article 77 suit, which was reserved for over four years ago.

Tangible common equity of $167 billion improved $4.7 billion from Q4. On a per share basis, tangible book value increased to $16.17, up 9% from Q1 2015. Turning to regulatory metrics: as a reminder, we report regulatory capital under the advanced approaches. Our CET1 transition ratio under Basel III ended the quarter at 10.3% and really is only comparable to Q4 as prior periods were reported under the standardized approach prior to our exit from parallel run.

On a fully phased-in basis, CET1 capital improved $3.4 billion to $158 billion as improvements from earnings and OCI were partially offset by dividends and repurchases. Under the advanced approaches, compared to Q4 2015, the CET1 ratio increased 30 basis points to 10.1% and is now above our fully phased-in 2019 requirement. RWA decreased roughly $18 billion driven by reductions related to retail exposures as credit quality improved.

We also provide our capital metrics under the standardized approach. Here our CET1 ratio improved to 11% with the same capital improvement as advanced but less of an RWA improvement given standardized is less risk sensitive. Supplemental leverage ratios for both the Parent and the Bank continue to exceed U.S. regulatory minimums that take effect in 2018.

Turning to Slide 8, we had solid loan and deposit growth in the quarter. Reported loans of $901 billion on an end of period basis increased $4 billion from Q4 and are up $28 billion or 3% from Q1 2015. Loans in our primary lending segments were up $14 billion or 2% from Q4 which is 8% on an annualized basis. We continued to see solid commercial loan growth in Global Banking. In Consumer Banking we continue to see strong growth in consumer real estate and vehicle lending.

Lastly, in Wealth Management we also saw continued growth in consumer real estate. Loans outside the primary lending segments in LAS and All Other were down $10 billion from Q4 driven by continued pay downs of first and second lien mortgages as well as loan sales. During the quarter, we sold FHA loans totaling $2.7 billion and NPLs and other delinquent loans of roughly $1 billion, recording a small gain on sales and other income.

Turning to deposits, on an ending basis they reached $1.2 trillion this quarter, growing $64 billion or 6% from Q1 2015. Growth was led by our consumer businesses. Consumer Banking grew $43 billion or 8% year-over-year. GWIM grew nearly $17 billion, a 7% pace, and Global Banking grew at a 3% pace.

Turning to asset quality on Slide 9. Outside the energy sector, credit quality is strong. Total net charge-offs were $1.1 billion in Q1 and Q4. We had some immaterial movements this quarter from minor adjustments but overall very little change in consumer losses. Commercial losses declined slightly from Q4 despite a slight increase in energy charge-offs. Provision of $1 billion in Q1 was up $187 million from Q4. While net charge-offs were flat, total reserve release declined as reserve releases in Consumer were mostly offset by reserve increases in commercial driven by energy exposures.

On slide 10, we provide credit quality data on our Consumer portfolio. Net charge-offs declined $41 million from Q4. Consumer real estate charge-offs benefited from continued portfolio improvement and fewer one time items, primarily collateral valuation adjustments on consumer real estate. Adjusting for those items, consumer net charge-offs were relatively flat versus Q4. Delinquency levels and NPLs improved and reserve coverage remains strong.

Moving to commercial credit on Slide 11, net charge-offs improved $35 million. A decline in non-energy net charge-offs from Q4 more than offset a modest increase in energy losses. Energy charge-offs increased $17 million from Q4 to roughly $100 million in the quarter. Given that asset quality outside energy remains relatively stable, let’s focus on energy. We continue to support our energy clients while managing limits and actively engaging with stressed borrowers.

Our overall committed energy exposures declined slightly from Q4 while utilized exposures were up by $500 million. As discussed last quarter, within energy, we believe two subsectors, refining and marketing, as well as vertically integrated, which by the way tend to be large market cap and/or sovereign supported. These two subsectors are less dependent on oil prices and therefore carry less risk than our exposures in E&P and oilfield services.

Looking at our $7.7 billion utilized exposure to the higher risk E&P and oilfield services clients, we saw a decline of $600 million from Q4 as payoffs and charge-offs more than offset draw downs. In addition, this quarter we moved $1.6 billion of our energy exposure to reservable criticized, and we added $525 million to our energy reserves. We made these adjustments based upon another quarter of not only low oil prices but also volatile prices.

This moves our energy reserve to just over $1 billion. And while these reserves cover also energy portfolio, they would represent 13% of our $7.7 billion E&P and oilfield services exposures. We believe that percentage is probably more relevant as you compare exposures across the industry.

Turning to Slide 12, net interest income on an FTE basis was $9.4. Included in NII this quarter was a FAS 91 negative $1.2 billion market-related adjustment for bond premium amortization. This adjustment in Q1 2015 was a negative $500 million. And including TruPS-related charges, Q4 was also negative $500 million. Adjusted NII of $10.6 billion improved approximately $500 million compared to Q1 2015, excluding FAS 91, and improved $100 million from Q4 after also excluding the TruPS charge.

Several factors contributed to the improvement from Q4. We had good commercial loan growth funded by deposits. We also had about $100 million in seasonal benefits in Q1. Offsetting these factors we had one last day of interest and lower dividends on our Federal Reserve stock as required to contribute to the Highway Trust Fund. Lower long-term rates also offset some of the benefits of the Fed rate hike in December pressuring NII.

Lower long-term rates was also the driver of increased asset sensitivity in the quarter. As of 3/31, and instantaneous 100 basis point parallel increase in rates is estimated to increase NII by approximately $6 billion over the subsequent year. About 40% of this estimated $6 billion increase comes from short end rate improvement and the rest is from long end rate improvement split equally between FAS 91 and reinvestment at higher rates.

Turning to Slide 13, non-interest expense was $14.8 billion in the quarter. That is $1 billion or 6% lower than Q1 2015 driven by good expense discipline across the Company. Legacy asset costs excluding litigation – excuse me, Legacy Assets Servicing costs excluding litigation were $729 million this quarter, declining $292 million from Q1 2015 and $64 million from Q4.

Litigation expense of $388 million was in line with Q1 2015 as we work to resolve remaining legacy issues. First quarter expense also included FAS 123 annual retirement costs of $850 million, slightly below Q1 2015. First quarter of both years also included about $300 million of seasonally elevated payroll tax expense. Adjusting for all these items, i.e. the litigation, LAS, FAS 123 and the elevated payroll tax, expenses were $12.5 billion. This decline of $600 million from Q1 2015 was driven by: lower revenue-related costs associated with sales and trading in investment banking, as well as revenue in our Wealth Management business; the roll off of advisory retention awards put in place after the combination with Merrill Lynch; and lastly, SIM initiatives that are improving productivity and helping us lower costs so that we can continue to invest in growth.

Our employee base is down 3% from Q1 2015 and increases in client facing professionals were more than offset by reductions in LAS and other operations staff. Lastly before leaving expense highlights I want to remind you that quarterly FDIC insurance expense is set to increase at the large banks until the deposit insurance fund reaches 1.35%. For us, this will increase expense by approximately $100 million pretax starting in Q3 2016.

Okay, turning to the business segments, starting with Consumer Banking on Slide 14. Consumer earned $1.8 billion, 22% better than Q1 last year. These earnings reflect continued core customer growth coupled with strong expense management. Lower provision expense from continued improvement in asset quality also benefited the bottom line. This work generated a strong 24% return on allocated capital. Note that allocated capital increased slightly for 2016 pursuant to our normal capital allocation reviews completed in Q1.

On Slide 15 we focus on some important trends. First, in the upper left, we continue to lead the industry in a number of ways, as you can see from the stats. Revenue increased $242 million or 3% from Q1 2015 as NII growth more than offset lower non-interest income. Net interest income benefited from higher client balances. Non-interest income was down due to lower mortgage banking income offset by increases in card income and service charges. We continue to see mortgage banking income come down given our strategy to book more of our originations on the balance sheet.

