Operator

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

Kevin Stitt

Good morning. Before Brian Moynihan and Bruce Thompson begin their comments, let me remind you that this presentation does contain some forward-looking statements regarding both our financial condition and financial results, and that these statements involve certain risks that may cause actual results in the future to be different from our current expectations. These factors include, among other things, changes in economic conditions, changes in interest rates, competitive pressures within the financial services industry and legislative or regulatory requirements that may affect our businesses. And for additional factors, please see our press release and SEC documents.

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

Brian T. Moynihan

Thank you, Kevin. Before Bruce discusses the results in detail, I just want to take a minute and provide some additional thoughts on the quarter. On our last call, I listed the following areas of focus for our company during 2012: We want to focus on our capital levels, we want to focus on our risk, we want to focus on the cost base in the company, and we also need to drive the core business improvement.

In the first quarter of 2012, we have made progress in each of these areas. As you can see, our capital and liquidity are at record levels in our company. Our credit costs continue to decline, and our cost structure is coming down, and many of the business, customer and profit metrics have improved.

So first from a capital perspective. We entered 2012 with increasing strength in our balance sheet position. We managed through the CCAR test and made significant progress on our regulatory capital ratios again in this quarter. Our Tier 1 common ratio reached 10.78% at the end of -- at March 31, 2012.

We continue to make progress on capital at a faster pace than we expected. When we turn to risk, our credit costs fell to the lowest level in nearly 5 years. Reserve levels cover 3.6% of our loans and leases and 2x our current level of annualized credit losses.

The improvement in delinquent and nonperforming assets bodes well for further improvement in net losses as we go forward. As you know, we continue to take opportunities to reduce the remaining legacy assets in the capital markets business, and we believe we have the strong litigation and rep and warranty reserves in the mortgage area.

On a day-to-day basis, the average value at risk or VaR is lower in our trading business than has been some time. Yet, we managed to make similar levels of sales and trading revenue, excluding DVA as we did last year. The continued cost reduction remains at the forefront of our thinking at Bank of America. We continue to streamline our company. Our priority is to make our company work better for our customers, our teammates and our clients and in the process reduce costs.

As Bruce will show you later, we are achieving those results. We're achieving good results in bringing down expense across our various business lines showing good progress on trends over the past year. One area we continue to work is our Legacy Assets and Servicing area. Personnel costs there are beginning to peak, and after adding significant resources over the past several months to implement a single point of contact in other mortgage programs.

We expect these Legacy Assets and Servicing costs to come down in the second half of 2012. Just for your reference in the first quarter of 2012, the expense in Legacy Asset Servicing was $3.3 billion.

As this cost increased, we passed a milestone. We have now modified more than 1 million mortgages. In addition to the modifications, the pace of the short sales, deeds-in-lieu and other alternative resolutions continues to make progress and continues to quick helping us reduce our delinquent loans overall.

For the rest of our company, we saw a continued improvement in our costs. We expect to continue to achieve significant cost savings over the next 18 months consistent with our New BAC goals. We're finalizing New BAC 2, Phase 2 as we have told you and would discuss those expected outcomes soon.

As you are well aware, headcount drives our operating cost in the end, and we expect to see continued progress in this area going forward. This quarter, we added more than 2,500 associates in LAS as I spoke about earlier. But overall, as we work throughout the company in cost management and every other area, we reduced our overall headcount, including those additions in LAS by over 3,000 FTEs. That's on top of reductions 7,000 FTEs-plus last quarter.

At the same time, as we're reducing our cost, we continue to invest in our franchise and support the economy. During the quarter, to help move the economy along, we extended more than $100 billion in loans to individuals and companies of all sizes. Showing the fifth consecutive quarter of average commercial loan growth to corporate and commercial clients.

We've added client facing teammates in selected growth areas in our company. We've hired 100 small business bankers in this quarter to further support our small business customers, bringing the total of small business bankers since the program began to over 700.

In small business lending, we continue to exceed all the goals we set for small business lending, including the goals we announced last fall in cooperation with the administration and Small Business Administration. In fact, we're up 17% this quarter versus last quarter -- first quarter last year.

We've added 200 Financial Advisors to our team in the first quarter. As the quarter progressed, we added mortgage loan officers to focus on our direct to consumer mortgage business. As we think about the consumer business as an area we'll continue to work and we spoke about, we continue to respond to changing preferences to optimize our distribution network, while investing where appropriate.

This quarter, we added 0.5 million mobile banking customers during the quarter. That's about 40,000 a week of pace and continues. We now have more than 9.7 mobile banking-enabled customers. In our industry-leading online banking area, we added another 0.5 million accounts this quarter, active accounts this quarter bringing us to over 30 million active accounts.

In addition, through our ATM capabilities, we passed a milestone. With half the deposits at Bank of America going through our ATMs that used to go through our branch platform. So overall, our customers continue to do more with us through all the channels, including traditional branches, mobile, online and ATM. But they're using the branches less, and that's why we are fine-tuning our delivery network.

We continue to align our banking center network with our customer needs. And this includes reduction and consolidations, which there was a net reduction of 51 this quarter. That's part of the reduction we've spoken to you about of 750 branches over the next couple of years. In select instances, we'll consider branch sales in markets where growth potential and size don't meet our goals. And at the same time, we continue to expand in markets with high density, where new locations can generate good results, and we continue to renovate centers in all the places we do business.

We continue to use our leadership position to deepen our relationship with our customers and clients across all our franchise. In the consumer business, we opened 800,000 new credit card accounts this quarter, half of which, even with our focus on credit quality were opened in our branches. Our innovative Bank of America card, Cash 123 card, introduced only 8 months ago now has more than 1 million cards outstanding and has achieved great customer acceptance.

In our brokerage and wealth management area, we continue to make progress. Brokers accounts and assets are growing nicely. In our Merrill Edge self-serve area, they've grown nicely year-over-year. But most importantly, our industry-leading capabilities in Merrill Lynch Wealth Management and U.S. Trust, we've seen solid long term assets under management flows this quarter, some of the best we've seen in a while.

Our affluent and wealthy consumers of Bank of America is served by the best team in the business. For the fourth consecutive year, we have more Financial Advisors on Baron's Top 1000 list than any other firm. When we turn to our commercial clients, we saw higher utilization of lines of credit as our commercial customers continue to take advantage of opportunities as the economy continues to grow slowly.

Our business is serving clients on our Global Banking segment, and our ability to offer innovative solutions from lending, investment banking, treasury services. All the areas these clients need services, just continuing to produce strong and steady profits, and we have maintained our #2 investment banking position on fees.

For institutional investor clients, we are encouraged to see a rebound on capital markets activity. We had more than $5 billion in sales and trading revenues this quarter, excluding DVA, and that's a strong quarter. Recorded positive trading-related revenue every single day in the quarter. And this quarter represents the highest ever fixed income results in our company's history. This team did a good job of continuing to build customer depth even in the uncertainty of the world's economic events over the past couple of quarters.

Let me close with this before I turn it over to Bruce. The momentum around our strategy continues to accelerate. We still have lots of work to do, but the team is focused and encouraged by these results. We're going to stay focused as we said in the first quarter call, we're going to stay focused on the fundamentals this year and continue to drive forward the results for our clients, customers and you our shareholders.

With that, let me turn it over to Bruce.

Bruce R. Thompson

Great. Thanks, Brian, and good morning, everyone. I would just echo Brian's comments about the progress that we feel that we made throughout the quarter, and would look to kickoff the presentation starting on Slide 4 of the investor presentation. As we look at that and think about the quarter, we'd note several key takeaways, some of which Brian referenced. We obviously reported $0.03 a share in earnings, but when you look at and consider that number, realize that includes negative valuation adjustments of $4.8 billion pretax or $0.28 a share after-tax, which is the result of our credit spreads tightening significantly throughout the quarter.

In addition to those results, we accreted significant levels of both capital and liquidity throughout the quarter, and each of those metrics are at record levels as we ended the first quarter of 2012. As we look at the operating results, Brian referenced capital market activities, and the capital markets generally improved throughout the quarter, driving sales and trading results that were significantly above the fourth quarter of 2011 and in line with what we saw during the first quarter of 2011, once again, excluding DVA.

