Operator

Good day, everyone. And welcome to today's program. At this time, all participants are in a listen-only mode. Later you'll have the opportunity to ask questions during the question-and-answer session. (Operator Instructions). Please note this call is being recorded and I will be standing by should you need any assistance.

It is now my pleasure to turn the conference over to Mr. Lee McEntire. Please go ahead, sir.

Lee McEntire

Good morning. Thanks everybody on the phone as well as the webcast for joining us this morning for our third quarter results. Hopefully you've had a chance to review the earnings release documents available on our website.

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

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

Brian Moynihan

Thanks, Lee, and good morning everyone. Thank you for joining us to review our third quarter results. As you know, our bottom-line results were heavily impacted by previously announced settlement with Department of Justice. But given that, I'm still encouraged by what we accomplished this quarter. Our business has generated enough earnings to absorb the $5.3 billion charge and still reported positive net income before preferred dividends.

Now, the themes that we see are consistent with the past several quarters. You can see in our numbers a prudent balance sheet management; you can see in the numbers good core expense control; you can see in the numbers continued credit improvement and you can see in the numbers solid business activity.

Before Bruce takes you through the detail of the quarter, I thought I'd focus quickly on the profitability of our business segments and some of the key statistics that give rise thereto. If you look, we've included in the appendix the materials on pages 18 and 20 some information about net income, PPNR and business statistics.

So you step back and look, you can see from our release, the company reported $2.9 billion in year-to-date pretax net income that includes and overcomes 15.6 billion in pretax litigation costs to resolve primarily legacy mortgage issues.

Now we're not suggesting that we want to incur litigation cost going forward but what this demonstrates is how much progress we've made behind the noise of significant legal settlements. So you step back and think about the businesses, you can see on appendix slide 18 a graphic showing year-to-date net income comparative performance by the businesses.

Let's first focus on our Consumer and Business Banking segment. Year-to-date net income was $5.3 billion in 2014. That compares to $4.6 billion after tax in 2013. The return on average allocated capital in Consumer & Business Banking was 24%. It is our largest business and it's had a good year. Our Global Wealth and Investment Management business had net income of year-to-date of $2.3 billion in 2014 that's up 3% from 2013. Now this business, our GWIM business has a pretax margin of 26% and has returns on allocated capital of 25%.

As we move to our Global Banking business, that's the business provides lending, treasury services, investment banking activities to middle markets and large corporate clients around the world. That business earned $4 billion after tax so far this year, up 8% from 2013 and generated returns on allocated capital of 17%. Those three businesses together have great annuity streams and hold us in good state as we look forward.

Our Global Markets business which obviously is more affected by what's going on in the market on the given quarter has earned $2.9 billion after tax this year and for the first nine months versus $2.7 billion in 2013 when you adjust for DVA and in 2013 you exclude the UK tax changes.

So in total, these four businesses generated $14.5 billion net income after-tax for the first nine months of 2014. That $14.5 billion is up 10% from last year. You can look on slide 19 and you can see on a pretax pre-provision basis which some of you also focus on, we are 4% year-over-year. And you can see on pages 20 and 21 the business statistics over the last couple of years which give rise to these results.

We've made real progress in the four businesses and we continue to work on the Consumer Real Estate segment and losses therein. But that real progress shows in the operating leverage profitability of these businesses and we expect that momentum to continue as we move the other side of the mortgage issues.

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

Bruce Thompson

Thanks Brian and good morning everyone. This quarter does reflect what we believe is very solid execution and a lot of what we've been consistently talking with all of you about. We maintained a strong balance sheet as a foundation to operate from. We continued to rationalize our balance sheet for liquidity, profitability as well as evolving regulatory changes. Our revenue has shown relative stability and our non-litigation expenses continue to be reduced. Charge-offs have continued to come down, and we resolved significant legacy mortgage exposures during the quarter.

Let's start on slide two and go through the details. We recorded a $168 million of earnings in the third quarter and after preferred dividends that resulted in a loss of a penny per share. Earnings included the $5.3 billion pretax income -- or pretax impact, excuse me of the settlement with the Department of Justice in various state attorneys general that we announced in August. On an EPS basis, the impact was $0.43 a share, as a portion this charge was not tax deductable.

As you can see on the right hand side of slide two, the $5.3 billion impact was split between $4.9 billion in litigation expense and $400 million in provision expense that relate to additional reserves that are associated with a consumer relief portion of this settlement.

Revenue during the quarter on an FTE basis was $21.4 billion versus $21.7 billion in the year ago quarter. If we exclude the DVA impact from both periods as well as the $1.2 billion of equity investment income that we recorded during the third quarter of '13 that was driven by gains from our CCB investment, adjusted revenue of $21.2 billion was up slightly from the third quarter of 2013.

On a segment view, revenue was stable to modestly up in four of our five businesses from last year with CRES being the exception. Relative to the second quarter of 2014, revenue was 3% lower driven by the lack of equity investment gains, seasonally lower investment banking fees and lower mortgage banking revenue.

Total non-interest expense was $19.7 billion which included $5.6 billion in total litigation expense. We back out litigation expense; compared to the second quarter of 2014, expenses declined roughly $400 million from both our New BAC and our ALS cost initiatives as well as lower revenue related incentives. On the same basis, looking back to the third quarter of 2013, expenses improved by $1.1 billion or 7% which were driven by reduced LAS costs and to a lesser degree our New BAC cost savings.

Provision for credit losses during the quarter was $636 million and included $400 million, as I mentioned for the DoJ Settlement, while our net charge-offs were $1 billion. Our results during the quarter did benefit from roughly $200 million in DVA or about a penny per share as our debt spread widened during the end of the quarter. There was also approximately $0.04 of benefit to earnings that relate to certain discrete tax items. Lastly, the quarter also benefited by about a penny as our weighted average share count excluded the impact of diluted shares given the financial performance.

On slide three, we show you all the usual balance sheet highlights that we do each quarter but we did want to focus you specifically on our efforts to rationalize the balance sheet as our actions led to a $47 billion decrease from the second quarter of 2014. We took prudent actions to increase liquidity as well as to reduce both credit and market risk. We shifted the mix of some of our discretionary assets out of less liquid loans into more liquid debt securities. For example, we converted 6.5 billion of residential mortgage loans that benefited from standby insurance agreements into agency securities. We also sold $2.5 billion of non-performing and delinquent loans during the quarter and had $4 billion of net pay downs in our legacy consumer real estate loans. We reduced our global markets balance sheet and associated funding by $11.7 billion from the second quarter of '14 and that included low margin prime brokerage loans of approximately $3.3 billion.

Our decline in quarter end deposits was primarily driven by optimization efforts that included the reduction of approximately 15 billion of deposits that had little to no benefit to our LCR ratio. From a capital perspective, I'll remind you that we did issue 3.1 billion of preferred stock during the quarter that improved our Basel III Tier 1 regulatory capital ratio. And lastly as a reminder, we increased our quarterly common dividend to $0.05 a share during the quarter.

We move to slide four where we show our capital ratios under Basel III. Under the transition rules, our CET1 ratio was stable at 12%. If we look at our Basel III regulatory capital ratios on a fully phased-in basis, you can see CET1 capital declined 1.6 billion that was driven by a $1 billion decline in OCI.

Our operational risk weighted assets did increase that negatively impacted our advanced levels but not the standard levels. Other RWA balance sheet improvements benefited both approaches and that partially offset the increase in RWA under the advanced approach. If we look at the ratios under the standardized approach, CET1 improved slightly to 9.6% during the third quarter of '14 and under the advanced approach, the CET1 ratio was also at 9.6%, both well above our 8.5% 2019 proposed minimum requirements. If you look at our operational risk, risk weighted assets under the advanced approach; they now represent approximately 30% of our overall risk weighted assets.