Expenses declined 2% from Q1 2015. On the bottom left, you can see the year-over-year decline in FTEs as Mobile Banking growth continues to help us optimize our delivery network. Note, while overall FTEs are down year-over-year, sales specialists are up almost 900 from Q1 2015. Lastly, our deposit franchise continues to drive operating leverage. Our cost of deposits as a percent of average deposits continues to improve and now stands at 171 basis points which we believe is best-in-class in the industry.

Focusing on Mobile Banking users in the upper right for a minute, we added 910,000 net new mobile users this quarter. We now have nearly 20 million active users and deposit transactions from mobile devices now represents 16% of deposit transactions. Interestingly, this quarter we added more net new users than any quarter in the last three years and we continue to add new features and capabilities, improving convenience and satisfaction. One way we are promoting adoption is by deploying digital ambassadors in our financial centers. Digital ambassadors engage with customers who come to our branches to transact. They educate these customers on alternatives to branch banking which are not only more convenient for them but also less expensive for us. Digital sales, digital appointments, digital satisfaction all continue to achieve new highs. Focusing on client balances, you can see Merrill Edge brokerage assets are up 7% from Q1 2015 on strong flows offset by lower valuations. Moving to the bottom right of the page, note that loans were up 8% in Q1 2015 on strong, mortgage and auto growth.

Okay, moving to Slide 16, this is a new page that presents some statistics around loan growth and the quality of originations in our Consumer segment. Starting with card we issued 1.2 million cards in the quarter, which is a bit lower than the past few quarters. Average balances were impacted by the sale of a $1.7 billion non-strategic card portfolio late in Q4. Adjusting for that divestiture, loans were up from Q4. Spending on credit card, adjusted for divestitures, was up 8% compared to Q1 2015. As we've discussed many times and shown here, we are originating high FICO loans that have produced very low loss rates and strong risk-adjusted margins currently exceeding 9%.

Moving to vehicle lending, one sees similar high-quality, low risk lending stats. Average book FICOs are around 780 and loss rates are low. Also, the tenor of these loans is relatively conservative compared to the industry as nearly 90% of our loans are less than 73 months. Margins obviously aren't as high as credit card, but average balances are growing well across multiple channels within the business. Our underwriting standards are producing similar results in consumer real estate lending which is presented on the bottom of the page. Net loss rates on first lien mortgages have been negligible. Remember, we began booking these loans in the Consumer segment in the first quarter of 2014 and the macro consumer environment has been healthy, particularly for high FICO borrowers.

Turning to Slide 17, Global Wealth & Investment Management produced earnings of $740 million, up 13% from Q1 2015. Year-over-year revenue was down but expenses declined more, pretax margin to 26%. Overall, revenue declined 2% from Q1 2015 as strong NII growth was more than offset by lower market sensitive revenue. Asset management revenue declined on lower market values. Transactional revenue was also down and continues to be impacted by the shifting of activity from brokerage to managed relationships as well as market uncertainty. NII benefited from solid deposit and loan growth.

Non-interest expense in the first quarter of 2016 benefited from the fully amortized advisory retention awards given at the time of the Merrill Lynch merger. We have not seen a noticeable attrition as a result of this. Lower revenue-related incentives also contributed to lower expense versus Q1 2015.

Moving to Slide 18, despite lower market levels, we continued to see overall solid client engagement and we continue to invest in the business, growing client facing professionals year-over-year. Client balances are $2.5 trillion. Long-term AUM flows were down this quarter as a result of market volatility which impacted client behavior. Average deposits grew $9 billion from Q4 and average loans also grew this quarter concentrated in consumer real estate lending.

Turning to Slide 19, Global Banking earned $1.1 billion, down from both comparative periods as energy reserves weighed on results. Despite this increased provision expense, Global Banking was able to deliver a 12% return on allocated capital. And note that we allocated $2 billion more in capital to Global Banking for 2016, pursuant to our annual evaluation of allocated capital. Global Banking continues to drive solid loan growth within its risk and client frameworks and this drove a nice increase year-over-year in NII, mitigated to some degree by spread compression. That NII improvement, combined with revenue growth from credit cards and treasury fees, partially offset a decline in investment banking and other marks on loans and hedges. Noninterest expense, compared to Q1 2015, reflects a decline in revenue-related expense offset by the cost of adding sales professionals over the past 12 months.

Looking at trends on Slide 20 and comparing to Q1 last year, it was obviously a tough quarter for the capital markets with spikes in volatility causing declines in client activity. However, clients still have financing needs and here is where the diversity and strength of our franchise allows us to continue to deliver for them even when capital markets are less attractive. You can see that trend in our average loans and lease balances, which increased again this quarter and are up 14% year-over-year. Growth in loans was broad-based across C&I, CRE and leasing, although recently we have slow growth in CRE.

Spread compression on average across all our customer sizes has moderated relative to a year ago. Average deposits also increased from Q1 2015, up $11 billion or 4%. We remain focused on our deposit mix which is strong with only 3% classified as 100% runoff balances. On the other hand, total firm-wide IB fees of $1.2 billion were down 22% from Q1 2015 with declines broad-based across M&A, DCM and ECM.

Switching to Global Markets on Slide 21 and comparing Q1 last year, again the challenging market condition caused revenue compared to Q1 2015 to be down. The quarter included a benefit from the resolution of a litigation matter and we also had lower revenue-related costs compared to Q1 2015. All of this resulted in Global Markets reporting earnings just under $1 billion. Reported revenue was down year-over-year, but note that last year DVA negatively impacted revenue versus added to revenue this quarter.

Total revenue, excluding DVA, while up from Q4, was down 17% from Q1 last year on lower sales and trading revenue as well as Global Markets share of lower IB fees. Non-interest expense declined 23% from Q1 2015 driven by lower litigation. Adjusting for litigation, expenses were down 9% as a result of lower revenue-related expenses demonstrating a disciplined approach to compensation.

Moving to trends on the next slide and focusing on the components of our sales and trading performance, sales and trading revenue of $13.3 billion excluding net DVA is up 25% from Q4 with improvement in both FICC and equity, but down 16% from Q1 last year. Versus Q1 2015, FICC sales and trading up $2.3 billion fell 17% reflecting a tough environment for credit-related products as well as a tough comparison to a strong Q1 2015 in currencies. Equity trading was $1 billion, declining 11% reflecting weaker trading performance in a challenging market environment. Average trading assets continued to trend down as did VaR which remains at historically low levels.

Turning to Legacy Assets & Servicing on Slide 23. This segment lost $40 million this quarter. I'm not going to spend a lot of time here as trends are consistent with past quarters. Revenue was down a bit from lower servicing fees as the portfolio of service loans declines. Revenue was also impacted by lower net hedge results. As the portfolio shrinks, we continue to lower servicing costs particularly with respect to delinquent loans. The number of 60 plus day delinquent first mortgage loans serviced continue to decline and is now only 88,000 units. Excluding litigation expense this quarter was $729 million, dropping nearly $300 million from Q1 2015 and down $64 million from Q4.

On Slide 24 we show All Other which reported a loss of $1.9 billion. Results were impacted by the $1.2 billion FAS 91 market-related adjustment, the FAS 123 seasonal retirement eligible incentive costs and litigation costs. The loss here is higher than Q1 2015 for a number of reasons. First, the market-related adjustment is more negative this year than last. Second, we had higher gains on sales of loans in Q1 2015 than this period. Third, provision expense is higher as both periods had a benefit from provision but this quarter that benefit was smaller than Q1 2015.

Lastly, litigation costs were higher this quarter versus Q1 2015 as we worked down legacy issues. The effective tax rate for the quarter was about 28%, which is better than we expect for the full year absent any unusual items. One expected item that we want to bring to your attention is another UK tax rate reduction recently proposed in the Chancellor's budget. We expect this to be signed into law in Q3 and will result in a tax charge of about $350 million to reduce the carrying value of our UK DTA. The vast majority of this charge will not impact regulatory capital.