Outside of the sales and trading business, all of our business segments reflected improved profitability during the first quarter of this year relative to the fourth quarter of last year. Credit quality continued to improve significantly, provision expense at $2.4 billion for the quarter was the lowest that we've seen since the third quarter of 2007.

We've talked a lot about expenses. Expenses did decline from the fourth quarter of 2011, despite the fact that we had higher revenue-related incentives, as well as the annual retirement eligible compensation cost that occur during the first quarter of every year. Excuse me, and lastly, I'd highlight, we capitalized during the quarter on the ability to capture significant gains on some of our subordinated debt and preferred securities, $1.2 billion pretax during the quarter.

If we turn to Slide 5, where we give a little bit more income statement information. You can see the buildout of the net income of $700 million or $0.03 a share. The one thing I would highlight when you look at the income statement, that the pretax pre-provision number of $3.3 billion does not add back the $4.8 billion of FVO or DVA that we had during the quarter or for that matter any of the other selected items, which I'll go through now.

As we look at things during the quarter that benefited net income, I referenced the debt and trust preferred repurchases, in addition to that $1.2 billion during the quarter, we had $800 million of gains both within our private equity portfolio, as well as on the gain on sale of fixed income debt securities.

On the negative side, I referenced the $4.8 billion of FVO and DVA. In addition to that we had $900 million of annual retirement eligible compensation cost that once again as you recall, we incur each year during the first quarter of the year, and roughly $800 million of litigation expense, the majority of which was not mortgage-related.

If we turn to Slide 6, and look at capital. We obviously built significant levels of capital from the third quarter to the fourth quarter of last year when we took our Basel I Tier 1 ratio from 8.65% to 9.86%. We had another very strong quarter from a capital accretion perspective, growing capital from 9.86% to 10.78%. If you look at the components of that increase, 4 buckets that we've laid out here. The first roughly 7 basis points in capital by virtue of the fact that employees were paid a portion of their 2011 compensation in stock. The gains on repurchases of sub debt and trust preferred exchanges and repurchases I referenced were 13 basis points of capital. And most significantly, during the quarter, risk-weighted assets declined by $64 billion during the quarter, which contributed 52 basis points to our benefit in our common ratio.

As you think about that 52 basis points of improvement, think about that in the context, 2/3 of that represented pure exposure reduction, and roughly 1/3 of that represented declines as we continue to analyze, refine and optimize our capital calculations. And then lastly, about 20 basis points of capital from earnings.

As you look at that earnings, realize that the FVO piece of the charge that I referenced does not negatively impact or positively, if it goes the other way, regulatory capital. As a result of this capital accretion that we've seen during the quarter, we've previously given you guidance that we would expect to be at 7.25% to 7.5% of Tier 1 common under Basel III on a fully phased-in basis at the end of 2012. Based on the improvement we saw this quarter, we're very comfortable increasing that guidance to above 7.5% at the end of 2012.

If we move from capital to liquidity on Slide 7, you can see that during the quarter, our excess liquidity sources across the company grew by $28 billion to an all-time record of $406 billion at the end of the first quarter. As we look at parent company liquidity, it increased to $129 billion during the quarter, which is up $4 billion. While at the same time, on a net basis our parent company debt was reduced by $5 billion.

Importantly, as we talk about liquidity, we quote a time-to-funding metric. That time-to-funding metric increased to 31 months during the first quarter and with $129 billion of parent company liquidity, we're in a great shape to address the $34 billion of parent company maturities we have during the second quarter, which includes the remaining $24 billion of debt associated with the Temporary Liquidity Guarantee Program or TLGP.

As you recall, we worked hard. We no longer -- or have very little parent company or broker-dealer short-term unsecured funding, and as we look out at the balance of the year, we issued just over $5 billion of debt during the first quarter. Based on what we're seeing now, we clearly expect that to be less during the entirety of the remainder of the year.

Moving to Slide 8, to look at certain balance sheet items. I referenced the reductions in risk-weighted assets. You can see that we had about an $8 billion increase in deposits during the quarter. Our tangible common equity ratio remained very strong at 6.58%. Tier 1 common grew by just under $5 billion to $131.6 billion, which contributes to the 10.78% Tier 1 common ratio I just referenced.

Tangible book remained relatively flat at $12.87. And you can see below, our allowance continues to cover our annualized charge-offs by about 2x, and our liability for reps and warrants remained relatively flat at $15.7 billion.

If we move away from capital and liquidity, net interest income on Slide 9. Net interest income increased sequentially from the fourth quarter to the first quarter by about $100 million. As you look at and think about that change, we benefited from about $500 million of less premium amortization and hedge ineffectiveness. In addition, $100 million improvement by virtue of lowering our rates paid on deposits, as well as the contraction of our debt footprint. And offsetting those benefits were reductions from declines in consumer balances and yields of about $400 million.

We turn to Slide 10, we've laid out here the changes that we've made from a business segment reporting changes. I'm not going to go through these. We've laid it out there. We filed an 8-K last week. That gave you a lot of information as to what those numbers look like with those changes. And while we apologize for the additional work that it creates, I would note that it very much aligns our business segments with the way that we manage both our customer relationships, as well as the way that we manage the overall company.

On Slide 11, we highlight the results of our Consumer & Business Banking segment. Earnings for the quarter were $1.5 billion, which is an increase of 17% from the fourth quarter and was driven by both lower expenses, as well as lower provision. From a deposit perspective, average deposits were up 1.4% or more than $6 billion during the quarter.

The rates that we paid on those deposits declined during the quarter to 20 basis points. As we look at credit and debit card purchase volume, volume had a seasonal decline of 6% from the fourth quarter, but increased 4% from a year ago.

In U.S. credit card, new accounts grew by 19% from the first quarter a year ago. I would note that as we look at the U.S. credit cards, there's been a significant change in the way that we open new accounts. We're very focused on leveraging our franchise and online networks, while scaling back what we do from a direct mail perspective.

Average loans during the quarter declined $5.6 billion from the fourth quarter due to seasonality, divestitures that occurred at the end of the fourth quarter, as well as the continued runoff of our non-core portfolio.

Lastly, within the card space, credit quality continued to improve. U.S. credit card losses improved for the tenth consecutive quarter, and the 30-plus day delinquency rate declined for the 12th consecutive quarter.

Turning to Slide 12 and looking at our Consumer Real Estate Services area. It reported a loss of $1.1 billion during the quarter. That loss was driven by the cost of managing delinquent and defaulted loans in the servicing portfolio combined with costs associated with managing other legacy mortgage exposures.

The Home Loans business, which is reported within the Consumer Real Estate Services segment, did record a profit of $115 million for the quarter. First mortgage originations of $15 billion were down from the fourth quarter due to our exit from the correspondent mortgaging business. Importantly though, while our production volume was the lowest that we've seen in 5 quarters, production income before the negative impact of reps and warrants was the highest that we've seen in 5 quarters.

Our results for the quarter include $282 million in cost for reps and warrants, primarily related to the GSEs. $313 million of litigation expenses, $410 million for expected assessments and waivers cost associated with our servicing operations, as well as overall increased cost related to our servicing operations.

As you look at the MSR, our MSR asset increased by $211 million during the quarter, driven by higher rates and partially offset by borrower payments and model changes and ended the quarter at $7.6 billion.

MSR results, net of hedge, were positive by approximately $200 million in the first quarter and as you look at our capitalized MSR rate at the end of the quarter, it was at 58 basis points versus 54 basis points in the fourth quarter and 95 basis points a year ago.

If you turn to Slide 13, some data that we want to talk about within our Legacy Assets and Servicing area that's within the CRES segment. You can see on a linked quarter basis as well as compared to the first quarter of a year ago, we continue to work hard to reduce the number of delinquent loans and find homeowner solutions.