We move to supplementary leverage. This is the first quarter that we've actually disclosed the actual ratios from a supplementary leverage perspective. The bank holding company during the third quarter was at 5.5%. And if we look at our primary banking subsidiary BANA, its ratio was 6.8% which is pro forma for September 30th as we merged FIA, our card services unit into BANA on October 1st. We're obviously very pleased with the capital and supplementary leverage ratios in the context of the resolution of the DoJ matter during the quarter.

We turn to slide five, feel very good about the work that the funding team did during the quarter. In addition to the $3.1 million of preferred stock issuance, we issued 3 billion of Tier 2 subordinated debt, which also adds to our total capital metrics.

Lastly, we issued $4.5 billion of straight debt at the parent. Our goal is not only to build the Basel III non-CET1 component of the capital stack that we thought or levels that were appropriate, but also to build liquidity in advance of the payments that we'll make during the month of October for the DoJ and state AG settlement.

Total long-term debt for the quarter ended at $250 billion, which was down $7 billion from the end of the second quarter 2014. We look at the cost of our debt; our long-term debt yields improved 10 basis points from the second quarter of '14 due primarily to maturities of higher yielding debt as well as issuances at more favorable levels. Global access liquidity sources remained very strong at 429 billion and our time to required funding was stable at 38 months.

We turn to slide six; net interest income on a reported FTE basis was 10.4 billion, up from the second quarter of '14 as we had a less negative impact from market related adjustments and that was coupled with modest improvement in our adjusted net interest income.

The market related adjustments during the quarter were a negative $55 million in the third quarter of '14 that compares to a negative $175 million in the second quarter of '14.

Net interest income of $10.5 billion excluding the market related adjustment, improved modestly as lower long-term debt balances and yield as well as an extra day of interest accruals were partially offset by lower loan balances as well as lower loan yields.

The net interest yield improved 4 basis points on an adjusted basis and 7 basis points on an actual basis. We continue to remain positioned to benefit as interest rates move higher, particularly from the short end of the curve.

Since we're largely done at this point with our debt footprint reductions, the direction as well as the trajectory of our net interest income and net interest yield will be more dependent on rates as well as balance sheet movements going forward.

And given the volatility of the rates, should the opportunity present itself, we could decide to take actions to reduce OCI risk in preparation for what we will be in an eventual rising rate environment. Those actions could have a relatively small near term impact to net interest income but reduced our duration risk as well as to provide additional liquidity to reinvest in a higher rate environment.

Non-interest expense on slide seven was $19.7 billion in the third quarter of '14 and included $5.6 billion of litigation expense. As I previously mentioned, $4.9 million of the expense related to the DoJ Settlement while the remainder was associated with the number of smaller pre-existing cases, one of which caused us to book approximately $200 million in our Global Markets business.

We exclude litigation; total expenses were $14.2 billion this quarter which declined $400 million from the second quarter of 2014 on both, our New BAC as well as our LAS initiatives as well as lower revenue related incentive cost. Compared to the third quarter of '13, expenses are $1.1 billion lower, driven by LAS cost savings. Our legacy assets and servicing cost once again ex-litigation reduced by approximately a $100 million in the quarter and remained on track to hit $1.1 billion in the first quarter of 2015.

In the third quarter, we've now reached our new BAC savings initiatives with the targeted goal of $2 billion a quarter or $8 billion on an annualized basis. So, as we move forward, we believe that expenses apart from litigation as well as the continued reductions in legacy assets and servicing expenses should move more directionally with the revenue streams that we see in the businesses.

Asset quality on slide eight, you can see credit quality continued to improve. Net charge-offs declined slightly from the second quarter of '14 to $1 million or a 46 basis-point net loss ratio, a new decade low. NPL sales which I mentioned produced modest recovery in both the second quarter of '14 as well as the third quarter of '14. And if we normalize for those benefits, net charge-offs would have been $1.3 billion in the second quarter of '14 and

$1.2 billion in the third quarter of '14 with the third quarter being about 8% lower.

Delinquencies, a leading indicator of net charge-offs remained very low. Our third quarter provision expense was 636 million and we released 407 million of reserves, given the continued pace of asset quality improvement. If we exclude the reserve that was associated with the DOJ Settlement, we released 807 million from our reserves.

Let's now focus on the businesses, starting on slide nine with Consumer & Business Banking. Results again this quarter showed year-over-year improvement as our net income grew 4% to 1.9 billion and increased 3% from the second quarter of 2014. This business generated 25% return on allocated capital during the third quarter. Revenue was relatively stable at 7.5 billion compared to the third quarter of '13 and up from the second quarter of '14, led by higher card income and service charges for both comparative periods.

As you can see on the slide, Q3 provision expense was lower than the third quarter of ‘13 as net charge-offs improved and we also released less reserves. Expenses of 4 billion were stable compared to both periods as the benefits from our net book delivery optimization were offset by investments that we made in our special sales force.

With regard to the special sales force, over the course of the last year, we've added nearly 500 financial solutions advisors and small business bankers. Growth in mobile as well as other self-service customer touch points has allowed us to continue to reduce our banking centers where we went below 5,000 units during the quarter, while at the same time, our customer satisfaction scores continued to improve and customer activity continues to build.

We look at customer activity during the quarter. We had good deposit growth and our rates paid remained very low. We experienced modest improvement in average loans on a linked quarter basis driven by activities that we saw within the U.S. consumer credit card business. Brokerage assets were up 21% year-over-year as we benefited from both improved account flows and market valuation.

Our mobile banking customers reached over 16 million during the quarter and 11% of all of our customer deposit transactions are now done through mobile devices. Card issuance remained strong at 1.2 million new accounts in the third quarter of ‘14 with 64% of those cards going to existing customers of our company. And lastly, credit quality continued to improve as our U.S. credit card loss rate fell below 3% and where we continue to see north of a 9% risk adjusted margin.

If we moved to consumer real estate services; as I mentioned, the loss in the quarter was driven by the DOJ settlement, which impacted expense, provision, as well as income tax. Revenue was down about $300 million from the second quarter of 2014. The servicing income component of revenue was driven by an approximate $100 million charge to adjust our MSR for cost of service assumptions. And a smaller amount in our level of servicing assets did decline.

Our production revenue decline was driven by approximate $80 million increase in rep and warrant expense. First mortgage retail origination of $11.7 billion, were up 6% from the second quarter of 2014. If we look at the pipeline at the end of the quarter, our first-lien origination pipeline was down 12% from the second quarter of 2014.

On the home equity front, we continue to see very good demand where originations during the quarter were $3.2 million, which were up nicely on both the linked quarter and a year-over-year basis.

Expenses once again included $5.3 billion of litigation costs during the quarter versus $3.8 billion in the second quarter of 2014. If we exclude that $1.5 billion increase in litigation cost, expenses declined a $117 million.

Our LAS expense for the quarter was just over $1.3 billion and once again remains on track to hit $1.1 billion in the first quarter of 2015. Our number of 60 plus day delinquent loans of $221,000 that are serviced by LAS dropped $42,000 or 16% from the end of the second quarter of '14. In addition, we continue to reduce our production staffing levels in line with the market opportunity as we continue to lower our fulfillment cost.

On slide 11, global wealth and investment management delivered another strong quarter, where we saw both record revenues, as well as record earnings. Pre-tax margins remained strong, north of 25% for the 7th consecutive quarter.

Record asset management fees drove revenue higher, but were offset by some softness in transactional activity, although I do want to mention that we did see transactional activity pickup during the month of September.

Net income of $830 million was up 12% on a linked quarter basis as the business continues to focus on operating leverage and drop the revenue growth to the bottom-line. We increased the number of financial advisors and year-to-date the retention of our more experienced advisors remains at record levels.

Client balances were nearly $2.5 trillion with negative market valuation mostly offset by positive flows that we saw during the quarter. Long-term AUM flows were $11.2 billion during the quarter, the 21st consecutive quarter of positive flows. Ending client loan balances also increased to a record level from the second quarter of '14 as we see good activity in both securities-based and residential mortgage lending. And return on allocated capital in this segment was 27% during the quarter.