Okay, so let me offer a few takeaways as I finish. Given the market volatility, revenue growth was challenging this quarter. However, we compensated for this by managing expenses well. If one adjusts this period's reported results for the noncash FAS 91 market-related NII amount and the FAS 123 costs, earnings are largely in line with recent quarters. You can see progress most clearly in our business segments which don't include these adjustments. Taken as a whole, the segments, not including All Other, improved earnings by 16% versus Q1 2015. The drivers of this improvement were solid loan and deposit growth across our customer groups. Net charge-offs were largely unchanged as modest increases in energy were mitigated by other improvements.

We strengthened our capital liquidity and we returned $1.5 billion in common dividends repurchased to shareholders. To Brian's earlier point, we have done years of work to simplify the Company and reduce risk. With $167 billion in tangible common equity, $12 billion in credit reserves and twice the amount of liquidity of a few years ago, we believe we are well prepared to help customers and clients in good and bad times and we are focused on growing earnings in many different economic scenarios.

With that, let's open it up to Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] We can take our first question from Jim Mitchell with Buckingham Research. Please go ahead.

Jim Mitchell

Hey, good morning. Just maybe let's focus – I'll focus my question on expenses and then I'll get back in the queue. But I think outside of incentive comp expenses generally were better than I was expecting and how much of that is to simplify and improve and how much more do you think there is to do on some of these core expenses I guess is number one?

Paul Donofrio

Look about from Q4 to Q1, $300 million in core expense decline. $100 million of that is the roll off of the amortization of the awards we gave to advisors around the Merrill Lynch acquisition. $200 million of it is just good, solid expense discipline being driven by SIM and other initiatives. If you look at the supplement you're going to see expenses came down in nearly every category.

Jim Mitchell

And you think there's more to do there? I guess maybe in the context of your discussion around digitization and Consumer, that seems like that could be a longer-term tailwind. Do you guys agree? And do you think that's a material mover or just more incremental?

Brian Moynihan

Jim, I think there's a lot more to do here because at the end of the day adjusting the efficiency ratio for the two major adjustments, which won't reoccur next quarter, you get in the mid-60 – 66, 67 and we need to drive that down in the low 60s even with the realities of the wealth management business not being as profitable and a big part of our revenue stream but very return on capital beneficial. So then if you flip and say how are we going to get down there? You're exactly right. If you look, we drifted down even further this quarter. Numbers of branches, smaller numbers of customers, but deposits are up. If you look at headcount in Consumer we continue to reposition it towards the sales and relationship management side and away from the transactional side.

And so that digitization, which is – we're at $19.6 million, Mobile Banking consumer customers. And interesting enough we're growing on the online customer base, meaning computer-based customers grew over 1 million customers from last year's first quarter. So all that just drives more and more transactions, more and more cost structure of the day-to-day transactional stuff into those environments and saves us money overall. And at 170 basis points, there was a time when that was 300 basis points five, six, seven years ago. We thought we'd got it into the low 2s – 220, 240, and thought that was pretty good and now we're at 170, and my guess is we continue to push it down.

Jim Mitchell

That's helpful. And maybe just one ticky tack question on the FDIC charge. It wasn't clear. Is that an annual expense or is that going to be quarterly at $100 million?

Paul Donofrio

It's going to be quarterly $100 million beginning in Q3 until the fund gets up to its adequate level and then it will come down.

Jim Mitchell

Okay, all right. Great. Thank you very much.

Operator

Our next question comes from Matt O'Connor with Deutsche Bank.

Matt O'Connor

Good morning.

Brian Moynihan

Good morning.

Matt O'Connor

Any outlook you can provide in terms of the potential for additional reserve boosts related to energy? We heard one bank yesterday talk about maybe another $500 million, although a lot of variability around that number they pointed to. And obviously their book is different than yours, but any thoughts if conditions stay where they are now on additional reserve boosts? And then just related to that, the outlook for additional reserve release in the rest of the portfolio given, as you mentioned, trends continue to be strong or even improve in some areas.

Paul Donofrio

Sure. Look, in terms of reserve build, we think the reserves we have right now are the right reserves for our portfolio. Built in releases in the future of going to be based upon how companies adapt to the level and duration of low oil prices as well as our net charge-offs and we think companies are adapting. In terms of reserve releases, we would expect releases in Consumer, but at a slower pace than we've seen in the past as we run off the legacy portfolio and depended upon the real estate market.

Brian Moynihan

Consumer releases would likely go to offset any builds in commercial.

Matt O'Connor

Okay. That's helpful. And then just separately, kind of big picture from a regulatory point of view if I look back to last year, you've had some steps forward, some steps backwards. Obviously had to resubmit on CCAR and that was a net positive once you got the results back. You got the approval for the extra 1% buyback which I think symbolically a lot of investors view and I view as positive. You've got the living will issue that came up yesterday for you and a number of others. Just at a very high level, maybe give us an update on how you are feeling from the regulatory point of view and where the areas are that you feel like you still need to improve.

Brian Moynihan

I think from a global perspective we continue to implement all the rules and regulations of change over the last few years. And importantly, Volcker was an implementation mid-this year. And all lot of the hard work has been done if you think about LCR, SLR, the core Basel rules and the changes. We absorbed the advanced increases over the last year and now we're above the 10% advanced including the $100 billion or more of RWA for the commercial assets and the off risk of capital of $40- billion-odd. And so, we've absorbed a lot of that into the run rate and I think we're now to the point of fine-tuning the Company around the rules and regulations and continue optimizing it. And I think that – we've obviously submitted the CCAR work.

We did a tremendous amount of work just on the expense submitted the CCAR work. We did a tremendous amount of work just on the expense side. That was another $40 million of incremental expense this quarter in the first quarter to continue to get us using third parties to continue to make sure we kept our run rate at best-in-class. And so that's in and being reviewed as we speak. And then we've got obviously, as you spoke about, the continuation of finishing up the resolution plan, which we – has probably spent at least $0.5 billion on external parties to help us with and a lot of internal work. And that's all been in the run rate as we speak and ultimately provide relief as we get through it.

So I think overall you've seen us implement most of the rules and optimize the Company. We need to continue to do that. That ought to provide some RWA opportunities in the future, but it continues to take time. But we've – I think we're in pretty good shape and now the question is just to finish up a couple of these key tasks on the resolution plan that you can see. Unprecedented transparency – you've got the same letter I got, so you know exactly what we have to do, and we'll get it done.

Paul Donofrio

If I could just have maybe two thoughts. One, this is not an episodic activity for us. This is being [Audio Dip] and meeting the standards under the regulations. That's one. Two is it's not a group of people who are doing this. It's everybody in the Company. It's – we have a significant – it's really being led in many ways by the line of business. We've got involvement from all of the support functions, so it's become part of the culture of the Company to get to the right standards across all the regulations.

Operator

And we can take our next question from Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck

Hey, good morning.

Brian Moynihan

Good morning, Betsy.

Paul Donofrio

Good morning, Betsy.

Betsy Graseck

Hey, couple of questions. One is on the quality of the book. You went through and reminded us how much you've improved the quality of book in the Consumer. Could you speak to that in the commercial as well, ex-energy? And then give us a sense as to whether or not you think that's embedded in the CCAR results. I'm just trying to get an understanding of whether or not you think that RWA hit that you had to take could potentially come down as commercial rolls through?

Paul Donofrio

So outside of – on the commercial side, outside of energy and metals and mining, we don't see issues with credit quality. We're obviously watching very carefully, but it feels very good outside of those two sectors. What was the second part of your question?

Brian Moynihan

Its on the CCAR results.

Paul Donofrio

Oh, yes, yes, absolutely. Look, if you look at our CCAR results, either on an absolute basis or on a comparative basis, you can see what a third-party, the Fed, thinks our losses would be. You're going to see that again in a few months. And I think you can really see, when you look at those results, how much we've improved the credit quality of Company of both – across both Consumer and Commercial.