Keep in mind, Legacy Assets and Servicing now reflects all of our servicing operations and the results of our MSR activities. During the quarter, we added more than 6,000 people, both employees as well as third-party staffing in this area in the quarter alone. As we look at the results and as we look to drive down both the number of loans serviced, as well as the number of delinquent loans, the number of first-lien loans serviced dropped 3% in the quarter and more importantly, the number of 60-day plus delinquent loans dropped 6%. Once again, we're very focused on driving the number of 60-plus day delinquent loans down because as we drive those down, it will give us the ability to start reducing cost within the segment.

In Global Wealth and Investment Management on Slide 14, earnings of $547 million more than doubled the results in the fourth quarter of 2011, as higher transactional activity and market levels drove higher revenue, while both expenses and credit costs were down for the quarter.

Pretax margin for the quarter was strong at 19.8%. Client balances up 4.8% from the fourth quarter due to higher market levels, while our long-term AUM net flows were 8 -- or excuse me, were $7.8 billion, the second highest that we've seen since the Merrill merger.

Expenses declined versus the previous quarter due to the absence of certain fourth quarter items, including litigation expense and other operating losses, FDIC and severance expense. Net income in Global Banking, Slide 15, was up 19% to $1.6 billion versus the fourth quarter, and essentially flat with the first quarter of last year. Revenue increased 11% from the fourth quarter from higher investment banking fees, equity investment gains and income from leasing transactions.

From a lending perspective, average loans were up slightly as 3% growth in our C&I lending to both large corporate and commercial clients was offset by planned decreases in commercial real estate in the DFS portfolio, as well as trade finance.

Average deposit balances at $238 billion declined 1% due to seasonal outflows, as well as certain liquidity management actions that we took. Despite that, our treasury services revenue remained strong at $1.6 billion, up 3% from the fourth quarter and 8% from the year-ago quarter.

Asset quality continued to improve from the fourth quarter. Net charge-offs declined $133 million or 44%. Reservable utilized criticized exposure declined 10% to $18 billion, and our NPA has dropped 11% to $4.1 billion.

As you can see on Slide 16, investment banking fees firmwide, excluding self-led, were $1.2 billion, up 20% from the fourth quarter as an increase in debt and equity underwriting fees were partially offset by a slowdown in overall M&A activity. We were ranked #2 globally in net investment banking fees for the quarter and about 3/4 of our fees in the quarter were driven by activity in the U.S. and Canada.

Switching to Global Markets on Slide 17, net income of $798 million increased from a loss in the fourth quarter, reflecting increased sales and trading activity during the quarter. Total revenue, ex DVA, was up $3.3 billion from the fourth quarter and in line with what we saw in the first quarter a year ago.

Expenses were up from the fourth quarter, driven by higher revenue, but down slightly from a year ago. Excluding DVA, net income in the first quarter would have been in line with what we saw in the first quarter of last year. I think it's important to know that when you look at that consistency in revenue and net income, it was done with risk-weighted assets that at period end were $192 billion, down $87 billion from a year ago. And average VaR in the quarter was $84 million, down from $184 million a year ago.

Continuing with Global Markets on Slide 18, sales and trading revenues, ex DVA losses, increased $3.2 billion from the fourth quarter, driven by our fixed income area due to improved market sentiment regarding the European financial crisis and an improved domestic outlook. FICC revenue, ex DVA, was 3x the level in the fourth quarter as we experienced increases in almost all product areas. Versus the year ago, FICC revenue was up 12% ex DVA, once again due mainly to improvements in rates and currencies.

In equities, excluding DVA, results increased 62% from the fourth quarter, driven by increased derivative revenues. However, if we look back compared to a year ago, equity results were down about 18% due to lower overall market volumes.

Once again, we recorded DVA losses of $1.434 billion in the fourth quarter as our credit spreads tightened during the quarter, and that compares to losses of $474 million in the fourth quarter of '11 and $357 million in the year-ago quarter.

On Slide 19, we show you the results of All Other, which once again includes our Global Principal Investments business, the non-U.S. consumer card business, our discretionary portfolio that's associated with interest rate risk management, insurance and the discontinued real estate portfolio. The $4 billion decline in net income versus the prior quarter was driven by the selected items that are listed on this slide, along with litigation expense of $480 million.

One other item in All Other that on the income statement flows through insurance revenue is an additional reserve of $200 million that relates to the payment protection insurance claims that we accrued for in the U.K.

As you can see on Slide 20, total expenses were down from the first quarter a year ago. And except for All Other, expenses are down the year-to-year, in part demonstrating our focus on efficiency across the entire company, as well as the initial impact that we've begun to see from the first phase of our New BAC efforts.

If we exclude LAS, FTE headcount for March was down approximately 5,600 people from December and down approximately 20,000 from a year ago. Compared to the fourth quarter, expense increases were for the most part, isolated to increases in performance-related incentive expense, LAS cost, as well as business performance.

While I'm talking about expenses, let me spend just a moment on taxes. We would expect the effective tax rate for 2012 to approach 30%, excluding any unusual items. Embedded in that 30% or approaching 30% estimate is that we do anticipate another U.K. tax rate reduction of 2% to be enacted in the third quarter of 2012, which should result in a tax charge at that time of about $800 million.

And remember though, due to our DTA disallowance, that $800 million charge will not impact our regulatory capital ratios.

If we switch to credit quality on Slide 21. Overall, consumer credit trends remained positive. Net charge-offs in the consumer portfolio increased during the quarter, but it was due to the absence of approximately $289 million in recoveries in the fourth quarter related to the sale of previously charged-off U.K. credit card loans.

Excluding those recoveries in the fourth quarter, net charge-offs would have been down by about 6%. 30% -- or 30-plus day performing delinquencies continue to drop and provision expense in consumer for the quarter was $2.6 billion and included a $1.1 billion reserve reduction.

On Slide 22, we show the nonperforming asset trends for both residential mortgage, as well as home equity. Residential mortgage NPAs were down 6% from the end of the year as pay downs, charge-offs, as well as returns to performing status continue to outpace new nonaccrual loans.

Home equity nonperformers did increase from year end due to the impact of interagency guidance to reclassify to nonperforming status junior lien loans that have a first lien loan 90 days or more past due. This regulatory agency guidance resulted in an additional $1.9 billion of home equity loans being moved to NPAs. We have not restated prior periods.

As you think about that change, it's important to note that it did not have any impact on our allowance or provision expense as we track the underlying first lien delinquency status of our junior lien home equity loans and have previously considered the additional risk that these loans present within our reserving process. If we backout this change, home equity NPAs were relatively flat for the quarter.

On Slide 23, you can see that residential mortgage and home equity 30- to 89-day performing delinquent loans, excluding fully insured loans, were both down. Of the $364 million decline in home equity, $264 million of that was due to the reclassification to nonperforming due to the impact of the interagency guidance that I just mentioned.

While we typically see strong collections in the first quarter, and while we believe that pace may stunt flow, we would still expect improvement going forward.

If we turn to Slide 24, commercial credit trends, we saw improving trends as I mentioned when discussing the results within our Global Banking area. Including the provision for unfunded commitments, we recorded a benefit to provision expense of $226 million. That did include a reserve reduction of $595 million.

During the quarter, both nonperforming assets in reservable criticized levels showed declines of 10% on a linked quarter basis. And as I wrap up my part of the presentation before moving to questions, I would just close with 4 comments.

We feel very good about the progress that we made in the operating performances of the different lines of business. We closed the first quarter with record levels of both capital and liquidity, and we achieved these while lowering the overall risk profile of the company. And as we go forward, given the operating environment that we're in, we're very focused on continuing to drive expense levels down during the remainder of the year.

And with that, we'll go ahead and take questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes to us today from Glenn Schorr with Nomura.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Maybe we could get a little more granularity on FICC. The trading numbers were great and pretty much across-the-board, a big turnaround from last quarter. I want to talk about which piece of the franchise you thought were strongest and maybe any help you can give us on the positioning coming into the quarter, so we think about the rest of the year the right way.