If you turn to slide 12, global banking earnings were $1.4 billion, which is up 24% from the third quarter of '13 on both on lower credit cost and to a lesser degree higher revenue. Compared to the second quarter of '14, earnings were up on lower credit costs, which were slightly offset by seasonally lower investment banking fees.

Return on allocated capital during the quarter was strong at 18%. Within the revenue line item, investment banking fees for the company this quarter were $1.4 billion, which is up 4% from the year ago quarter, but down seasonally from the second quarter of 2014. Our overall investment banking pipeline does remained very strong, but I do want to note that our fourth quarter of '13 was a record quarter from an investment banking fee perspective. Provision during the quarter was a slight benefit, which reflected continued low loss rates and a small reserve release.

If we look at the balance sheet, average loans were $267 billion, which is up 3% compared to the year ago period, but which has slowed over the past couple of quarters as we continue to focus on client profitability. We've also seen some significant prepayments from some of our larger corporate banking clients during the last couple of quarters.

Although our average deposits during the quarter did increase, our end of period balances declined. And that's due as I mentioned earlier, that we intentionally managed down certain deposits which have a little LCR benefit.

If we move to Global Markets on slide 13, we earned $769 million during the third quarter of 2014. To put the third quarter of '14 on a like basis to the third quarter of '13, you should exclude a $1.1 billion impact from the UK tax rate change that we saw in the third quarter of '13, as well as the impact of DVA for both periods. Once again DVA this quarter was a benefit of $205 million versus a decrement of $444 million last year. If we make those adjustments, we saw very strong growth in earnings of 21% on a year-over-year basis.

Earnings are down from the second quarter of '14 as a result of the typical seasonal declines in sales and trading, as well as higher litigation expense during the third quarter of '14 within this segment.

If we back out DVA, revenue is up 7% from the year ago period driven by strong sales and trading results. We're pleased to report both FICC and equity sales and trading revenues were up versus the year ago period. FICC revenues were up 11%. The improvement was driven by results and currencies given the increased volatility that we saw during the month of September, as well as improved performance in both our mortgages and our commodities areas.

Equity sales and trading was up as well, up 6% from the third quarter of '13 driven by a higher client financing revenues. On the expense front, they were up 2% year-over-year driven by higher revenue-related incentives. Relative to the second quarter, expenses were up $70 million from the second quarter due to higher litigation expense. If we back out the $200 million litigation expense during the quarter, expenses declined by about $130 million in line with the lower revenue levels on a linked quarter basis.

Average trading-related assets were down about $13 billion from the second quarter of '14 and our overall bar remains very low. Return on allocated capital during the quarter was 9%.

On slide 14, we show all other. Our non-interest revenue during the quarter was down on a year-over-year basis as we had $1.1 billion of equity investment gains in the third quarter of '13 and during the third quarter of '14, we had a $300 million charge for UK payment protection insurance.

Expenses on a year-over-year basis are down about $400 million due to lower litigation expense and all other, as well as lower personnel costs. Income tax expense is included within all other is the benefit related to discrete items that I mentioned earlier are largely reflected in this segment.

As we look at the fourth quarter of this year, we'd expect the tax rate to be roughly 31%, absent any unusual items during the quarter.

So before we open it up for questions, I'd like to summarize the quarter. We feel we made once again very good progress during the quarter. We saw good business activity across the customer footprint. This led to year-over-year earnings improvements in four out of the five businesses. And then in our mortgage business, we're taking cost out of the legacy assets and servicing side and have taken cost out of the fulfillment side as well.

We generated enough earnings during the quarter from the businesses to offset a significant charge to settle our RMBS issues with the DOJ and RMBS working group. And at the same time maintain a very strong capital position. Asset quality continued its trend of improvement. And we did take some delivered balance sheet actions to improve liquidity, manage OCI risk and reduce both credit and market risk.

And we'll go ahead now and open it up for questions.

Question-and-Answer Session

Operator

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

Betsy Graseck - Morgan Stanley

Hi, thanks very much. Good morning.

Brian Moynihan

Good morning.

Bruce Thompson

Good morning Betsy.

Betsy Graseck - Morgan Stanley

So just wanted to touch on a couple of things that you mentioned during your prepared remarks here; one is on the NII actions that you were talking about you might take with the securities portfolio as a way to protect OCI. But it might have a hit on the top-line when you do that. Could you just talk through what kind of size you're thinking about and what the triggers for that action might be?

Bruce Thompson

Sure. A couple of things, Betsy, I think the first thing is if you look at the balance sheet from the second quarter to the third quarter and you look at the securities portfolio you can see that group see the entire increase in the securities portfolio related to treasury securities that tend to have a maturity in the 4 to 5 year life perspective as opposed to longer dated agencies securities.

The second thing that I mentioned is just in references what we would look to do with respect to our buy ticket during the fourth quarter. And I think at this point we’re being very cautious looking at that buy ticket given the overall rate environment that we see that’s 30 to 35 basis points lower than what we saw during the second quarter of 2014.

And there is also a little bit of relative spot risk that you have as we look out. And I’d say if we aggregate those two items and put it in a context of

NII risk for the quarter, those two items could be roughly a $100 million of risk relative to what we saw during the second quarter, excuse me during the third quarter.

Betsy Graseck - Morgan Stanley

Okay. And then obviously a question that a lot of people have is the current rate environment and what that impact is. So this is in addition to the typical negative impact on NII from the long end of the curve, I would assume?

Bruce Thompson

The $100 million risk that I referenced is relative to the actual net interest income in the third quarter once we back out for market related items.

Betsy Graseck - Morgan Stanley

Got it, got it. Okay. And then the other comment was on expenses where you indicated that you are obviously done with New BAC, which is fantastic and LAS is on track. So outside of the LAS expense reductions, more directionally expenses would move in line with revenue. Could you give us a sense as to what you think you could do on expenses in the event that the long end of the curve stays where it is right now, hovering at like $2.01?

Bruce Thompson

Sure. And I think that there is negative standpoint too Betsy if you look out what we’ve done if you look at the number of FTEs that we have which tends to drive a lot of the expense were down 7% year-over-year and down 2% on a linked quarter basis. And you see the flow through of those benefits through a number of line items.

The most important things to look at is if you go to our supplemental materials and flip to page four, we show you 9 different expense items. And if you look at those line items and exclude the other category, which include litigation expense, all these lines items are down both on a linked quarter and a year-over-year basis.

So as we continue to be efficient and continue to manage down overall headcount as a result of the various programs we've talked about, as well as just generally, you continue to see grind down expenses across all categories across the company.

Brian Moynihan

And Betsy just to put in a broader perspective, how would you manage the company if the low rate environment continues is a lot like we've been managing and now continuing to be careful in every expense item, every headcount, but at the same time, investing in the business. And so if you think over the last year we've added small business bankers and financial service advisors the people work in the branches for Merrill Lynch and the Merrill Lynch teams. We've added sales mortgage officers in the retail segment, while we reduced the overall numbers.

And so we've been able to accomplish the reduction expenses, but at the same time we're making the investments $3.5 billion in technology last year and probably 3.3 or so this year. So we'll continue to make those investments. So that means that the new BAC implement helps offset any kinds or sort of inflationary growth you get in and on top of that we continue to work on initiatives, continue to simplify the company and eliminate non-core products et cetera to continue to keep the expenses where they are.

Betsy Graseck - Morgan Stanley

So just to rephrase, you still have expense reduction coming through from the work that you've done so far; you're just not going to name it something new?

Bruce Thompson

No, we were just going to -- we were just doing a daily work that we need to do. And remember we're offsetting all the inflation and healthcare costs and wages and everything that goes on in normal days, but we even made the raw reduction and talk about now this business is usual good work.

Betsy Graseck - Morgan Stanley

Okay, super. Thank you.