Betsy Graseck

Do you think that can help in the buyback ask as you go through – it's not just a question about this year but just over time?

Brian Moynihan

Over time, Betsy, our view is that we can grow the Company and grow it responsibly as we talk about. So there's opportunities for growth and that's – on the Consumer segment a lot of questions we get is how can you grow and keep your credit discipline? You must be changing. You can see that this stuff coming on today is as strong as anything we put on and the Commercial you should assume is the same. And so there is still plenty of opportunity for us to grow, which is just good for earnings and prospects. When you flip it to the other side of it, yes, our job from the management team was to set this Company up to – it would never have the kind of risk embedded in it that would lead us to difficult times and a real recession, leave alone the CCAR analysis. And as you see the CCAR analysis over time, you see our loss content continue to come down and that should serve us in good stead to be able to take out capital over time, as you said. And if you think about in the Commercial book, it's – things like commercial real estate, we have been very disciplined and what we inherited through all the deals and development loans – all that stuff is really nonexistent at any consequence, so we feel very good about the Commercial book.

Betsy Graseck

Okay, and then just separately, you talked a bit about the mobile user increase. And I just wanted to get your sense as to the opportunity from here. You recently launched the new app with mobile pay, which you've been doing internally but now you can do externally.

Brian Moynihan

Right.

Betsy Graseck

Could you give us how that's resonating with clients? Is there an opportunity set here for you and are you going to market it a little bit more aggressively going forward?

Brian Moynihan

So let's – just framing from the overall top. Last year this quarter we had 17 million mobile users; this year we have 19.5 million. And as Paul said, there was an interesting point that the nominal rate of growth this quarter was one of the highest we've ever had. So even though smart phones have penetrated, you think you've kind of penetrated the customer base, it's still growing fast, so that's number one. And then as I said earlier, Betsy, and you've followed our Company for a long time, you might – you would've seen a plateauing in the online – the computer-based banking, for lack of a better term, people coming in through BankofAmerica.com. And that now is growing as fast nominally or faster mobile which means people are also using both sides. And so that's one thing. So the core activity is growing.

And if you look at the activity in the core customer base from card usage – both that in credit card usage up 4%-plus year-over-year, and that's good. The online mobile part of the spend is now up to 20% of the spend and it's growing 15% per year versus the 4%, 4.5% growth on the total. So that's tremendous. Then if you get in the wallet categories, just to give you a sense, just in the last week the growth rates in enrolled cards was 12% week to week growth in terms of volume enrolled, 100,000-odd cards came on. The payment usage was up 3% week over week, so you see this phenomenal growth rate. If you annualized that out, that's a weekly growth rate and it ebbs and flows with holidays and everything else, but think about that.

And you see that usage going up, but the mobile wallet payments are still less than 0.2% of the total payments made with plastic at Bank of America. So you still have lots of opportunity to convert activity to a platform which is more convenient for the customer. And then the other thing we've – and then a part of that you talk about is the new consortium to build a new P2P deployment for the banking system. We're up and operating that. We still have a few more months before the rest of the colleagues in the consortium get up and then we'll start to push that out in the market heavily. I think it's a tremendous improvement over what we have today, even though we have a fair amount of volume on it today through clearXchange and that was an effort to get us all together so we could have a very interoperable payment network.

We've got the Visa Checkout work that's going on where we're preloading customers' cards in their wallet. We're about, as best we can tell, 13%, 14% of all the spend in Visa Checkout today and we've got 1 million-plus cards; we'll drive that forward. And if you put that altogether you're seeing tremendous volume off of all these mechanisms. And in the month of March, to give you an example, we had almost $60 billion of payments off the computer-based platform and about $20 billion off the mobile-based platform. So think about the size of that.

Now given all that, we still sent out about $8 billion of cash out of our ATMs in the month of March on – that's $0.25 billion a day or more. So it's still – you have to have all the capabilities and that's what we're building towards. And going back to I think Jim's question earlier, the cost structure keeps moving in your favor as you keep driving this activity through.

Betsy Graseck

I mean eventually you've got an elimination of checks and some of your bill pay costs potentially go down as well, I would assume?

Brian Moynihan

Yes, eventually is always an operative word. Even today I think there's about a quarter million checks a day, people take a picture of them and send them in on their mobile phones and that didn't exist three years ago. But there's still a quarter million of them that would have to go way, so it will be a while.

Betsy Graseck

Okay, but that's in line with expectations to bring down the consumer expense ratio? I mean, is that really the driver of getting the consumer expense ratio down is the backend on the payments piece?

Brian Moynihan

Yes, it's everything about payments: processing, fraud losses, discussions with the customers about the payment – the multiple payment faculties that they could use and how they interface. And so, it has been a huge driver. Remember we went from 6,100 branches down to 4,600 or whatever today. And the customer base has increased by 10% and the volume of deposits is up by I think 30% to 40% and checking deposits are up dramatically. So I think year-over-year checking deposits were up 8% or 10% I think, Lee, right? Something like that. So the activity is level is growing up on a smaller and smaller base. And that cost structure in retail is driven by two things, the people, which we're increasing sales in relationship management content, and the physical plant.

And you're absolutely right, driving all that out – near as we can tell, we spend about $1 billion a year just moving cash around in our company. So less cash moving around saves us money.

Betsy Graseck

Okay. And just remind us what your goal is to get the consumer expense ratio to?

Brian Moynihan

The goal is to have it keep going down every day, week, month, quarter. And I think, Betsy, with all these things you've got to be careful about letting my consumer colleagues think they are doing too good a job. So I keep putting pressure on them, so I'm not going to give them a goal that they think they've achieved something.

Betsy Graseck

All right. Thank you.

Operator

Our next question comes from John McDonald with Berstein.

John McDonald

Hi, good morning. I was wondering about – on the net interest income side if you could talk a little bit about, Paul, what kind of outlook we should think about for the core net interest income. That was 10.6 this quarter. If rates are relatively stable and we don't see any hike for a while, how should that trend with all the puts and takes?

Paul Donofrio

Sure. So look, we're hesitant to give guidance. Given the volatility rate that we've experienced, guidance has not been that helpful, in my opinion, but I'll give you a couple of thoughts, 10.6, if you think about maybe as a launching off point, given some of the seasonal NII gains we had in Q1 I think a more reasonable launch point would be more like 10.5. Then you go to the second quarter, we've obviously got to deal with lower long-term rates. Second quarter is always a little bit seasonally lower for us. So there's some – progress there is going to be challenged. But I think as you head to the third quarter and fourth quarter, when you consider what we're – think we can do on deposit growth and loan growth, and if rates follow the path along the forward curve, we would expect to make progress in the latter half of the year.

John McDonald

Okay, and you do get a day count help modest in the second quarter from the first, right? Doesn't that help?

Paul Donofrio

It's a leap year, so I think it's normally down 2, but now it's down 1, or…

John McDonald

Kind of maybe right.

Paul Donofrio

Flat, yes.

John McDonald

Going into the second. Okay. And then just on trading, there was a quote in the media from you this morning, Paul, saying March felt better in certain areas. Could you just give us a little color on what changed in March on the trading front? What got better? Has that carried over a little bit into April? And how are you thinking about the Brexit vote from a risk and revenue impact potentially as that comes up this spring?

Paul Donofrio

Sure. So March felt, I think, a lot better than certainly January and February. And April it's really too early, but April feels, at least is starting out, like it's more like March than it is like January and February. In terms of Brexit, we are focused on our clients and customers. They are going to need – there's going to be volatility potentially around the vote and around any changes after the vote. And we're working very closely with our customers to address how they need to manage their risk.

From our own Company perspective, we are – we're going to listen. It's a UK – it's the UK's decision. We're going to – after we find out what the decision is and understand it, then I think we will react to it and do what we think is in the best interest of our customers and clients and shareholders and other constituencies.