Bruce R. Thompson

Sure. If you look at and think about the numbers that we gave you. Within FICC, I mentioned on both a -- or on an absolute dollar basis, clearly the most significant area that we saw was rates and currencies. Client flows were very strong, and we saw them in 2 areas. We saw them within Europe, with some of the volatility in the markets in Europe, activities were very high. And the second thing I would say is that within the FICC business, as you think about the high levels of activity that we saw in the investment-grade bond area, that translated into opportunities to do more business with our corporate customers, and that contributed to the results in FICC as well. Outside of FICC, the other areas that were -- that had nice increases during the quarter included our commodities area, which we've been focused on and starting to get some traction in the growth there, as well as in the mortgage area. Those were the 3 most significant areas, Glenn. I'd say the other area that was down a touch during the quarter would have been the overall loan trading area as some of the revenue opportunities given that the new issue business in loans was a little bit slower this quarter than a year-ago quarter. We didn't see quite the opportunity there, but at the same time, that, that area performed very well.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

It -- I don't want to put words in your mouth, but it sounds like it was a pretty cash-driven flow as well as opposed to the derivative side?

Bruce R. Thompson

That's fair.

Brian T. Moynihan

Glenn, I think, if you think over last 24 months, Tom and the team have been continuing to build out the breadth of our platform across the world, and we're reaping the benefits of that. So if you think about this quarter this year versus last year, all the prop trading was closed out by mid last year, et cetera, and then -- so that it's really client flows driving. None of this is driven by really, as you said, less derivatives but more client flows, more of the new issue activity, more of the cash business. It's a very core aspect to what we do. So next quarter, because this is a strong quarter in total revenues, it may not be as strong, but the way we're getting there is very consistent quarter after quarter after quarter.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Okay. Appreciate that. Bruce, I wonder if you could just explain [indiscernible] or give a little color on, the 1/3 of the RWA reduction that was the optimization of off-balance-sheet OTC assets?

Bruce R. Thompson

Sure. If you go through that area, I'd say we continue to work very hard in scrubbing the data. There were certain lending activities that we do that are secured lending activities. That as we work through, we have the ability to optimize from an RWA perspective, so we had some of that. I would say as we look to, and we refine what we do in the markets business, we improve the ability to net as we consolidated certain trading type activities. And we also work through and got third-party ratings on certain of the things which improved that as well. So we continue to be very focused and think we've gotten through the majority of the optimization associated with Basel I as I referenced in the increase in our guidance, we're very focused now on optimizing the balance sheet and looking to drive those Basel III ratios higher as we go throughout the year.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Okay, last one for me. Reps and warranty claims continue to rise. Just curious if you can give us an overall comment on a, what's driving it? And b, when we might see a leveling off?

Bruce R. Thompson

I think what I would say on that, Glenn, I would say it's really consistent with what we talked about when we discussed year-end numbers and with the disclosures that are in the slides. The majority of the increase in the backlog of reps and warrants is in the GSE category. It largely relates to Fannie Mae. And if you saw and compared the third -- the balance of the third -- at the end of the third quarter of 2011 with the balance at the end of the first quarter, you would see that the majority -- a substantial amount of the amounts that are coming in are for borrowers that have paid well north of 24 months. And we obviously continue to have a disagreement with them about whose responsibility those are.

Operator

And we'll take our next question from Matt O'Connor with Deutsche Bank.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Maybe we could drill down a little bit more on the expense side. You mentioned the legacy mortgage cost start to come down in the back half this year. Obviously, the New BAC cost saves will probably start to accelerate. When you put that altogether, how do you envision the expenses trending both the second quarter and then maybe as we exit this year?

Bruce R. Thompson

What I would say, as you think about that, and as you think -- let's spend a moment just on what we saw during the fourth quarter, and I think there are 2 items to note in the fourth quarter when you think of expenses. The $900 million that I referenced is related -- as it relates to compensation-related expense, that obviously, as I said, only occurs in the first quarter of each year. So as you look out at -- over the next group of quarters, that will obviously no longer be there. The second thing, when you think about expenses for the quarter over and above that FAS 123 amount, the expense number for the quarter was up given that the accruals that we had based on the strong performance within the overall markets area. So I think I would level set with those 2 areas, as well as think about some of the mortgage-related charges that I'd referenced. That the goal is, as we work through the year, that those would come down. Once you move away from those expenses, you move to the New BAC expenses. If you think about New BAC 1, we had originally given guidance that it was $5 billion, 20% of which we would recognize during 2012. We obviously took that guidance up and said it would be greater than 20%. So as you look at those consumer businesses on the line of business slide that we gave you, you would expect to continue to see those expenses going down. Obviously, we're in the midst of New BAC 2, which we've looked to wrap up in the May timeframe. And I would just reiterate what we've said there which is that, we don't think the expenses will be as great as what we saw in New BAC 1, although once again, given that they're not as interdependent on technology, we'd look to see those expenses -- those expense savings to start as early as the end of this year. So I would say that it's -- we continue to press through these. I think we wanted to show you the line of business breakdown because I think it gives you a good sense within each of the lines of business outside of what we're seeing in LAS, which Brian talked to about the second half of this year seeing savings, as well as All Other, which can be lumpy to the extent that there are nonrecurring type items showing up that you get a sense for where we're trying to go. But clearly, we would expect sequentially each quarter during 2012 for expenses to go down each of the next 3 quarters.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then as we think about some of the lumpy items like the litigation, the mortgage rate assessments and maybe any restructuring or severance costs for New BAC parts 1 and 2, any thoughts on the magnitude and timing of those?

Bruce R. Thompson

Yes. I think one of the things to keep in mind is that as we've gone through and as we're going through New BAC, we've been absorbing through the P&L the severance cost that goes along with the actions that we've taken. So if you go back to the fourth quarter, we talked about there being a couple of $100 million of severance and related items that we took during the fourth quarter. We had roughly $100 million of those type items that we saw during the first quarter for severance. As it relates to the other items, the only thing I can clearly say about the lumpy items is that each quarter, we accrue them and true them up for what we think our best views are, and we'll continue to do that so it's hard to give any specific guidance about what we may or may not see in any one quarter recognizing that the accruals that we have on the balance sheet at this point are significant.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then just separately on the capital side. Obviously, the build the last 2 quarters has been very impressive much more than many of us, including myself, had thought. As we start kind of hearing you guys talk about additional changes from here, whether it's like some branch sales or there is something in the media the other day about you guys potentially looking at selling the non-U.S. wealth management. As we see those things potentially coming up, is that still about a goal of building capital or is it much more about just kind of rationalizing the franchise as Brian mentioned earlier. Just how do we think about, like what's driving the motivation for some of these actions that you might be doing or might be being speculated out there?

Brian T. Moynihan

Without addressing speculation, if you look across the last 2 years, Matt, our goal is to get the franchise against the 3 customer groups and get out of the businesses which don't do that. And everything we've doing is consistent with that. Does it contribute to capital? Yes. I'd say, you shouldn't expect the things in the future to have as much impact as the things we did in the last couple of years, incrementing capital and a lot of the capital generation really comes from the earnings. In the case of Basel III, remember that we -- our biggest difference between our peers is the deductions for disallowed DTA, et cetera, which accrete off over time, and then the third thing was continuing to optimize the balance sheet. So when we're making decisions about various aspects, whether it was Canadian card or something like that, it is in line with the strategy which is, everything we'll have will be direct to customers, focused on those consumers and where we have competitive strength. And then the branches I talked about earlier, it's really fine-tuning the franchise that we have top positions in the top 30 markets. A lot higher than other people by numbers of branches, things like that and continuing to enhance that position, continuing to build out markets behind that, but also focus a little bit more on the markets that there's growth potential and size and scale that we can take advantage of.

Operator

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

Betsy Graseck - Morgan Stanley, Research Division

A couple of follow-ups. One is on the New BAC. Number two, I'm sure you're going into this with a number in your head and given the first quarter strength, would you be inclined to be kind of taking that down relative to what you had been expecting? I would think you can make some arguments for less pull back than maybe you thought before?