Operator

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

Glenn Schorr - ISI

Hi, thanks very much. On slide 8 is this tiny uptick in consumer 30 day past due. It's a small number, but it's the first time I've seen it go up in a long time. Credit outlook is great. Just curious if that denotes like a bottoming and what you're seeing. And then in conjunction with that, how you feel about your -- what appears to be very large loan allowance as a percentage of charge-offs?

Bruce Thompson

Sure. Now we went back and notice the same thing Glenn, there are few item that were 10s, 20s and 30s that rounded, but as we go out and look at as we’ve freshened up and look forward I would say that the forward look on credit as we look forward relative to when we looked at it last quarter, we do continue to see continued improvement, albeit at a slower pace from a charge-off perspective once you adjust for the non-performing loan sales.

Glenn Schorr - ISI

That's good; that's comforting. You mentioned the $3 billion of sub debt that you issued during the quarter. Just curious if there is any thought process of is that getting ahead of OLA and do you feel that there is going to be a sub debt component? Is that just you being cautious and having some diversification in the debt structure?

Bruce Thompson

I think as we look out and as you look to fill up the various non-CET1 bucket, you can see that we obviously had the Buffet Series T in May and we've issued about $4.6 billion to get over largely filled up on the preferred bucket and the sub debt issue of $3 billion was relative to approximately $5 billion to fill up that bucket from an overall capital perspective. And at this point I would say from an OLA perspective, we continue to read what you do. We feel like we've been very prudent in building up this significant debt stack at the parent. And we'll just have to see where the regulation goes from here and we're obviously waiting to see exactly what that is.

Glenn Schorr - ISI

Okay, last one. On mortgage, just curious what percentage of current originations you're keeping on balance sheet and then related part two would be how much is the unfinished question around repurchase risk constraining any mortgage lending or is it really still a function of demand at this point?

Bruce Thompson

The first as it relates to the balance sheet, I believe it was roughly two-thirds of the production from a first-lien perspective would have gone on the balance sheet during the quarter.

Brian Moynihan

In terms of just origination quality, we continue to focus as we have quite a long time here on originating high quality prime mortgages, while still facilitating our duties to get customers credit for home purchases. The originations continue to rise. The purchase component obviously is rising too. So we feel good about where we are and you can see that new purchase requests from the agencies have come down dramatically. So we are not going to change the course, because at the end of the day, because we feel good about the credit quality we've taken. We're taking on using for ourselves and for investor.

Glenn Schorr - ISI

Okay. Thanks both.

Bruce Thompson

Thank you.

Operator

And we'll go next to Jim Mitchell with Buckingham Research. Please go ahead.

Jim Mitchell - Buckingham Research

Hey, good morning.

Brian Moynihan

Good morning.

Jim Mitchell - Buckingham Research

Two questions; first on governance, can you just kind of talk through the reasoning on the Board's perspective to kind of change the chairmanship and with a lead director how you think that dynamic may change, good or bad? And I guess secondly is this a vote of confidence in you, Brian, in terms of the leadership and current strategy?

Brian Moynihan

We have a strong Board team with various people of various skills and background and that diversity really helps us. And so I think the Board's decision that we put out few weeks ago and announcements made, this is continued great governance can we make commitment to good governance, Jack Bovender new director takes over from Chad Holliday, who served as Chair for about 4.5 years and did great job for us and the Board is very committed to continue to have the strong governance especially in the high expectations from the regulators and enhanced supervisor prudential standards from the Fed.

And so we feel good about the governance, but it’s the team effort and then how the Board works together. And I think your points Chad maybe now in the announcement or that the Board feels very good about the option for the management team and this is part of their progression in that regard.

Jim Mitchell - Buckingham Research

And does the Fed take part in reviewing this decision in anyway?

Brian Moynihan

It’s the Board’s decision, but we console those regulations all the major decisions in the company. But I think the key is how we operate as a Board and how we govern the company and I think it will be better for the shareholders as it has been.

Jim Mitchell - Buckingham Research

Okay, great. And then second question on the balance sheet, with the $47 billion reduction, clearly it helps the LCR, but can you give us a sense on how it benefited -- I'm sorry, the SLR, but can you give us a sense on how it might have improved your LCR, number one and if there is any additional benefits beyond leverage that helps the stress test?

Bruce Thompson

A couple of questions, the first thing as we focus on the deposit I wouldn't say it benefited LCR but what it enabled us to do was to continue to rationalize the balance sheet without hurting LCR. That relates to the deposit optimization.

With respect to the mortgage loans, the 6.5 billion that we’ve referenced where we converted mortgage loans into agency securities, that's basically taking $6.5 billion of non-LCR benefit asset and converting them to $6.5 billion of LCR benefit. So that would have been the one pick up of the activities that we mentioned as well as just the reinvestment of repayment of legacy loan proceeds into securities once again helps LCR.

So the actions with respect to build, one under the key balance sheet benefited LCR, the 15 billion of deposits just enable us to rationalize the overall size of balance sheet. As it relates to CCAR and the actions that then are taken, as we look to manage the company, we continue to look to manage out the higher risk categories of loans. And if you look at what we did in the second quarter with just over 2 billion of non-performing loan sales and $2.5 billion this quarter, we would clearly expect that as you look at those from a CCAR perspective, they would be higher loss content loans relative to the rest of the portfolio but the rational and the goal to move those out was to reduce the risk in a market environment that was very favorable. And we feel good about those actions that we took.

Jim Mitchell - Buckingham Research

So, is it fair to assume that you guys are near at the 100% LCR threshold? And I guess secondarily, should we expect balance sheet growth start -- loan deposit growth, balance sheet start to pick up from here or you'll have more to do?

Bruce Thompson

So from an overall LCR perspective at the parent, we're at approximately 110% at the parent, so we're well in excess of where we need to ultimately be in 2017.Within the bank levels, we're well above the 80% level and would look to drive that to be north of 100% during the first half of 2015, well in advance of the 2017 implementation.

And as it goes, as we move forward and we look at the balance sheet, the goal as we go forward and you saw a little bit, it's interesting, if you compare the loans in the three principal businesses where we make loans in the segments that we've laid out here and that would be in our consumer business, in our wealth management business as well as in our global banking business that loans, average loans within those segments are up about 2% on a year-over-year basis.

And we're clearly very focused on looking to drive out and push out and grow loans. We're obviously focused on growing deposits with our core customers, which will benefit LCR as well. And I think as it relates to the overall size of the balance sheet, we want to continue to be more efficient, but I don't think you're going to see the magnitude to move in the balance sheet going forward that you saw during this quarter.

Jim Mitchell - Buckingham Research

Okay, great. That's helpful, thanks.

Operator

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

Jon McDonald - Sanford Bernstein

Hi Bruce, I wanted to follow-up on the NII outlook and the potential strategic actions. Is the potential 100 million headwind on the core NII, does that reflect the possible strategic actions or is that just reflecting the fact that reinvestment rates or the maturing capitals are lower today than they were in the second quarter?

Bruce Thompson

It would reflect two things, Jon. It's both the role to spot risk as well as the buy ticket during the fourth quarter.

Jon McDonald - Sanford Bernstein

Okay. And this buy ticket or these kind of actions that you might take, how might they impact your projections of rate sensitivity to rising short and long rates?

Bruce Thompson

Well, to the extent that we don't reinvest in buildup cash, it will increase our asset sensitivity and the benefit to rising rates when that occurs.

Jon McDonald - Sanford Bernstein

Okay. So you're not talking about a major restructuring of the bond portfolio; it's just being patient in terms of investing, I think I might have misunderstood the actions?

Bruce Thompson

Yes. It should -- this is much more Jon I think just realizing what we've seen during the quarter and being cautious on buy ticket during the fourth quarter to manage net interest income risk with OCI risk. But we're not talking about any kind of material shift; we're just flagging something for you to get into magnitude of the rate move that we've seen so far this quarter.