John McDonald

Okay, thank you. And in terms of March, what – could you just – any color on what got better? What felt better? Which areas of the business? Could you help on that?

Paul Donofrio

No, I wouldn't say – look, I think you heard from competitors that Asia was a little better in March. We're stronger in the U.S. than we are in Asia. We have a significant business there, but – so there was some improvement out there. But, no, I wouldn't have any more specifics than that.

John McDonald

Okay, thanks.

Operator

Our next question will come from Glenn Schorr with Evercore ISI.

Glenn Schorr

Hi, thanks very much. On slide 12 you noted your asset sensitivity increased a bunch from the prior quarter. You mentioned driven by the drop in long end rates. Could you talk through how that actually works. And then how much of the $6 billion is short end versus long end?

Paul Donofrio

Sure. 40% of the $6 billion is going to come from an increase in short end rates and then the other 60% is split equally between FAS 91 and reinvestment at longer term rates. The FAS 91 piece is relatively straightforward. I mean we had $1.2 billion decline in Q1 because interest rates went down 50 basis points. We’re going to retrace that if they go back up.

Glenn Schorr

Separate one. If you look at the ROA full year-on-year, it's a large amount on a percentage basis from 59% down to 50%. I'm just curious, I wouldn't think weak capital markets in the quarter was the big driver, but I guess the question is what's the big driver of it. And are the new business you are putting on coming in at higher ROA so we should expect that to rise from here, assuming not so crazy markets?

Paul Donofrio

Look, if you think about our ROA and you adjust for FAS 91 market-related NII adjustments and retirement-eligible expenses, you're going to get into the mid-70s. And then if you give us some credit for the progress we've made in LAS over the last few years and continue with that progress, you're going to get even higher. From there it's about growing loans – growing deposits, growing loans, putting on, like you said, assets that are accretive to what we have on the books right now. And, importantly, continuing to grind and work on expenses. And so, that's what we've got to do.

Glenn Schorr

Okay. One last tiny one is Wealth Management margins increased a couple hundred basis points quarter-on-quarter. 500 year-on-year without the help of revenues. Expenses were down a bunch. You mentioned the $100 million roll off of the previous amortized retention awards. What's the rest of the expense saves inside Wealth Management? It's pretty good in a world that didn't have much revenue.

Paul Donofrio

It's compensation related given the fact that revenue was a little weak because of the volatile markets. That's not to say we're not working on bringing down costs in that segment as well, but specifically to answer your question in Q1, that's what drove it.

Glenn Schorr

Is that nonproduction expenses, meaning usually the comp stuff goes hand-in-hand with revenues?

Brian Moynihan

Yes, it's – they are working on all the elements expense, so you've got that right. But also remember as the NII increases there's not as much expense attached to that. So that's one of the operating leverage points in wealth management that we were losing a lot last year that we're going to get back as short-term rates rise because they are a heavy deposit business. Remember, they alone are $260 billion of deposits in Wealth Management, which those deposits and loans continue to grow which continues to produce more core NII. As well as what everybody thinks of as being a large Investment Management trust fee type company. But they are a big bank and the loans grow and that's going to drive that up and that is marginally more profitable for the shareholder.

Glenn Schorr

Okay, perfect. Thank you.

Operator

Our next question comes from Paul Miller with FBR & Company.

Paul Miller

Hey, thank you very much, guys. On the legacy asset, on the – you lowered your loans from 103,000 to 88,000 on the high touch servicing or default servicing. How much of that was sold or are you guys just working through the book?

Paul Donofrio

I would classify it as little to very little sold this quarter. It's just working service loans – delinquent service loans down.

Paul Miller

Just working it down? And has – the new stuff coming in, is that still a material amount or it has that been – is that mainly done? Like you're not really getting a lot of new stuff coming into this bucket?

Brian Moynihan

Very little from any production that was done after the crisis, Paul, as you could expect. So they're delinquency statistics. So really you still have modifications that – the re-modification work going on because people have had modifications for years. Some portion of them go back in the situation and then you have just the normal flow. But that number keeps working itself down and, based on the quality of our portfolio, should come down even significant to where it is. This is a grind now. This is just working through – if some were involved in litigation take time. It's just a grind to work them out now.

Paul Miller

And then you said in the quarter – and you disclosed this a very, very clearly – that it was about $700 million on this. Where can we – can this be cut in half by the end of the year? When does this really become immaterial do you think?

Brian Moynihan

Well, as we've told you, our target – our next weigh station on improving this thing is $500 million at the end of the year and we're well on our way to get there, Paul. But your experienced in this business. That is not an acceptable number, but I just need to keep them tracking it down. What's interesting, and if you look at the headcount we show you and stuff, what is changing is they're headcount down is at 1900 or something like that, 1900 at the end of the quarter so it's come down from a high of 58000 internal people plus external contractors dramatically.

Now we've got to get some of the harder costs out, meaning the systems and technology that was overbuilt for $12 million servicing portfolio, the real estate, and that takes a little harder work. So we're grinding all that out. So say $700 million and change to $500 million and change and ultimately we've got to get it down to significantly below that $500 million to make it makes sense as a servicing.

I think it's okay, but to actually be an effective servicing platform we should drive it down. Your point about immateriality is something – this is becoming less and less of an event to us. And so what we've got to execute on – it's not going to have the impact of when we had $3.1 billion of quarterly costs a few years.

Paul Donofrio

$1.4 million of 60 plus day delinquent loan service.

Brian Moynihan

So $500 million by year end, that's our next goal, and then when we get there we'll give you another one. But we're just – like I said earlier to Betsy on the Consumer side, we've got to keep moving this in the right direction and we have an idea where we'll get to, but we want to make sure we get the first piece out, it's $1 billion a year.

Paul Miller

Okay, guys. Guys, thank you very much.

Operator

Our next question comes from Eric Wasserstrom with Guggenheim.

Eric Wasserstrom

Thanks very much. If I could just refer back to slide 16 for a moment. There's been a lot of debate about the dynamics in the auto lending market, about deterioration in underwriting and the risks of large amounts of used cars coming off of lease. Could you give us any granularity about what you are seeing in lending across the FICO spectrum and how you are anticipating that residual issue to play out?

Paul Donofrio

Sure. Look, this is some perspective. We're maintaining our market share in auto lending, but we're very focused on originating prime and super prime loans. Average FICO score, as you can see on the page, of 78 and debt to income ratios are at all-time lows. Again, we're not following the market from a structuring standpoint to the longer tenors. 90% of our loans are 73 months or lower, so that's our strategy. And I think if we stick to that, we'll be fine. We did pull forward from – we had an opportunity this quarter to get more flow. We had planned to do that in later quarters. We pulled that volume to this quarter and we'll evaluate it in future quarters.

And you asked a question about residual values and the volume of cars sold and what happens. We also, as part of our stress testing of our – stress testing our portfolios, internal stress testing and also for the CCAR DFAST work, we stress the collection – the recognized collection value of cars down 40% and it's not – it'd obviously have more losses, why wouldn't you? But what really controls your losses is the quality portfolio and what runs through that calculation. And that number is, because of the high quality is very low. So we test that question you're asking which is what happens if residual values or used car values continue to – fell dramatically in a recessionary environment or something and that's one of the things we test, and it's not a big number.

Eric Wasserstrom

Right, and when you say that you pulled forward some flow, what do you mean by that?

Paul Donofrio

We had the opportunity – we have relationships where – on the flow side and when we see opportunities we can pull some of that in. Originations come through the branch, they come online and they come through our relationships with financial institutions who have relationships with dealers.

Brian Moynihan

And our relationship with dealers also.

Paul Donofrio

Yes, our relationship with dealers. So every once in a while we'll see an opportunity to add some balances and if it's within our underwriting standards we'll consider it.

Eric Wasserstrom

And that was primarily on the indirect side?