Bruce R. Thompson

I think, one of the things, Betsy, that we're very focused on is given that the environment relative to when we had started New BAC 1 has started to improve a little bit. We're very focused on not taking a step back, but continuing to drive what we saw in both New BAC 1, as well as New BAC 2. Keep in mind, a lot of what New BAC is, relates to simplification, it relates to getting rid of work that doesn't need to be done, and it relates to becoming more efficient. So while I think I'm clearly on the margin this quarter, you feel better about the overall sales and trading opportunity. It's not going to change the rigor and discipline with which we go through New BAC 2. And once again, we think given that we don't have as much technology, we'll be able to get after those costs quicker than what we saw in New BAC 1. The other thing that I think is important and even though it's not part of New BAC, if you look at both the Global Banking, as well as the global bank or as well as the Global Markets expense levels, you read some of the reductions that we made during the third and fourth quarters of last year outside of the New BAC process, and you start to see some of the benefits of those flowing through, and you'll see more of those next quarter as the people actually come off the payroll.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then separately on Page 9, you go through the NII. Could you just give a little bit more color around the hedge that you've got? I know you've got one on the AFS portfolio and give us a sense as to how you're managing that right now?

Bruce R. Thompson

I mean, largely, a lot of those tend to be more pay fixed. So I think if you look at the variability, they will bounce around a little bit depending on where the rate curve is. But I think if you look out over the last couple of quarters, they tend to be within a range of several $100 million, and they've been relatively fixed within that range. And that's why we wanted to give you the guidance so you could get a sense as to what the core NII was backing out any changes that happened due to those.

Betsy Graseck - Morgan Stanley, Research Division

Okay. So you haven't changed the size of that, that much?

Bruce R. Thompson

Not at all. And indeed, I would say the other thing that we're very focused on is managing the interest rate risk as we look out to Basel III. Given that OCI will flow through capital, we've been, I think, very conservative in making sure that we manage this in a way so that at some point in time, when rates start to move up, that we don't have an OCI hit through that investment portfolio.

Operator

We'll take our next question from Paul Miller with FBR.

Paul J. Miller - FBR Capital Markets & Co., Research Division

On your home equity portfolio, I know it's been -- a lot of stuff has been -- new guidance out on -- pushed on recognizing NPAs, some of those loans that were the first to have defaulted. What do you do when you've modified the first? Can you talk a little bit about, do you -- how do you treat the seconds? Do you modify the seconds also with the first? And how do you classify those seconds?

Bruce R. Thompson

Yes. I think there's a couple of different ways to look at that problem. Let me spend just a moment. I'm glad you asked about the seconds behind delinquent first. If you go back and look at the disclosure that we've put out at year-end with respect to our seconds behind delinquent first, you'll see that at year-end, as we took a look and did the work, we had roughly $2.5 billion of current seconds that were behind delinquent first. Throughout the quarter, as we continue to work with -- and keep in mind, the majority of our home equity portfolio where you have the first behind delinquent first, we do not have the first, so we need to work through the credit bureaus to understand exactly what the status of that first is. And as we've worked through and done more and worked with the credit bureaus to understand those seconds behind delinquent first, that the guidance and when we adjusted up our nonperformers to the $1.9 billion, that's an improvement from what we saw at year end of the $2.5 billion that's out there. I would say secondly, as you think about and what we do through the reserving process with respect to both first and seconds. Even though we may have and we obviously changed the way that the nonperformers are reported this quarter, but we are very cognizant when we look at and have both our formulaic models, as well as the imprecision reserves that we overlay on our portfolio that to the extent that you have seconds that have a delinquent first, we are going to adjust our assumptions to be conservative as it relates to where we feel like were reserved. And I think this new guidance as we came out and as we work through it at the end of the quarter and update it, we feel very good about where we were at the end of the first quarter relative to year end. The other thing that I would say, when you ask about the different home equity portfolios is if you go back to Slides 34 and Slides 35 that we have in the investor deck, I think there are a couple of important things to point out. The first is, if you just go Q4 '11 to Q1 '12, you can see that we continue to see fairly significant pay downs within our home equity portfolio. And I think importantly, if you look at the overall FICO scores, as we've updated and work through the FICO models that the refreshed FICO on our home equity portfolio is now at 742. So I think across-the-board with what we've seen in the quarter, well I think we're very sensitive to that there's not the growth that we'd all like yet in the economy. We've been very focused on the home equity portfolio and so far, during the first quarter, it's performed better than we would have expected.

Brian T. Moynihan

I think the other thing to add to that is 2 things. One is, think of everything has been originated now for 4 or 5 years, has been originated under fairly conservative -- very conservative standards and traditional going through early 2000. So everything that's been added to the portfolio is very carefully underwritten. And then the second is, at the end of the day, ultimately the cash is the cash. So ultimately, the person who either doesn't pay or pays on their first, ultimately that first goes through liquidation and ultimately the second is dealt within that liquidation, and the proceeds come in. So moving around the timing and reporting is one thing, but ultimately over a period of the courses of months and quarters, it's the cash becomes the cash. And so, what's reflected if you look at some of these long term on Page 23 and these charts, as you can see activity has been going on for many years now and that the simple matter is each quarter it gets incrementally better, and this is the part of our portfolio we're still doing the most work because it's the slowest to fully recover. If you compare it against the Card business or other businesses that have fully recovered and continue to have more upside, this will take us longer just because of the nature of the process. A lot of talk about this, but ultimately it comes through in terms of the cash is the cash.

Paul J. Miller - FBR Capital Markets & Co., Research Division

Guys, that was a really great update and I appreciate it. But going back to the question, part of the question was, how do you treat modified loans? Like when you modify the first, how do you -- what type of activity you take on the second? And then how do classify that second lien?

Bruce R. Thompson

Well, if there's -- up until the change in the guidance, if you have a second lien that's current, and you have a first lien that's delinquent or have been modified, you're not going to adjust the second. What the new guidance now provides is that if you have a first lien that's more than 90 days, so as you look at the March balance sheet, if we have a first lien loan that's more than 90 days past due, we are now characterizing the second lien as a nonperformer.

Paul J. Miller - FBR Capital Markets & Co., Research Division

And if you modify, like under these various modification programs, and if you modify the first, would you modify the second also? And then would you classify that as a current or a TDR or a nonperforming loan?

Bruce R. Thompson

It's very difficult. You have to realize, Paul, that there are 2 different situations that we have. We have situations where we have both the first and the second. And then we have situations where we have the second and somebody else may have the first. And I think the important thing to keep in mind is that as we went through and came up with this nonperforming data, we only take somebody off or only look at a loan where there is a nonperforming aspect to it. It only gets cleaned up by virtue of the credit bureau after they've been current for a year.

Operator

We'll take our next question from Nancy Bush with NAB Research LLC.

Nancy A. Bush - NAB Research, LLC, Research Division

Brian, one of the things that you emphasized was improvements in the core businesses. Could you just give us some color on the businesses that are meeting or exceeding expectations versus those that are lagging? And what you're doing or maybe doing in the lagging businesses?

Brian T. Moynihan

I think if you think about the businesses across the 5 segments. In the consumer area, I'd say that we're very encouraged by the initial results and things like I said, about the mobile banking enrollments and things like that, which help us reduce the cost structure in the general retail business as we call it. And so we need to improve that business. All the regulatory changes that are well known to you, Nancy, over the last couple of years took away a lot of profit and an interest rate environment, which we're familiar with. But the reality is, if you look at the underlying customer dynamics, we're seeing improvements in online, mobile, the ability to fine-tune the branches, the cost of the branches per dollar of deposit, which is a metric I look at, has improved and dropped again this quarter. The rates paid in deposit continue to work their way down. So it's improving, but it's still at the $300 million to $400 million of profit. You can see in the core consumer deposits business, we need to make some upside from there. Now let me flip to the place we're having good success there. On the preferred side of that business, which is the 8 million customers that have a higher annual income, spent a little bit more with us. We're seeing great uptake in the service model we created, which is differentiated service model, and the FSAs we've put in the branches, which are Financial Advisors in the branches which do 2 things. One is, they serve clients, who are sort of below the threshold for the affluent group, and they also refer clients into the affluent group. The mortgage officers working with those groups in the branches that have been sort of designated as preferred branches, we're seeing great uptake there and strong growth and strong penetration across. You can see in the Merrill Edge, assets grown year-over-year. You can see in the flows of customer accounts. So that we're very excited about. So retail mass-market is more fine-tuning the delivery system and continuing to get incremental growth there, but the preferred is growing well. The wealth management business, I think, is performing very well, $500 million of profit, margins are better than anybody in the industry. We continue to see that in the core commercial banking business. The Global Banking segment was put together to highlight that business with $1.6 billion in profits. It's fairly steady, provides good returns on a very capital-intensive business. Obviously, the lending has shaved off its commercial real estate exposure. It continues to perform return above the cost of capital. If we were talking last quarter, we'd be talking about the Global Banking business needing to recover, and we saw it this quarter. So as you look across it, a lot of work to do in mortgage, and I won't take you through that. Work to do in the core consumer retail franchise, optimizing the cost, but a lot of that progress is taking place, and we sort of seen the bottom. I think sort of last year as the final vestiges of Durbin came through. Seeing that come up and then across sort of the relationship business in wealth management, in the preferred segment of consumer wealth management, and Global Banking seeing strong, steady profits and then in Global Banking -- or Global Markets we saw a nice recovery, so we're excited about that. That all poured through as we removed the cloud of the mortgage business.