Jon McDonald - Sanford Bernstein

Got it. Okay, totally understood. Thank you. And Bruce, just in terms of the FAS 91 or the premium amortization charges that move around with the 10 year, is that pretty proportional to how the 10 year moves up and down or are there levels where it stops kind of being a straight-line impact?

Bruce Thompson

I would say that the -- it tends to move, the FAS 91 moves most and it's most correlated to the 10 year. And I would say that if you look at OCI risk it tends to be more correlated to long-term mortgage rates.

Jon McDonald - Sanford Bernstein

Okay. And just a follow-up on the provision, just wondering how we should think about kind of jumping off point for the provision relative to the kind of $600 million reported, or the $200 million ex-DOJ this quarter? How should we think about where to start off with that?

Bruce Thompson

Yes. I think Jon, I would look at the charge-offs adjusted for the portfolio sales that we said came down from 1.3 to 1.2 and assuming the overall economic environment doesn’t change. We have continued to see improvements in the credit portfolios. And I think practically speaking if you look at the reserve release during the quarter once you adjust for the DOJ amount of 400 that you’re not going to see reserve releases. I think clearly they will be a fair bit below the $800 million that we would have seen this quarter on an adjusted basis.

Jon McDonald - Sanford Bernstein

Okay. That's helpful. And then just on capital builds, Bruce, it seems like you're still able to grow the Tier 1 common at a multiple of the GAAP earnings. Is that primarily as DTA and could you remind us what the status of the DTA balance is and how much is disallowed currently?

Bruce Thompson

Sure. The disallowed amount continues to be in the $15 billion to $16 billion criteria. And as we look out between now and the end of 2015, we would expect to that the CET1 should build generally consistent with pre-tax earnings all the way through the end of 2015.

Jon McDonald - Sanford Bernstein

Okay. Thank you.

Bruce Thompson

Thank you, Jon.

Operator

And we’ll go next to Mike Mayo with CLSA. Please go ahead.

Mike Mayo - CLSA

Hi, good morning. Were there any gains from the $2.5 billion of NPA sales?

Bruce Thompson

I believe between what came through in the charge-off line and the net, I think the NPAs were roughly $150 million, Mike.

Mike Mayo - CLSA

$150 million gain?

Bruce Thompson

Correct.

Mike Mayo - CLSA

Okay. And as far as the outlook for rates, have you changed your rate assumption for the next year, given what the 10 year has done?

Bruce Thompson

We look at rate assumptions what we do is when we go through our internal forecasting process, we snap and manage the business just based on the forward curve of what the market is telling us. And clearly I think if we look out at and look at the rate movement that we've seen over the course of the last couple of weeks, people are obviously more cautious if rates may not be moving up at the level that they had had, but it's clearly been very volatile over the last 30 days.

Mike Mayo - CLSA

And is that changing the way you're managing the portfolio or the company? In other words, at what point do you look at the low rate environment and say our prior assumptions might have been off a little bit; we need to revise the approach?

Bruce Thompson

Well, I think that as we look forward, Mike, and I think it's a little bit of why we said what we did about a little bit of caution during the fourth quarter that at this point as we look out and given the impact that OCI has the capital until we see where rates settle out if they continue to move around, we continue to be very cautious with the buy ticket and when we do it we're investing clearly a little bit shorter than longer at this point given the risk that OCI has the capital and being mindful of that.

Mike Mayo - CLSA

Sure. No, it's tough figuring out the rate environment right now. I'm just revisiting the comment you made. You said expenses should move more directionally with revenues. And if I look at the first 9 months, I guess revenues are down, but expenses are down more. Do you mean that instead of having positive operating leverage, it might be flat operating leverage looking ahead?

Bruce Thompson

I think there is couple of things, Mike. The first is that I want to make sure that we emphasize is that we still have a couple of $100 million of expenses to get out in the LAS area between now and the first quarter of 2015. And clearly, $1.1 million of LAS expenses that we've set to get too in the first quarter of '15 is not where we would expect to operate on a longer term basis and there is additional work that we need to do there.

The second area, just broadly speaking that we highlighted that clearly we'd expect given what litigation expense that over time is going to come down. And then the third thing and when I said directionally expenses moving with revenues is just if we look at some of the areas particularly within the wealth management area that we've seen, there is a component of compensation and incentive, it's very clearly tied to revenues, not unlike what you see within the global banking and the global market space.

Mike Mayo - CLSA

Okay. And then two questions for Brian or perhaps for you Bruce; and I know I asked this before. But if rates do not go higher in 2015, what is Bank of America's ROE target?

Brian Moynihan

I think if rates don't go higher, what you see in terms of earnings is what we're -- what we've got to drive to this quarter. So Mike, when you look at the charts Bruce showed you and I showed, you can see that the core businesses burned several billion dollars after-tax this quarter and CRES business took it away; and as that comes down, you'll see those earnings flow through.

We don't -- and so you can compute the ROE based on that. But basically we're -- you can see on page 18, the net income levels across the businesses each quarter. And our job is to take commercial real estate business, which is you see for the year-to-date, if you take to commercial real estate business which is loss money, get that back to breakeven. And that's the work we will do in absence of rate rising; it's not a lot different than it is right now.

Mike Mayo - CLSA

And then lastly, just following up from the other question relating to the separation of the CEO and the Chairman role, when you can consult with regulators, do they care one way or another if the CEO and Chair position is split? And there is several corporate governance experts who say that it's better to have those two roles split and others say it doesn't matter. Do you know what the regulator view is on that, because you're going from what some consider a preferred corporate governance approach putting the CEO and Chair role to now combining them?

Brian Moynihan

I think that what they have been cleared about in the published documents, published by the OCC and their heightened standards, their enhanced standards but recently in the Fed, they care about the engagement of the board and the diversity of the board and the experience of the board and we have a good board and it's experienced and has all the diversity and credible challenge and all the words that are used to describe that. And I'd see that's the core of the governance point that they make.

Mike Mayo - CLSA

Alright. Thank you.

Operator

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

Matt O'Connor - Deutsche Bank

Good morning. If I could just follow up on some of the capital commentary provided, especially on the deck; it seems like there is a number of adjustments that were made this quarter or just quite after the quarter you consolidated the bank subs, there is some increase in operational risk RWA. You comment on OCI managing for that. Just think kind of big picture on managing capital, what's left and is there opportunity to bring down some of the off balance sheet exposures, now that you have kind of more final roles on the SLR?

Bruce Thompson

Sure. I think I would start and just reiterate as we look at capital on a go forward basis, you basically have three items that are going to affect things. The first is your level of profitability and I just want to reiterate that we would expect once again on a go forward basis to accrete capital on a pre-tax basis. And the second is the impact that OCI has to those capital ratios, we obviously saw during the quarter rates went up on the mortgage side, I believe it was about 5 basis points during the quarter. And there were some security gains as well and that was what was led to the change in the overall OCI. And as I said before, given the environment we're in where rates are down about 30 basis points so far quarter-to-date that will have a benefit today to capital and we're just mindful of reinvesting so that we don't take on any greater OCI risk on a go forward basis.

As it relates to what we're looking through and as you look at the overall risk-weighted asset work that's been done, I would say that clearly as we continue to work through the legacy home equity, as well as the first mortgage portfolios that do not benefit from the stand-by agreement as we continue to work those assets down that should enable us to grow the core and still keep risk-weighted assets generally constant. And I think more specific to your point, the other two things are that we continue to look to work through and we have the run-off of some of the structured credit and other portfolios that we're trying to accelerate that come off between now and 2017.

And then the last piece that we continue to work hard on and you saw it in the up risk that as we updated the models for the time series you do have the increase to risk-weighted assets. And we're working hard to get to where we need to be from that model perspective as we would hope in 2015 if we're successful to go ahead and exit parallel run at that point.

Matt O'Connor - Deutsche Bank

Okay. And then as you think about -- I guess the adjustment on the operational risk RWA side, do you think that's about done or is it an ongoing process until you hopefully exit the parallel run?