Paul Donofrio

Yes.

Eric Wasserstrom

Okay. Thanks very much for the clarity.

Operator

Our next question from Mike Mayo with CLSA.

Mike Mayo

Hi, my short question is when will the return on equity go into the double-digit range? Look, you have a good franchise and balance sheet. You're showing growth in loans, deposits, online banking, other areas. And you're showing lower, better expenses, branches, headcount, risk but it's not adding up. I mean your stock is 15% below tangible book value and this was yet one more quarter of mid-single-digit ROEs and worse than peer efficiency. So my question is why is Bank of America less efficient than peer? And it's tough on the outside to know because you have $2 billion of expenses in Other that's not allocated to the business lines. What is your Plan B if rates don't go up and when will the ROE go into the double-digits?

Paul Donofrio

Well, hi, Mike. Thank you. So I guess I would start by again – just so everybody understands the facts – we – if you adjust for FAS 91 and FAS 123, our return on tangible common equity would be roughly 8.5%. And again, as I said before, we've made a lot of progress in LAS. And if you give us any credit for the progress for the progress we think we're going to make in the future, we're going to be able to take that 8.5% even further. We've made, I think – so the key is we've got to continue to make progress on expenses and, again, I think we've demonstrated that we can do that. If you look just year-over- year, expenses are down $1 billion or 6%. If you go back to Q1, Q1 2011, we've taken quarterly expenses down, core quarterly expenses down $3.5 billion, so that's a $14 billion run rate. We've got to continue to do that. If you look this quarter at our Consumer and GWIM segments, you can see the operating leverage. If you look at the whole Company and you back off FAS91, you can see the operating leverage. So we've just got to continue to work on expenses. We're not sitting around waiting for rates to go up. It would help if they did, and that's what we're focused on.

Mike Mayo

All right, if I can follow-up. Despite all the progress that you've made – and you talked about the LAS expenses, you can talk about New BAC, you can talk about the quarterly expense rate since 2011. But your core EPS is still $0.33 this quarter, and it was a weak – tough quarter, tough environment, but it still in that $0.35 range. So despite all those expense savings we're not seeing it in the core EPS number that's still around $0.35. So where did all those expense savings go or is this going to come through in future quarters? And I know I've asked this question on many earnings calls and also thank you, Bank of America, for having that – and Brian for having that opening letter from the lead director in the annual report. Jack Bovender says that he wants to engage more with investors. And so I do hope that he takes my questions at the annual meeting to engage a little bit more because I've asked this so many times. I still don't feel like I have an answer that I understand, so just one more try at it, Paul. Just where are these expense savings going if EPS is still in the same range?

Paul Donofrio

So, they're going – you sort of have identified the opportunity that we have in a different market environment. It's a judgment I think we have to make. But a portion of these savings are going to increase growth in the future. A portion are going to the bottom line. That's the lever we can pull over an extended period of time to adjust for the market environment. We've proven we can get the expenses out. If we wanted them all to drop to the bottom line we could do that, but we need to invest in growth at the same time and we've got to balance that.

Mike Mayo

So, no new BAC coming up or anything like that? It's just – as I guess, Brian, you've said, you grind it out. It's just – it would be nice to see more of the progression. Is it – do you think it's a 2016 event? A 2017 event? Or we just – when rates go up we'll see more of it?

Brian Moynihan

Look in terms we are focused on driving down expenses every day, every quarter, every week. You can call it anything you want. We've got a lot of focus on this and I think you're going to continue to see progress. Our operating leverage on an adjusted basis this quarter was meaningful. You can see it if you adjust the FAS 91, revenue down 3%, expenses down 6%. We're getting the operating leverage. Look at the GWIM segment, look at the Consumer segment. We are focused on it.

Mike Mayo

All right. Thank you Paul.

Operator

Our next question is from Steven Chubak with Nomura. Please go ahead.

Steven Chubak

Hi good morning. So, I had a follow-up to Glenn's earlier question on the Wealth Management margin. I just want to get a sense as to whether we should be thinking about that 26% margin that we saw in the quarter as a good jumping off point, just given some of the tailwinds you had spoken to, whether it be the higher-margin NII growth and the absence of the legacy Merrill awards. And I suppose as it relates to that, are preparation efforts for things such as DoL compliance potentially going to weigh on the margin in future quarters?

Brian Moynihan

A couple things with that. The 26% – if you think back across the last year when we discussed this, we had the ATP piece. And so a chunk of that is that, the other chunk is good expense management. I said earlier the margin net interest income stabilizing, improving. They been growing the balances now. It's more stable. So I think it is a good starting point. It will – in some cases you would hope that it wouldn't go up a lot because that would mean asset management fees and other things are growing, which attach more compensation, less marginal profit, which will be good news, because the overall profit will grow better. But you should assume that that’s a level we should hold on to if in a relatively stable environment as we see this quarter starting out at.

When you go to the fiduciary, we've been working on that, obviously. Just because it's the final rule and it came out recently we've been working on it. So I don’t think – I think to the extent there's cost embedded in that, a lot of it's in the run rate and it will be marginally in the run rate for the next few quarters. It's not a hugely substantial cost and if you even – look, we've spent a lot of time educating our teammates about doing it. There are operational cost, but I don’t think it’s material in the grand scheme of thing.

Paul Donofrio

Brian I’ll just add a little bit to that. I think from the very beginning we supported the fundamental objectives of the Department of Labor. And if you look at our goals based strategy, it delivers a lot of what they are getting at with that rule in terms of the best interest standard. Our Merrill Lynch One advisory platform, which we successfully completed the transition of a lot of clients this quarter. That's a great example of how we've been up front to create an experience that is really transparent, single fee schedule, etc. That's a significant investment. And we're guessing that that investment is really going to pay off here in terms of implementing this rule.

If you look at roughly the $2 trillion of GUM [ph] client assets we have outside of deposits and loans, we think the Department of Labor will probably impact less than 10% of that. And certainly given the implementation schedule we wouldn't expect to see much of an impact, if any impact, in 2016 and as we digest the rules we'll just have to evaluate how it's going to affect out years.

Steven Chubak

Okay. So it sounds as though a lot of the incremental expense is already in the run rate and that you don't anticipate much revenue disruption based on the final rule as written?

Paul Donofrio

Yes that’s correct.

Steven Chubak

Okay. Got it. And maybe just focusing on the expense base within Global Markets. Was certainly pleased to see the absolute level of dollar expense was, from what I could tell, the lowest level that we've seen over the last five years. So clearly some of the efforts that you highlighted to right size the cost base have borne fruit. And as we think about the expense trajectory for this business, what should we expect in an environment where the trading revenues are relatively stable or consistent with what we saw in the most recent quarter? Is that $2.4 billion [ph] a reasonable run rate expectation?

Paul Donofrio

We're going to continue like every other segment. We're going to continue to work on bringing our cost down in this segment as well. I think there's lots of things we can do from an operational standpoint to improve profitability over the medium and long term and we're focused on that. You're right, here compensation expenses are significant and they are going to be consistent with the revenue performance. I think we were disciplined this quarter in terms of our compensation expense and you saw that in the numbers.

Brian Moynihan

We've been adjusting as you read about in the press, there is a – it's not in the run rate yet, it comes in next quarter because it happened mid-March. They made major adjustments in size of platform in mid-March. I'll give you an example. We have equity sales people year-over-year down 60 or 70 on base of despite down 15%, 20% at least. So fab in that business continues to reposition. Bernie and Jim continue on the fixed income side so they made some major adjustments to headcount.

So we'll hold it down here. You want this expense to go up because that means the revenue has gone back up. So you've got to be careful. But the fundamental operating platform has embedded in the run rate cost actually continue to develop a systems architecture, continue to drive the compliance of Volcker and all that stuff as you go in the run rate. So the chances of the non-compensation related expenses moving a lot is not the big deal and the question is just how do you incrementally keep management down.