Nancy A. Bush - NAB Research, LLC, Research Division

Bruce, a question for you. The core margin ex the market-related assets I think has hit 3% again. Is that maintainable? And if I could just ask you to speculate or forecast, I mean, when we get back to a more normal rate environment, what is an achievable sort of normalized margin for the company?

Bruce R. Thompson

So I think I'd make a couple of observations. I think when you look at and what we had talked about before was that as we think about 2012 and as we talked about year-end, as you think about 2012, the amount of NII we're reporting I think is a pretty good range if you back out either plus or minus what we saw from hedge in prepay. I think if you look out at core margin and you think about where we are, there's nothing over time once the rate environment changes with the exception of having less credit card in the portfolio that would change what we've been able to achieve historically in margins with one exception. And the one exception that we're very focused on and one of the biggest opportunities we have with core margin is to continue to shrink the debt footprint that we have of the company. And when you think about the $35 billion in maturities that we have in the first quarter, or excuse me, in the second quarter of this year, as well as the amount of liquidity we have that outside the core businesses that we have where you can kind of project what the yields are, the biggest opportunity we have to drive that down is using the liquidity to shrink the debt footprint, which on average, as we repay that tends to be 300 and 400 basis points on a floating basis relative to the underlying LIBOR.

Brian T. Moynihan

I think, Nancy, if you look at the long-term average, I think it's been closer to 3% across time. Assume that the mix of the assets may shift and so it's safe somewhere below that, but from the 2.50-ish, we kind of run at now to -- we've told you before, 2.75% should be easily within range with a short-term rate that moves up 100 basis points or so and we still feel comfortable that's the mix of business we have and in fact, we may have tightened that a little bit as we've tightened down the balance sheet.

Operator

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

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Bruce, just following up on that last point. Just sounds like for this year, net interest income was $11 billion this quarter. It sounds like you're kind of running in place perhaps the next couple of quarters unless something changes on the rate front or loan growth?

Bruce R. Thompson

I think that's fair, John. I think just realize though that when you look at that, if you look at the quarter, but think a little bit about the benefit that we had during the quarter from the prepay and the hedges. I would not assume that, that's in the run rate during the next couple of quarters.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Was that a benefit or just a lack of a negative compared to last quarter? Was it a positive benefit this quarter?

Bruce R. Thompson

It was both. It was a negative that swung to a positive during the quarter and like I said, on a linked quarter basis, it was about $500 million.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

What about just how much it was as a net positive this quarter?

Bruce R. Thompson

I believe it was in the mid-300s, John.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And then on credit. What kind of outlook do you have on the ability to keep up the current pace of reserve release? Do you expect the size of the reserve release to come down going forward?

Bruce R. Thompson

I think as we look out at -- and we look at the models, John, I think the right way to think about it is that we would expect that charge-offs would continue to decline as we go throughout 2012 quarter-over-quarter. And I think what you're likely to see is that the benefit from reduced charge-offs is probably going to be more or less offset by lower reserve releases. So as you look at the overall provision number going forward over the next 3 quarters, while there may be a little bit of variability, I think that'll be a pretty good proxy for you.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay, and then one little nit pick question. In the first quarter, the diluted share count declined by about 300 million shares even though the stock price went up, you issued shares to employees. Is that impacted by the Buffett warrants or why would it have gone down this quarter?

Bruce R. Thompson

Yes, you've got 2 different things going on. And the simplest way that I can say it, John, is that in a quarter, we're on a reported basis that we're north of $0.11 or $0.12 on a reported basis. You're going to see the Buffett shares in, and on a reported basis, when we're below, they're out. So as you think about this quarter, given that the impact of DVA and FVO and what it did to EPS, they were out and then obviously part of the reason why they were up a little bit in the quarter was because of some of the exchanges that we did throughout the fourth quarter of last year, as well as the employee shares that were issued during the first quarter. Those are the things that comprise the difference.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay, so those things were overwhelmed by the Buffett coming out this quarter because of the reported earnings?

Bruce R. Thompson

That's correct.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And one last follow-up on expenses. The LAS this quarter was $3.3 billion. First, did you say that you think those have peaked? And then second, given that it's kind of a restated number now, with the restatement. What's a good eventual number for LAS do you think longer term? I think previously you had said of maybe a few $100 million per quarter kind of a normal servicing over time?

Brian T. Moynihan

Yes, I think we said, sort of a $500 million a quarter. That's more of a normal servicing based on our estimates of what our portfolio will be at that level.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

That's still the case the way you've stated that?

Brian T. Moynihan

Yes. I think, John, we're seeing the -- if you look at the slide, it'd show you sort of the work is about the delinquent loans, and you're seeing those drop, and we'll see those come down. As we've said, it'll take us the rest of this year and into next year, probably through next year to get it more normalized. But we're very encouraged by the amount of work that's getting done and the staffing levels we have. Just so people are clear, we talk about the 40,000 employees we have here. We also have around 10,000 to 15,000 contractors that work in this business. So if you think about our total headcount, think of how much of our -- of 278,000, 40,000 is deployed against this. So when this comes down it will have a significant impact on the company's activities on a day-to-day basis.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Just to clarify that, Brian, you're not expecting to get from $3 billion to a couple of $100 million in a year, right? That's a couple.

Brian T. Moynihan

No, it'll take us this year and next year and then it will really show up in '14. It will keep coming down during this timeframe, but I'd expect normal to really get it behind us is probably in the '14 just because we'll get the activities down. It'll take us a little while to shape it.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And then the last thing for me was, Bruce, on the assessment of waivers back up to $410 million. Just why is that up so much? Is this the reserve and is this related to your kind of dispute with Fannie Mae?

Bruce R. Thompson

There are a couple of things. There was a chunk that we had that when we looked at that we set aside for reserves on servicing advances and there were other assessment type things like you'd expect with Fannie Mae. So think about it in those 2 different context.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And is that something that you have an outlook on that could continue at that level or is it they're just impossible to predict?

Bruce R. Thompson

We would not expect it to continue at that level.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. So somewhere between $0 and $400 million?

Bruce R. Thompson

Definitionally, that's correct.

Operator

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

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

My question was on loan growth. And I see, Global Banking loans are flat. GWIM loans are flat. Consumer is down. And it's looks like some sort of deceleration. So are you seeing a swap from at least the large loans to the capital markets? Or how do you describe what's taking place? Is there a slowdown in the U.S. economy? Are you deliberately backing away from some credits? Any color you can give would be great.