Bruce Thompson

Yes. I think it's obviously as others have noted, it's an ongoing process. I think the important thing is if you compare our operational risk number relative to our peers, we're roughly 30%. And if you do the math against the risk-weighted assets, we're at the, if not the top, the upper-end of where others are from that. But we obviously have work to do to get that finalized to be in a position to exit.

Matt O'Connor - Deutsche Bank

Okay. And then just separately within the C&I lending book, you talked about pricing pressure, as well as some pay downs, but I guess specifically on the pricing pressure, what are you seeing now versus a quarter or two ago when you were still trying to grow or growing the book in terms of not just the magnitude of pricing, but what types of products?

Bruce Thompson

Sure. I would say that the most competitive area that we continue to see is within the commercial banking space of our Global Banking segment which are those middle market type companies that tend to be loans that have one or two banks provide all of the credit. And clearly the remaining services that go along with servicing those customers tends to go to those that provide the credit. And that's where you've seen the most competition.

I think it's interesting if you look at and go back to our table on the international side as we've continued to shape the balance sheet and look for a return, you've actually seen a step-up in the yield in our international lending activity. And within the large corporate space of our Global Banking space, we have seen some stability in yields within that. So and really focused most importantly it's within the commercial, the middle market commercial space where we're seeing the most pressure on yields.

Brian Moynihan

So just to add a little color there, our view was along two dimensions. One, on the international side, we had strong loan growth, a couple of years ago in the last year. And now we have to materialize our structured management and other revenue streams under increasing our credit exposure and Tom and the team growing the business. So, there is sort of -- with growth of loans that there has to be a fall through of growth of transaction revenue et cetera.

And on the middle market, I think the team went for optimization and we are going to continue to stress if they needed to be able to manage both the optimization and the growth of the portfolio. So we're pushing on them, they get the balance probably back a little bit more in SKUs than they had in the last couple of quarters.

Matt O'Connor - Deutsche Bank

Okay, alright. Thank you very much.

Operator

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

Guy Moszkowski - Autonomous Research

Good morning, this is Guy. A question on, first of all, the optimization that you talked about with respect to commercial deposits around $15 billion and the -- I think roughly $12 billion in securities financing transactions. Should we look at those two things as directly related to each other?

Bruce Thompson

I think they're related to each other that we think it's prudent balance sheet management. But there are independent actions that are part of prudent balance sheet management.

Brian Moynihan

So Guy it's dramatically, but not necessary directly.

Guy Moszkowski - Autonomous Research

Okay. So the $15 billion isn't all essentially prime brokerage-related as well like the asset reduction that you are talking about?

Bruce Thompson

No, it's not.

Guy Moszkowski - Autonomous Research

Okay. That's helpful. Another question is with respect to the provision related to the DOJ settlement. Should we look at this $400 million, which as you said offset what would have been an $800 million reserve release? Should we look at that as essentially now a one-time true up and going forward you now feel that you have the provision that you'll need for multiple years to fulfill the settlement terms or is the settlement going essentially be a pay as you go through the provision?

Bruce Thompson

So, to be clear, when we set out the $5 billion reserve or the $5.3 billion hit this quarter that was to cover cash payments as well as all expected cost associated with implementing our $7 billion of consumer release. And the part of it that flows into the provision line item is $400 million, that is a reserve to take care of the -- what would have been the P&L impact from the modifications that would happen within the different loans that we're modifying.

So, on a go forward basis, assuming that we've got to set up the way that we do, there should not be any future P&L impact from DoJ. The only impact that will be on the balance sheet is you see the reserve number come down as we implement the consumer relief programs.

Guy Moszkowski - Autonomous Research

Got it. That's a very helpful explanation. Thanks. And finally, cyber security issues, obviously you were not the bank that's been in the crosshairs here and yet I would imagine that this is something that has caused some consternation internally and some spending. JP Morgan has talked about a $250 million budget for cyber security issues, which is expected to double. Can you give us a sense for what you are spending there and how you'd expected to increase?

Brian Moynihan

Obviously, it's the matter that we take very seriously from the Board engagement, the talent that we have in the Board to help us with this all the way through management, Cathy Bessant, her team in tech and ops. And we spend hundreds of millions of dollars on a year and it's been growing. And we expect to continue to grow; it's the key to keep our customers and our teammates secure. And we continue to work on it. So, this is nothing but hard work and we continue to work with both the law enforcement authorities, various government agencies and among our industry through very straight moves and formal engagements to try to drive our competencies in industry up. So we're spending a lot of money on it, several hundreds of millions of dollars and we expect that to continue to increase.

Guy Moszkowski - Autonomous Research

Thanks. I actually do have one more, if that's all right, and it's with respect to the rep and warranty RPL which in the footnote you said it's the same as it was last quarter at about $4 billion. Can you update us on where you are with any lawsuits related to the non-country wide originations which are, which add up to around $420 billion of UPB?

Bruce Thompson

So, if you recall Guy, what we've done and what we continue to refine each quarter is that as we continue to see rep and warrant claims, there was a reserve setup back in the second quarter of 2011, a piece of it was for Gibbs & Bruns. There was a piece of it that was for bank issued rep and warrant and then there was a piece that was for third party. And we obviously look at those reserves each quarter and adjust those reserves for the activity in those cases where we have enough activity to have our reserve. We obviously have those into those areas that are still uncertain; we provide the range of possible laws. And as you reference the range of possible loss with respect to rep and warrant activity continues to be up to $4 billion.

Guy Moszkowski - Autonomous Research

Okay, so no movement there obviously this quarter?

Bruce Thompson

That's correct.

Guy Moszkowski - Autonomous Research

Yes. Thanks very much.

Bruce Thompson

Thank you.

Operator

And we'll go next to with Brennan Hawken with UBS. Please go ahead.

Brennan Hawken - UBS

Good morning, guys, a quick one on loan growth. So at first glance, it looked kind of weak. It seemed to be driven by consumer. I just want to make sure I've got sort of the right adjustments here that I think you guys have laid out. In mortgage, $12.5 billion decline sequentially, but should we be backing out the $2.5 billion of NPL sales and then the $6.5 billion of agency conversion from that decline so you know you get kind of like a normalized decline rate sequentially of more like $3.5 billion on the mortgage side?

Bruce Thompson

Yes. I think it's a good question. So the decision to move the 6.5 loan to security forum was based on LCR. It doesn't change the fact that when you move out, but you still have the asset on the balance sheet. So I think that $6.5 billion is a fair adjustment to make. And I would agree that the $2.5 billion where we still have the non-performing loans and quite frankly there is not much left there to attack. It's a fair adjustment which gets you to the $9 billion.

The other thing when you look at the loans that I do think is important is that from -- on the home equity side, with those legacy home equity portfolios which we want to get repaid that repayments within those were roughly $3.5 billion which were greater than the funded amount that came on from a new home equity origination perspective.

So I come back to that within those more discretionary portfolios what's happening there is what we want to happen there that they’re repaying and we're converting them to more liquid instruments. And as we look at actual business activity and how we're doing, we'd focus you back within the segment. And as we talked about within the consumer business where average loans were up a little bit linked quarter on a card basis where we saw very strong continued growth within the home equity space, go back to the wealth management area where loans reached a record level. And then I think we've already addressed the work that we need to do on the commercial front.

Brennan Hawken - UBS

Sure, sure. And maybe if you could, is it possible to give us an idea about the run-off portfolio, what's left in that at this stage and what your guys' expectations are for like a run-off headwind just so we can think about it for modeling purposes?

Bruce Thompson

Sure. I think I would look at as you go forward given that we're not buying home loans from third-parties that you're probably looking at a high single-digit continued reduction for the next couple of quarters with respect to home loans that we hold for others. The second thing I'd say that you have is you've got roughly $3 billion a quarter in home equity pay-offs, a portion of which will be mitigated by new originations, but you are looking at roughly three there. And then you have some other kind of less than a billion dollar type items.