Paul Donofrio

The other thing to remember just in this quarter, I would just point out again, that we did have a little bit of help from litigation. We had a reversal of a prior matter. It helped on the expense line.

Steven Chubak

Okay. And can you quantify how much of a benefit that provided, Paul?

Paul Donofrio

We don’t generally comment on those sorts of things. It was going for the $100 million.

Steven Chubak

Okay, got it. And then just one more final one for me, just on the investment banking side. You talked about stability in March continuing into April on the trading business. One of your competitors talked about actually seeing some improving trends in the capital raising environment in April versus what was clearly a challenging quarter in 1Q. I didn't know if you were seeing some improvement on the capital raising side as well. And if you can give us an update just in terms of backlogs in some of the other pockets like M&A, that would be helpful.

Paul Donofrio

As you might imagine, the pipeline is – looks great because everybody – people need to transact, they just haven’t – they just didn’t do it in the first quarter. So it’s building up in periods where there's volatility like this, the best thing our bankers can do is to be in front of CEOs, Boards and CFOs. They are doing that. There is going to be – have to be financing activity at some point because clients need to finance them. And so our pipeline was good. I wouldn’t necessarily say we’ve seen any in the first few days of April we’ve seen any dramatic increase in capital markets activity, but there is certainly lots of dialogue.

The pipeline looks good again because I think there's a lot of pent-up demand there.

Brian Moynihan

I think the simple thing to think about in the investment banking Capital Market side is the work is ready to go, we just – if we continue to see the stability, you will see it come through. And that’s – our comments are really based on still – they’re still stabilizing as we speak. And so, if that happens, you expect to see it start pulling through and it would be up from the quarter, quarter-over-quarter. But there are still a few more weeks of stability that you have to see for people to actually pull the trigger on financings and stuff.

Paul Donofrio

Obvious, the markets right now are stable. People can finance if they want to. I think it's just a question, as Brian said, of CEOs and Boards just making sure that the stability we're seeing right now is something that they can count on as they go to market.

Operator

And we can take our next question from Ken Usdin with Jefferies. Please go ahead.

Ken Usdin

Thanks. Good morning. Brian, right at the outset you said that there has really been no meaningful change in the customer base activity. And then the following on your comments about stable capital markets, you are growing the core loan book now double-digits still, 11%. I'm just wondering how much of that is the environment holding up. How much of that is still the spigot opening from reasonable growth? And just your outlook in terms of customer behavior on the lending side?

Brian Moynihan

The other thing, Ken, is that you have to remember that for a long period of time we were fighting the runoff of the non-core assets, which are now small enough that we could actually overcome them. So there are a lot of quarters where the core activity was growing but you couldn't find it because – if you look at the slide you can see the All Other, which is the investment portfolio, really mortgages and then the LAS assets are now small enough so that the quarter-to-quarter runoff. But I think it's solid across-the-board.

I think that in the segments we focus in on the Consumer side, prime, super prime, there's strong activity. Mortgages, you could see the origination volumes this quarter were solid. I think if you think of home equity has kicked back up a little bit again because people see home equity in their house. The auto businesses strong, but it will ebb and flow with how many units get sold ultimately because that's the nature of the business. Although I think we can gain share there because our share on our direct-to-consumer business was very low. We didn't even do it two years ago and now we're up to, I don't know, $0.5 billion or more a quarter.

So I think from a consumer side, the card business, because we've now sold through all the portfolios we have to sell, I think you should see stable and start to see better year-over-year comparables than we've had the last several years. Obviously last big portfolio went out in the fourth quarter, and so I think we feel good. If you look at the online customers, the creditworthy customers that we deal with are there to borrow and we're lending to them.

And if you go on the Commercial side, as Paul said earlier, I think you would expect us the CRE – we slowed – we want to be careful in CRE, so we are doing very fundamentally structured loans.

But in C&I, and a nice – business banking, not a huge business for us, frankly, but they finally are making it through their runoff and that's good. And so I think across all those businesses you should see – it may not grow as fast as normally it has. Two years ago we had the international book grow and corporate – we slowed that down based on our judgments about risk. And so I think it's a pretty balanced growth. And so the question always is do you have to compromise your credit standards to grow? No, we don't because you can see that. And then secondly, is there opportunity to actually get growth? And the answer is yes. But – and that's just good, hard work.

Ken Usdin

Yes, Brian, to that last point, how much opportunity actually, without pointing to compromising, but how much more spigot opening can you still do, to your point about the post crisis, the tightening up internally? Are you still under lent, if at all. Or you still have to be somewhat careful about where we are in this stage of the economic cycle being that we are seven-plus years into an expansion?

Brian Moynihan

We have to be careful and that's what I think we wanted to show you some of the – there are two – three basic principles that you have to follow. One is, we had to balance the portfolios between Commercial and Consumer. Second, we had to get the Consumer to secured portfolios dominating versus unsecured both credit card – now the loans really put us behind – in a tough situation last time. And then, third, you've got to maintain your individual quality of underwriting. Consumer is more formulaic and Commercial more deal selection and customer selection. But if you look at it – I'll just give you the simplest way to think about this.

We have moved probably from 8 out of 10 mortgage holders who are absolutely within our credit box, absolutely we do business with, getting their mortgage somewhere else to maybe 7. So we've still got 7 more to go without talking about expanding the credit parameters in our mortgage business one iota. So think of that as a demonstration point that you can go over and over again. So there is plenty of market share out there. And then one of the things, Ken, we're looking at is we look across our 90-odd markets in the United States.

There are areas where we have tremendous opportunity to expand our market share where the franchise just wasn't balanced. Some areas of franchise, the wealth management business is a high percentage; in some places, it's low. The middle-market business is very high market – very strong, good market shares in certain markets and a third of that in other markets. And so, where we're deploying these people is also based on our view of which market.

So it's going into that market, hiring talent, using this massive customer capability we have to go drive it. Again, target the exact customers we want. So, even on a geographic basis, whether it's the deposit business and expanding in some of those markets, but also in the commercial lending business and – otherwise there's opportunities without compromising credit.

Paul Donofrio

As Brian said, that's where those added sales professionals are going. They're going to markets where we think we have synergies across commercial, GWIM and Consumer.

Ken Usdin

Okay, got it. So in some – you think this 10% plus primary lending is still achievable? That's what it sounds like from what you're saying.

Brian Moynihan

Well, I think we've been telling people to focus more on mid-single-digits type of numbers in a given 2% growth – 1.5%, 2% growth economy as opposed to 10%. So – but the core business is growing faster and then we're still running off, but we've told people to focus in at that level.

Ken Usdin

Okay. Understood. Thanks, guys.

Operator

Our next question is from Nancy Bush with NAB Research.

Brian Moynihan

Good morning, Nancy.

Nancy Bush

Good morning. Brian, I think we've all over the last few years been trying to find banking normal and it's proving hard to find. And it kind of has begun to strike some of us that maybe first quarter – what we saw in the first quarter in terms of volatility and continued low rates, etc., etc., is banking normal, at least for the foreseeable future. And under that scenario, if you believe that, would you – have you begun to look at – take a second look at your businesses again? And will there be any sort of reallocation of capital going forward and are there businesses you might want to exit?

Brian Moynihan

I'm not sure you can consider first-quarter banking normal in the sense that we still have extra costs we've got a get out of here, Nancy, that we continue to work down. Litigation was elevated in the quarter from more the normalized level that we feel we can achieve and things like that. But leave that aside. The basic principle is we continuously look at the franchise to see about optimization. So generally when people ask that question they are thinking about a couple different areas. One is the markets area.

We show you the markets. Profitability returns in this business. But if you get into the supplement you'll see you can never call a markets business an annuity business. But what drives our business is really a connection between the issuer clients, the commercial borrowers and commercial clients and the investor clients that we serve. And to do that – in our Wealth Management business, because that's a group of people that rely on the research platform.