Bruce R. Thompson

Sure. I think what I'd say is a couple of things on that, Mike. The first is that, we have a very strong both commercial and corporate franchise. And obviously, we're very focused and especially given where we've built capital levels now, as we go forward to look to build off and to grow traditional C&I loans, both within the commercial, as well as the overall corporate bank. I think when you look at in 2 of the things or 3 of the things as I referenced that were slight offsets that we made a decision on during the quarter is that we've continued to work through, and we've got our commercial real estate lending down to an area that we feel good about. So going forward, you wouldn't expect to see the reductions in commercial real estate that you've seen over the last couple of quarters. The second thing I would say is that we did during the quarter, given what the market opportunity was and where pricing and securitization pricing was, to securitize some of our DFS assets out in the market, which led to some of the reductions. That's something that was opportunistic and quite frankly gives us a base to be able to go out and grow and do more with our customers on. And then the third thing that was a little bit lighter relative to year end was on the trade finance side. That, that it will ebb and flow, but as we've talked about before, we're very focused on growing the international footprint as well. So I think, while on the overall -- from an average balance sheet perspective, it looked kind of flattish. We did see some growth within the areas that we're focused, and those areas that there were reductions, we feel like we're generally down to and have done the things that we want to do to the point where we can start growing off that base. I think if you move to the consumer space, I would just note a couple of things as people look at loans in the consumer space. Obviously, as we look at the home equity business, that the balances were down about $3.5 billion in home equity. We clearly are not doing a lot of new home equity lending now, and the fact that those balances are going down, we view as a very good thing. The second thing is, if you look at our supplement, you'll see that the residential mortgage area is coming down. Keep in mind, that's not due to residential mortgages that were originating as we look to manage the overall risk profile and interest rate profile, there's a constant look at, do we want to own whole loans or do we want to own securities? And at the end of the quarter, at the first quarter, we were a little bit more into securities than whole loans. And then the last thing I would say on loan balances is just within the Card business that seasonally your card balances obviously tend to peak in the fourth quarter. So the declines you saw in the Card business in the first quarter were largely seasonal.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

And then just one follow-up. It seems as though your market share in cards and mortgages has declined. Do you agree or disagree? And if you agree, is this a deliberate move? Are you underperforming what you'd like to achieve? Or is this simply prudent given what you're seeing in the market?

Brian T. Moynihan

So Mike, if you look at -- let's take mortgage first. If you look in the fourth quarter, we did about $15 billion of direct to consumer originations, and in the first quarter, we did about the same. So the real steep drop in "our market share" out there has been on the correspondent side just going to 0. So if you look year-over-year, it dropped $20-odd billion in production. That is an absolute deliberate move. We will move -- we will be in a direct to retail channel for both our general customers and then also our affluent and wealthy customers. It's a business we think we have an advantage in, and we'll continue to drive that. That being said, as we retool that business, we underperformed on a direct to retail. And we expect that and as we moved through each quarter, each month of the quarter, we saw improved results in just straight volumes, and we've added more loan officers. We've focused the people to getting several thousand in the quarter of referrals from the branches and working with their teammates there. We've staffed up on the fulfillment side to increase our throughput. You'd remember there's some noise about a reservation system earlier on. So we underperformed, but we're doing exactly what we wanted, which is to focus on direct to retail. The team's working hard. David Darnell and the team and you'll see us improve there. But the correspondent is behind us, and as I said, if you want that business back and go out and buy in the market is not actually a customer-driven business in the way we look at businesses here in the company. When you go into the Card business, I think we have been continuing to fine-tune and have sold off some portfolios. We're providing the card as a backbone to other companies. Meaning, the financial companies, and then we sold those portfolios back to them as part of fine-tuning the business. I'd say that we have performed as anticipated in card. We brought the direct mail down. This quarter, we did 800,000 new cards, as I said, half through the branch system with the credit quality you can see in our numbers, which is outperforming what we had expected as we put the cards on over the last couple of years. So we should expect to hold our share there and start to drive it. But we still are in the straight raw market competitiveness of 15% versus 16% or something like that in the fourth quarter. It really is based on us continuing to shape the affinity groups and some of the vestiges in the U.S. business of the past. But you should expect that to stabilize now and start to grow. That's been the strategy we told you we would start in 2009 honestly, and it's behaving the way we said. That being said, there's plenty of opportunity for us drive the Card business in our franchise. So we have the 800,000 originations, the 1 million Bank of America Cash 123 cards. We will drive that business back up, but again it'll be focused on the customers.

Operator

Our next question comes from Brennan Hawken with UBS.

Brennan Hawken - UBS Investment Bank, Research Division

Just wanted real quick hit on the tax rate. I got to 9% for the quarter. Is that right? And what's driving that? And were there any unusual items in there that when you hit on your 30% tax rate for the year, we should sort of consider when we think about the full year tax rate?

Bruce R. Thompson

Yes, I think, the thing when you look at taxes for the first quarter, what you have to keep in mind is that because of the large DVA and FVO charges that went through the P&L, the pretax income after those charges was reduced. So you have a couple of preference items in the first quarter that when they're compared on a book basis to a relatively low pretax income number, it tends to distort the effective tax rate. So as we -- and I'd just say what I said during the presentation, as you have a more normalized quarter without the DVA and the FVO, we would expect the rate for the year to approach 30%. And the one unusual item that I would note in that rate approaching 30% is that we'll have the $800 million adjustment for the U.K. tax rate, given that the tax rate is going down in the jurisdiction where we have a DTA.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. And then on the rep and warranties, it seems as though there's a new lower level provision that you guys tend to be running at, which really reflects BofA's view. Yet, we've got steadily increasing Fannie claims, and I'm just kind of curious how those resolve themselves and maybe also how much of those claims are tied to MI through rescissions or cancellations of insurance?

Bruce R. Thompson

Yes, I mean, at this point, it's a couple of things. The first is that -- and as we talked about both at year end and this quarter, we continue to adjust and provide reserves for the MI rescission and continue to work through that process with not only Fannie but other places where MI is topical, and our reserves reflect that. I think with respect to your original question, as it relates to reps and warrants, we obviously look at and provide the rep and warrant each quarter based on what we're seeing and based on our interpretation of the documents, which I can assure you we've had numerous people look at and feel very strongly with where we are. I don't think it's probably appropriate for me to reflect or to comment on what Fannie's view on that may be.

Brennan Hawken - UBS Investment Bank, Research Division

Oh, sure. That's fair. I guess I'm just trying to understand as far as the MI impact is concerned. Is it that BofA is providing the rep and warrant that valid insurance exists? And then therefore the GSE has a claim against BofA? And then BofA has to go pursue that actual -- has then a claim against the MI? Can you help me understand how that works?

Bruce R. Thompson

You're right. And in our disclosure, we talked about in certain cases where we do need to go and pursue and work with the different reinsurers to get the payments that were due. And what I would say is that, each quarter as we go through this, the reserves that we put up as it relates to the risk of mortgage rescission, the reserves apply both to the GSEs or anywhere else that, that could be a risk for us.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. And they would reflect, if there is any deterioration in counterparty, those reserves would reflect that as well?

Bruce R. Thompson

Absolutely.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. okay, great. And then last for me on capital markets. You made some comments about VaR, but just if you could talk about maybe what happened with risk in the quarter? Did you guys take on risk, particularly in FICC? Which given what happened, if you took it on at the beginning of the quarter, certainly it would have worked out well. And then maybe give us an idea of how much of a tailwind for FICC you guys benefited as far as the tightening credit spread environment?

Bruce R. Thompson

A couple of things. The first thing that I would say is that the -- as I referenced, the largest driver in the FICC business this quarter was our rates and currencies area. And that strength that we saw in the quarter was due solely or due largely, I guess, I would say to client flows where we were doing more with our clients during the quarter. So that is good core flow business for us that we saw during the quarter. And I think that if you look at both the risk-weighted assets and the VaR, they support that in that what we're saying is that, we're able to take less risk and make -- and if you look at both RWA, as well as VaR, they were roughly half of what they were a year ago, and we were still able to generate the same level of revenue. And I think when you think about that revenue number and you think about the level of risk, what it's reflective of is the fact that our client-facing businesses during the first quarter were very strong. And I think -- the only thing I'd say is that as we've continued to build the balance sheet, build capital and as we've seen our credit spreads tighten, the one thing I would say is that we are seeing more and more people that are doing more and more business with us. And we feel very good about that.

Brian T. Moynihan

Just to be clear, we have not changed the limits this business operates on in 7 or 8 quarters. So the ability to do what they need to do to participate in the market is there, and they're making the choices based on opportunities and capabilities that they have to do it. And are well within the risk measures and producing as much revenue. So I think the team's doing a great job of really driving the business along the way that you would want them to.