But I think it's fair to say that as you go forward outside of what we think is core, you're probably looking at in the consumer businesses in the zip code of $10 billion to $12 billion that will go away and we'll either have the ability to reinvest and make new loans or otherwise reinvest.

Brennan Hawken - UBS

Okay. And that's on a quarterly headwind basis?

Bruce Thompson

Correct.

Brennan Hawken - UBS

Okay, terrific. And then thinking about wealth management, could you breakdown the expansion in the margins there this quarter? How much of it came from reduced spending? I know you guys have been investing there and so maybe could you help us understand how much of a contributing factor that was here this quarter and how much investment is left to wind down here?

Bruce Thompson

I'm sorry, when you reference margin, margin in what area?

Brennan Hawken - UBS

Sorry, wealth management and pre-tax?

Bruce Thompson

Yes. If you look at it and you go through the different areas, you tend to have 40% type payouts with respect to the revenue piece. So when you look at the margin improvement of a couple of 100 basis points, I would put it more in the context of just good core expense management. I do think there was a little bit less litigation within the quarter that benefited us. But it tends to be just across the board, whether it be a little bit lower support cost, a little bit lower licensing fee number or a little bit less litigation. There was no one number that was particularly dominated in driving the margin.

Brian Moynihan

And last quarter, we had some start up cost for the Merrill one product that you can see has had strong success in terms of that AUM. So that was sort of in the second quarter and now those expenses have to roll that out that comes back after.

Brennan Hawken - UBS

Yes. So that technology spent also rolled off too, which probably helped, right?

Bruce Thompson

Exactly. If you remember last quarter we talked about it they had a decline it was because some of the stuff was going in, in this quarter you saw it revert back to more where they have pretty consistently been over the last many quarters.

Brennan Hawken - UBS

Cool, cool. All right, I seem to remember that being somewhere in the ballpark of like $50 million to $100 million is that right?

Bruce Thompson

I think it was all in that much, but whether it was all in that one quarter or not, I don't remember.

Brennan Hawken - UBS

Okay. So the decline from that might be less so?

Brian Moynihan

Yes.

Brennan Hawken - UBS

Cool. And then last one, I know you guys have talked about here the repositioning that you guys want to take as far as AOCI risk and such. When we think about the AOCI hit that you guys lay out versus other money centers in the interest rate shock, it's a little bit higher than where some of the other folks are. And so hoping to maybe get a little bit of color on where the current duration is, where you expect the duration to go based upon the actions that you take. And then maybe help us also square the circle of understanding the larger AOCI hit and whether that's a result of a barbelling with the portfolio or what?

Bruce Thompson

Sure. First, I just want to clear up that there is in the quarter, the only comment with respect to the quarter we're referencing is just to caution on the buy ticket given where interest rates are at this point during the quarter. I think if you go back and you look at over the last couple of quarters, it's been a very consistent message and that we've said that we're going to direct more of the buy ticket to shorter date and treasury. And you can see that there has been a buildup of those treasuries over the course of the last three to four quarters. So, this quarter was a continuation to that and we were just calling out a note of caution given the rate environment.

I think as it relates to overall OCI sensitivity, if you look at what we've typically said is in 100 basis points parallel move up in rates, how long does it take back or take to earn back that OCI, we've said consistently it's been around three years, it peaked at about three and half years and at the end of September it would have been less than three years. So we have kind of on a consistent trend line continued to look to move down the overall OCI risk as it presents itself to capital.

Brennan Hawken - UBS

Okay. So is it right then to assume that duration on the AFS portfolio is a little under three years or is that not a correct interest?

Bruce Thompson

No that's the period of time that it takes to earn it back. You're looking at the overall -- I think the overall duration is going to be in the plus five years.

Brennan Hawken - UBS

Okay, thanks a lot.

Bruce Thompson

Thank you.

Operator

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

Ken Usdin - Jefferies

Hi, thanks. Just a question just on the trading business, obviously you guys and the other companies did well amidst the volatility in September. And I'm just wondering with regard to the balance sheet changes you guys have been making and the optimization of RWAs and given what's happening in the environment right now, any changes in terms of how Tom's running that business as far as being able to capture the revenue opportunity out there, or any inhibition given by your views around risk taking and these capital balance sheet changes that you guys have talked about today?

Brian Moynihan

I'd refer you to page 21 in the appendix in the lower left hand corner. And you can see this is the third quarter '12, '13 and '14 laid out side-by-side. And so I don't think this is a change in position and if you look at the average trading weighted assets of 460 to 440, the bars 55 million and 56 million, 50 million and you can see the revenue. So we've probably done a good job of building a relatively stable -- business is going to fluctuate in the market but a relatively stable core amount of activity comes through this.

And if you look at it over several quarters with the exception of seasonality in the first quarter that typically occurs each year but we've laid this out for you second quarter throughout '13, '14 last quarter and third quarter. You see it's a relatively consistent $3 billion revenue type of number and we've maintain that.

So adjustments we've made in the business on expenses, the scope of activities and stuff we actually made in '10 and '11 to bring that business inline. So we're very comfortable where they are now. They are always moving around impairing risks and continue to manage carefully the overall returns of the business. Its relative size to our company, we think we got in a good place, we simplified it.

And so there is no change in strategy here. And in fact you can see there is a fairly consistent results from that activity. What's different this quarter versus last quarter obviously without the UK taxing you're seeing the bottom-line comes through the third quarter. But we've made $700 million after-tax and that's a good performance.

Ken Usdin - Jefferies

Thanks, Brian. And to follow just on the mortgage business, the servicing line has continued to just trickle out. I'm just wondering have we seen the bottoming of the former sales and the related revenues moving away from that.

Brian Moynihan

I think if you look at the servicing revenue, as I said, the biggest reason for the decline was an adjustment in the cost to serve. If you saw the actual servicing fee line that came through linked quarter it was only down about $25 million on a linked quarter basis. And so what you're going to see on a go forward basis is not so much the impact on the sale of MSRs, but just the servicing revenue that's derived based on the size of the MSR assets. So given that there aren't any more large scale sales of that MSR, you're going to see that more very on a core basis as opposed to a step function.

Ken Usdin - Jefferies

And the pre-tax?

Brian Moynihan

What we'll see is that the number 60 plus delinquents continues to normalize now, we have to continue to push that that's where we think that we're going to get the additional expense leverage in LAS going forward. And so it's $100 million this quarter and couple of $100 million. It's just grinding through and working those loans for the customers and modifying or short selling and going through foreclosure.

So that number is still elevated as a percentage, you can see it. And if you look at our delinquency off of the things we produced really since after the crisis, the numbers are much smaller and imply delinquency level ultimately half that amount that you see now. So that's where the real work will come in unit reduction. The overall 3.9 million units is fluctuating around a little bit, but we're kind of getting to equilibrium where our production is nearly what runs off had some sales and the 60 plus bucket.

Ken Usdin - Jefferies

And my last follow-up just on that point, you had talked about $1.1 billion by 1Q 2015. You had previously talked about getting it down to about $500 million a year out from that. Is that still a reasonable expectation given that backdrop you just laid out?

Brian Moynihan

The first thing that we're focused on is getting it done through a billion one and then longer term, I think if you look at any metric with where we would see from a number of loan service, as well as the number of delinquent loans in the portfolio. We still have some significant work to do to drive billion one down, because given the size of the portfolio it's way too high.

Ken Usdin - Jefferies

Okay. Thanks guys.

Operator

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

Paul Miller - FBR Capital Markets

Yes, I just wanted to follow up on that. You talk about 60 day delinquent loans down 42,000 to 221,000. I don't think there is any sale of that. Is that just working through the portfolio and that seems like a very high pace? Can we expect that type of pace or what type of pace of loans do you think you can work out on a quarterly or annualized basis?