If you look, the interconnectedness of that is massive and – whether it's by us getting out of proprietary trading and Volcker and things like that, the whole – the real business is driven at that. And so, if you – we've taken the balance sheet from implying at the time of Merrill, probably nearly to $800 billion or more, maybe closer to $1 trillion down to $500 billion and the revenues have stabilized and I think that's a good place for us to be. Number one research plant in the world. Number one in the U.S. this year. The ability to use it in wealth management, the ability to use it to inform our corporate customers.

So, we look at how we pare away things and look at it – so in the international business we've pared back – there was 1,200 – I don't know, 800 to 1,200 people that were downsized in markets and banking in the first quarter. So we keep – it's not in or out, it's more how do you keep paring it back. And so, if you look across there, we always look at that question. We continue to look at it, but right now we really like the franchise and the connectivity between the franchise of all the different elements, focused on markets, focused on wealth management, focused on the core business.

And I think now the question is with low rates, we just have to grind the cost down and that's going to come out of really all the pieces and – well, for a while, it was – you could go at it at a fairly high level and drive it. Now it's really incrementally idea by idea and taking it out and that's why you see that constant improvement. Improvement of core costs of $2 billion run rate first quarter last year to first quarter this year is not – is working at it. It just takes more time because 130 million square feet of real estate down to 80 million go into 70 million. There's a lot of work to get out of that real estate.

Nancy Bush

Right. Just as an add-on and looking at costs in the consumer bank, and you look at your mobile penetration and how it's going up, etc., etc. Is there a magic number in terms of – mobile transactions, mobile penetration, just the whole use of mobile in your Company where I think you've been a leader that will lead to sort of a step down in branches. Are we sort of on this threshold of being able to take branches down yet another however many?

Brian Moynihan

Well, I think if you think of branches and think about it as offices as opposed to the historical notion of a place where you transact, the question of how many you have is going to be how many relationship managers you need and how many places they have to sit. And so, what we've done is consolidated the branches to be even bigger. So the sheer number – so we added 6,100 or 4,600. Each year we've repositioned 200 or 300 of them. But what we're doing is getting out of smaller branches and building into bigger branches. So we consolidated three into one and build up – that branch has in it U.S. trust people, Wealth Management people, small business salespeople.

So what we're actually – if you think about it as a real estate question, the number is not as important as they are full and that they are marginally driving the profit. And you can get a lot of salespeople per square inch, a lot of customer activity per square inch, and that's where we're going. And so, you're going to see some of the new prototypes that we've deployed. You can see in places like Denver where we're now on our third branch and we'll continue to build out that are much – look much more like a sales office than what people's vision of a traditional branch.

But going to your earlier question, Nancy, I don't know where this stops and I'm not – that's not saying I'm trying to hide an answer that I have, it's just that if you and I were here last year, and we were, and you said 17 million mobile users, that's good penetration, it's 2 million more a year later. And as computer-based banking is up 1.5 million or something like that, which is kind of remarkable on top of that. So we don’t know where this goes, but we’re going to be pushing ahead, following our clients and making sure we stay with them. At the same time, our customer satisfaction scores are now reaching an all-time high, which means the way we’re doing it works for them.

And you’ve given me your feedback about our customer focus and capabilities over the years, but they are back to the highest they’ve ever been and that’s, importantly, managing that transition carefully and that’s what we’ve got to do.

Nancy Bush

Okay. Thank you.

Paul Donofrio

I just want to echo a couple of thoughts the Brian said. I think the branches are going to become not a destination where people come to transact but destination where people come because they need a product or service because of something changing in their lives. They need to start saving for their kids’ college or they need a new – they need a mortgage or they need a credit card. It’s more about they are coming there because of some life event or because of some product or service they need, not for every day transaction banking.

We’ll still have the branches that can do that for people who prefer that, but I think over time people will recognize the convenience and safety of doing these things online, doing them electronic not from paper. And the branches will become – we’re organizing our branches so that they become destinations for people who need help with their financial lives.

Nancy Bush

Thank you.

Operator

Our next question comes from Marty Mosby with Vining Sparks. Please go ahead.

Marty Mosby

Thanks.

Brian Moynihan

Hi, Marty.

Marty Mosby

I wanted to focus on mortgage banking and the retention of those loans, more on the balance sheet than continuing to push them to the GSIBs. Is that regulatory driven or are you really looking for that higher retention rate because you're looking for some assets that have duration, so is that one of the better maybe option adjusted yields that you can get at this point?

Brian Moynihan

Marty, you can come at this a fairly straightforward way which is we have $1.2 trillion in deposits and we have $900 billion in loans. And if we put our own mortgages on the balance sheet we know the quality, we know the customer and we know that the servicing cost ultimately will be a lot less of how we're doing it. If we buy third-party loans – so to extract the value of those deposits we've got to invest in something. We invested substantially in treasuries. We have to – back to mortgages and mortgage-backed securities. And so the question is why by someone else's when you are producing your own?

So it's really a very pragmatic view of – we want to control our destiny in mortgage going forward so that the customer we look in the eye and originate the mortgage with is the customers we service for, is the customer we have the asset quality with and there is no third-party involved. So it's more driven by us just getting to our own, controlling our own destiny.

Marty Mosby

And a follow-up to that is if you look at the impact of that on the business segments you actually are increasing the portfolio by about 30%, which is showing that retention. However, if you look at all other, it's more than overkill swamping that growth.

Brian Moynihan

Right.

Marty Mosby

You had about a $45 billion reduction, and kind of getting back to Mike's question about where is the benefits going, just the reduction in All Other, that almost $50 billion of loans is over $1 billion worth of NII that is going away, whereas you are having to do and invest and spend money to generate the 30% growth in the business. So is the runoff still part of where some of the leakage is that we are hoping to get in all the improvements in growth that you're showing in the core? And when does that – what's left is about $100 billion, when is that finally done so that you wouldn't have that leakage anymore?

Brian Moynihan

Well, the – we used to – there is an element that's just as – we used to book that retained piece in the central area. We stopped doing that. That's showing the changeover, so you've got to think of it a little bit together. But – and it's consistent with our peers. Most people have their consumer businesses booked to loans they retain. We just didn't do that for years. But remember, those – you've got to remember that you've got to think of the whole balance sheet.

You're looking at the loan category. The money comes out of center because of liquidity demands in the rules. It goes into treasuries and other securities which are not in that chart because they are not loans, mortgage-backed securities and treasuries and that still has a yield to it. Not as dollar-denominated as much as mortgages but has a yield to it. That has been driven more by the liquidity demands in LCR than it is by anything else, which is the centralized portfolio. We've gone from $100 billion in liquidity four or five years ago to $500 billion, so that has a cost to it in that – in prior years that could have been invested in high-yielding assets, but not – mortgages don't count for liquidity.

Marty Mosby

Got you. Thanks.

Paul Donofrio

And again, look – the facts are we've been growing overall, so year-over-year including those segments which, as you point off by our strategy are running off faster. We're still growing the overall balance sheet.

Operator

And we take our last question as a follow-up from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Hi, it's a follow-up on mortgage. So I think one of your suppliers or one of your partners, PHH, mentioned that you were going to be pulling back some of the servicing to yourself. And I just wanted to understand did you have to do anything to build for that book of business or is this already something that's in your run rate on the expense side and we're going to be bringing in incremental revenues on the mortgage servicing side?

Brian Moynihan

It's marginally – will be absorbed. If you think about it, the total number of loans is relatively small. The total – it will go on the platform of very little change.

Betsy Graseck

Okay, and is this the beginning of pulling it all over?

Brian Moynihan

I think – I would just say that we're trying to be consistent with our strategy of controlling our own destiny.

Betsy Graseck

Okay. All right. That's great. Thank you.

Operator

And it appears we have no further questions. Ladies and gentlemen, this will conclude today's Bank of America earnings announcement call. We thank you for your participation. You may now disconnect and have a great day.