Operator

We'll take our next question from Moshe Orenbuch with Crédit Suisse.

Moshe Orenbuch - Crédit Suisse AG, Research Division

Just a follow-up on the GSE activity. 2 separate points. First of all, with all the -- despite all the rhetoric about the GSEs kind of expanding what they're looking at, it looks like this quarter actually had a smaller kind of new claims from the GSEs than the last -- at least the previous 4. But at the same time, you're kind of activity either approving repurchases or rescinding them were both kind of much, much lower. Could you talk about what's actually going on there and what it's going to take to get some more of this resolved as we go forward?

Bruce R. Thompson

What I would say is generally -- and any one quarter can bounce around a little bit. But just to reiterate, I would say that the activity that we saw during the first quarter was not significantly inconsistent with what we saw during the fourth quarter. But you're right, and the data you just quoted, you would expect to see the number of repurchases as a percentage to decline to the extent that you disagree with what's coming in.

Brian T. Moynihan

Moshe, you're assuming that a loan in every quarter for the last 10 quarters is exactly what they send in is the same, what's happened is it's different. And so the result of the activity is different because what is sent after being sent is different. It's not that the volume is different.

Moshe Orenbuch - Crédit Suisse AG, Research Division

Got it. A couple of other quick things. First actually, you mentioned before the correspondent business and the Mortgage business kind of being focused on the core Bank of America customer. Is there any thought about thinking about that in the credit card business as well and kind of doing something with some of the affinity business, the national credit card business that doesn't kind of overlap with your customer base?

Brian T. Moynihan

Just to be clear. The correspondent business is out of the Mortgage business. So it's a direct to retail business. In the Card business, we have an affinity group, and we've narrowed that group of affinities over the last 3 years to be consistent with where we think it adds value to the customer and to the company. And so we have major affinity programs which are very valuable to us that we continue to drive growth in. What we've done is pared off several thousand of programs, which the economics just didn't make sense. So we have achieved that. I think those are affinities with big brands that we benefit by as a company as opposed to affinities, frankly where we are providing a credit card for another financial institution that provides a core product to their customers. That's what we really gotten out of and then smaller groups that just didn't have the volumes to make sense.

Moshe Orenbuch - Crédit Suisse AG, Research Division

Great. And just one quick last thing and that is, obviously, some terrific progress on the capital front. I didn't catch, if you had said this before, but do you -- have you changed your expectation of kind of year end risk-weighted assets under Basel III or has been the improvement -- has the improvement been kind of more from the numerator or is it denominator-driven also?

Bruce R. Thompson

If you look at it, it's going to be a little bit of both because as I referenced, as you think about what we got through and once again, under both Basel I, as well as Basel III, we are in a disallowance under Basel I of DTA and in Basel III, we're over the 15% sin bucket. So as we generate net income and as you think about the piece that's FVO not being in it, the numerator is benefiting. And then secondarily, the denominator as we continue to work through and optimize, it will improve. We obviously have taken the guidance on Basel III at year end fully phased-in up above 7.5%. We will look to give you greater detail on both numerator and denominator when we look at Basel III at the end of the second quarter.

Operator

We'll take our next question from Jefferson Harralson with KBW.

Jefferson Harralson - Keefe, Bruyette, & Woods, Inc., Research Division

As a question on LIBOR, there's been some ruckus overseas on how it's set and regulators being concerned about potential, I guess, issues with how it's set. Can you comment on how BAC participates in the setting of LIBOR. And if you have reserves or any concerns over this process as it plays out?

Brian T. Moynihan

This had been going on a while. We wouldn't comment. I'd leave it to our lawyers to talk to you about it. But that's been going on for a couple of years.

Operator

Our next question comes from Andrew Marquardt with Evercore Partners.

Andrew Marquardt - Evercore Partners Inc., Research Division

Just wanted to circle back on the margin NII commentary. In terms of -- I think you're basically saying that we should think about NII, basically holding. But I want to go back this quarter, you had the benefit that's not going to repeat. But then what were the drags? Again, you had mentioned earlier, maybe I missed it in terms of some consumer yield pressure, but then is there also a core asset yield pressure because of the low rate environment?

Bruce R. Thompson

No, the biggest thing, Andrew, if you think about it was that the -- and keep in mind we're thinking about NII now, not pretax income. The biggest difference in the quarter that was a drag was the fact that we had over $8 billion of card receivables from the Canadian card business, but that sale closed at the beginning of December. So as you think sequentially, and you think about those consumer balances and consumer yields, that was the biggest piece of it and obviously, the number that we've put out there was that it was to the tune of about $400 million.

Andrew Marquardt - Evercore Partners Inc., Research Division

Got it. And then in terms of outside of that commercial pricing competition, asset yield pricing, asset yield pressure, is that manageable it seems like?

Bruce R. Thompson

I think it's manageable. I think the only other thing that I'd say is that as you look out at NII and when you run the size of the investment portfolio that we run from a rate management perspective as rates bounce around and as some of those mortgage and other type securities yields either go up or down will fluctuate with that. But there was nothing really notable for the quarter from that perspective.

Andrew Marquardt - Evercore Partners Inc., Research Division

Okay. And then in terms of looking at the pre pre, this quarter came in just under on a core basis, maybe $7 billion, materially better than last quarter, which was just under $4 billion. But then this quarter obviously helped by FICC in mortgage banking, that may not repeat. I mean, how should we think about that kind on a core run-rate basis? And will that improve largely now due to expenses continuing to improve based on Phase 1 and then Phase 2 next year?

Bruce R. Thompson

I think there's a couple of things. Obviously, in any one quarter, if you think about variables, you've got on the revenue side, the one variable piece that we have in revenues is going to be what you see from a sales and trading perspective. That there is a level of variability in that, either up or down. I think from a revenue perspective, given that you've backed out the different security gains and private equity gains, when you quoted that $7 billion, that's going to be the one number from a revenue line that does have the variability to it. And then I think your point is exactly right, that what we can do to look to drive that number up is largely going to be on the expense side.

Andrew Marquardt - Evercore Partners Inc., Research Division

And do you still have confidence in, maybe it's an outdated range now of 45 to 50 on an annual basis? Is that still valid or have things changed enough that, that needs to be rethought?

Brian T. Moynihan

I think on the prior calls, we brought -- that range has been a lower range just because we sold off a lot of the credit card and stuff when that number was originally published, but I think as we said last quarter, we're continuing -- confident that we can push the number, given the time and the interest rate environment and over $10 billion a quarter, but it's going to take that normalized interest rate environment and economy growing at 3%. As opposed to the economy growing at 1.5% or 2%, which is what we've been consistently seeing.

Andrew Marquardt - Evercore Partners Inc., Research Division

And then lastly, just on capital. Any updated thoughts on potential deployment? May be still too early but may be more confidence now that bumping up your goal and target for Tier 1 common Basel III of 7.5% by the end of the year. Any updated thoughts on when or how or maybe some thoughts also kind of lessons learned from what happened with Citigroup?

Brian T. Moynihan

I think we were clear in the CCAR. We said, and we came through that test, and we were clear before that we didn't apply for anything in 2012. I don't think we changed our thinking that as we work to make sure that we drive towards being Basel III compliant over the next couple of quarters. So I think we're -- we have a high confidence in our capital, a high confidence that we have the right capital and high confidence that we're building at a good pace that we knew before, but now you all see. And so I think we'll just keep playing it through the end of this year in this way.

Andrew Marquardt - Evercore Partners Inc., Research Division

Got it. And too soon to call until maybe towards the end of the year where capital stands ultimately in the outlook macro-wise, is that fair?

Brian T. Moynihan

I'm sorry, I didn't hear the very end of that.

Andrew Marquardt - Evercore Partners Inc., Research Division

Is that fair to assume kind of too soon to call in terms of is 2013 the year? In terms of maybe starting at least you think about it or at this point?

Brian T. Moynihan

We'll let you know when we -- we've said consistently, we'll apply when we know we'll get approved, and we can work closely with our regulators to get that through, and we'll see how we proceed through this year and the next.

Kevin Stitt

That was our last question. I'd like to thank you for participating.