Bruce Thompson

Yes. There were some servicing transfers during the quarter. My recollection is that was between 20,000 and 25,000 units that were actually transferred during the quarter. So it was a very good quarter for us as far as MSR sales and driving that number down. But I think you’re right that on a go forward basis it’s not going to be at that level, although we do think we’ll make some significant progress between now and the end of ‘15.

Paul Miller - FBR Capital Markets

Outside of the servicing trends, it was 20,000 to 25,000, so it was down roughly about 15,000 give or take, give or take 1,000 loans. Is that a pace that we could model going forward?

Bruce Thompson

There are obviously a lot of factors that can go into that that are going to happen, but I don't think -- if you believe that with what we're saying from the quality of the portfolio and you believe the foreclosure process continues along the same trends. You're probably looking at plus minus 20,000 units a quarter on an organic basis on a net basis.

Paul Miller - FBR Capital Markets

Okay. And then relative to the big Department of Justice settlement, where do you think you are on legal costs? I know it's hard to sit there and say, but we've seen a couple other competitors get the Department of Justice behind them, but there still tends to be this nagging $1 billion here and there in legal costs that just won't go away. Where do you think we are -- is Bank of America, since they've paid probably the most out than anybody, are you more through that than most other people?

Bruce Thompson

Well, Some of that stuff that people experience are pieces that we have already taken care of in prior quarters and some of it relates to completely different – as it relates to mortgage matters, some relates to other matters. We will always have litigation expense in this company. But in terms of the mortgage, we have talked to you in many quarters, but if you think just last three quarters three major pieces still behind and we're still waiting for the ultimate approval of the Gibbs & Bruns settlement, 95% of the RMBS by principal amount. We had settlements and settlements at this point are awaiting final approval. So yes, a lot of pieces we have settled up FHA and things like that along the way.

So, we've got in the monolines, four out of the five are settled. So, we've been picking a way. And so without knowing all the ins and outs of the other competitors, from our standpoint, a lot of the smaller stuff was getting done as a lot of you focused on largest things, a lot of the smaller stuff is coming in and out every quarter underneath that and we should see less of that going forward.

Paul Miller - FBR Capital Markets

Okay. Hey guys, thank you very much.

Brian Moynihan

Thank you.

Operator

And we'll go next to Matthew Burnell with Wells Fargo. Please go ahead.

Brian Moynihan

Hey Matt.

Matthew Burnell - Wells Fargo

Hi Brian, thanks for taking my question. I guess just a question in terms of the investment banking product rankings on page 32. Obviously most of the numbers are in the top three, particularly in the more important categories. I guess just looking at the global rankings in terms of some of the numbers that aren't in the top three, are there further investments you all plan to make in that business that would have any effect on the operating expense ratios in Global Banking or is that pretty much steady state in terms of the investments you all are putting into those businesses?

Brian Moynihan

I think as a broad construct and I think you're asking the more strategic level. Christian Meissner and the team with Tom have done good job of adding people in the markets where we needed to build our capabilities and we're always looking to add more and more talent, more and more capabilities. I don't think there is any huge change in expenses or numbers. It's more of a continuously upgrading our talent and adding incremental talent. But in the grand scheme of things, it's a pretty small expense base in the context for our company with the level of expenses. But your point is exactly right. The global, the U.S. competitors, our franchise is obviously demonstrably stronger as you can see in the U.S. rankings versus the global. The global bas picked up honestly. And as activity picks up in Europe and Asia, we continue to drive forward. But we still are working hard to improve our positioning in it across the board but we've made a lot of investments already.

Matthew Burnell - Wells Fargo

And then if I could just ask a follow-up on the commercial -- non-U.S. commercial loans, couple of competitors have mentioned that there has been some weakness in trade finance lending. And I am just curious how much if any that has affected the loan growth within the non-U.S. commercial side of the balance sheet?

Bruce Thompson

It has affected us in two ways. So when you look at the decline that we saw within the loans outside of the U.S., a chunk of that decline was a decline in trade finance. So I think what's also notable is the trade finance test to have the lowest spreads. So when you look at the yields within the international loan portfolio, they're up. And that's because you've got more corporate type loans that have higher spreads than trade finance which tends to have lower spreads.

Matthew Burnell - Wells Fargo

Thanks very much, Bruce.

Bruce Thompson

Thank you.

Operator

And we'll go next to Chris Kotowski with Oppenheimer. Please go ahead.

Chris Kotowski - Oppenheimer

Mine were asked and answered. Thank you.

Brian Moynihan

Thanks Chris.

Operator

And we'll go next to Steven Chubak with Nomura. Please go ahead.

Steven Chubak - Nomura

Hi, good morning. Bruce, the first question regards capital and profitability targets. I know at a recent investor conference, you alluded to the fact that you believe that CCAR currently represents the binding capital constrain for the bank which is just that presumably you'll need to manage to a higher core Tier 1, which I guess from my perspective could put at risk the 14% [ROTE] goal that you guys had established in the early part of this year. And I suppose it's really a two-part. First, what core Tier 1 target do you believe you'll need to manage over the cycle and then as a follow-up to that, how does that inform your outlook for meeting that goal?

Bruce Thompson

Sure. Well, a couple of things. I go back to the first comment, which is that you have to break out a little bit what's going to happen for our company over the next five quarters between the growth in tangible common equity versus the growth in regulatory capital that flows into the capital ratio, because as I said before, over the next five quarters, we'll accrete capital on a pre-tax basis absent any other changes. But it's the first thing I keep in mind.

The second thing is that as we look out we do believe at this point that CCAR is the governor and we're obviously getting ready to go into the 2015 CCAR process and without instructions or any assumptions or scenarios that I think it's premature to look at that.

The third thing is you look at return targets and Mike touched on this a little bit in his earlier question. I think the thing that as we look to get into those 12%, 14% type targets, the thing I would encourage you to do, because I do think that you start to get a bridge to that is if you take the earnings that we announced today in normalize and for the things that I touched on in my comments, you tend to be starting at a point that's in the 10% plus type return during the quarter from a tangible common equity perspective. And you've got really four things that are going to change that on a go forward basis. The continued reduction within our LAS expenses, we would expect obviously longer term litigation expenses to go down. You have the benefit of rate. And then you've got what we do within the core businesses.

So those are the four things that we're focused on. And the last point I would say is it relates to just CCAR, we feel like getting ready for CCAR during this quarter and quite frankly throughout the year that we've made a lot of work between moving out of the company, those assets that tend to have low or high loss contents. In stress, we've augmented our CET1 ratios as we've gone forward. And we think we've taken a lot of tail risk out.

So long-winded way of saying you can kind of look at the bridge to more normalized returns when you adjust what we saw this quarter. We feel very good about the progress that we've made as we prepare for CCAR. We'll look to see what the instructions are and we'll have to see if our assumption about that being the governor given the evolving regulatory landscape continues to be the case or if we need to update that assessment.

Steven Chubak - Nomura

All right. Thanks for that, Bruce. That's really helpful. And then just switching gears to the liquidity side of the equation, one measure which hasn't garnered very much attention is the net stable funding ratio. And my understanding is that Basel's at least intended goal was to have the NSFR calibration completed by the end of this year. And I was hoping you could disclose where you currently stand on this metric?

Bruce Thompson

So we do not have an exact number to disclose at this point. What I would say is we worked through and we've done the work to get to where we needed to be from an LCR perspective that at this point there is not anything that gives us any concern that we're going to have to change it any material way and what we're doing to satisfy NSFR.

Steven Chubak - Nomura

All right, thanks. And maybe just one more quick modeling question. I was hoping you could clarify given all the preferred issuance that's been done, assuming nothing incremental is completed going forward in terms of issuance, what the preferred coupon should be on an annualized basis next year?

Bruce Thompson

I've got an exact number for you. Bear with me one second. You should see during next year a preferred number of 1262.

Steven Chubak - Nomura

All right, perfect. That's it for me. Thanks for taking my questions.