Operator

Good day and welcome to the Bank of America Third Quarter Earnings announcement. Currently all lines are in a listen-only mode. Later there will be an opportunity to ask questions during a question-and-answer session. (Operator Instructions) please be advised, today's program maybe recorded.

It is now my pleasure to turn the program over to Lee McEntire. You may begin.

Lee McEntire

Good morning to those on the phone or joining us by webcast. Before Brian Moynihan and Bruce Thompson begin their comments, let me remind you that this presentation, which is available at bankofamerica.com 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. Please see our press release and SEC documents for further information.

So with that, let me turn it over to our CEO, Brian Moynihan.

Brian Moynihan

Thanks, Lee. Good morning, everyone. I will cover a few points and then I will turn it over to Bruce to go through the details of the quarter as we've done in other quarters.

Consistent with prior quarters, our Company continued to show progress on those areas we've been focused upon. Capital generation, managing risk, achieving cost savings, addressing legacy issues and driving our core growth strategies in our core lines of business.

On the capital front this quarter, we generated $3 billion plus of Basel 1 Tier 1 common capital. Our Basel 3 ratio has now approached 10% on a fully phased-in basis. That capital and liquidity in the balance sheet optimization has been going on for the last several quarters, holds us in good shape with regards to the regulatory suggested or proposed requirements that we see on the horizon.

The strength in capital is allowing us to return capital to shareholders. In the past six months we repurchased 140 million shares equaling about $2 billion of our $5 billion authorization.

Turning to the revenue side, we experienced relative stability this quarter. But of course we felt the impact of the industry wide headwinds on a slower refi business and mortgage and slowdown in the capital markets from a typical summer slowdown as well as the investor concerns of a political and monetary uncertainty.

On expenses, this quarter we incurred additional litigation costs. Outside of that we continue to make progress on our expense initiatives, remaining on track to deliver the cost savings that we told you about two years ago in New BAC and also reducing the costs in our legacy assets and servicing area.

In the credit area we continue to see asset quality improve and our net loss rates are at levels not seen since 2005. As the macro environment slowly improve, we experienced the 20% drop in net charge-offs and declining delinquencies from the second quarter. Our 248,000 teammates have been fully engaged with our customer clients to drive activity. We are pleased to see another quarter of solid loan growth in our commercial businesses while we continue to see the consumer lending activity stabilize in our card balances and modest growth elsewhere, which has offset the run off in a non-core portfolios.

As a company, we reached record deposit levels this quarter, more than $1.1 trillion in deposit. Our client balance flows and our wealth management clients helped us maintain our industry leading positions. And you've seen that Bank of America Merrill Lynch has assumed prominent roles in the marquee investment banking deals that have gone on this quarter.

We've also seen a nice trend of progress, absent some seasonality, that results in our equity trading business. It's been gaining market share and continue to improve. So to sum it up, it's another solid quarter of progress in our core businesses and I'm going to turn it over to Bruce to cover the -- in detail the presentation. Bruce?

Bruce Thompson

Thanks, Brian, and good morning everyone. I'm going to start my presentation on slide 5. During the quarter we earned $2.5 billion or $0.20 per diluted share. Before I address the core business trends, let me mention a few noteworthy items from our results that we've disclosed to you previously.

First, we sold our remaining stake in CCB, recording a pre-tax gain of $753 million, which was partially offset by $443 million negative impact of FVO and DVA as our credit spreads continue to tighten during the quarter. The net of these items benefited EPS by $0.02 in the quarter. We also recorded a

$1.1 billion charge to re-measure our U.K. deferred tax assets, given the 3% decline in the tax rate, which reduced EPS by $0.10 a share. The net of these is obviously a reduction of $0.08.

Moving to the core business, total revenues in the quarter on an FTE basis were solid at $21.7 billion or $22.2 billion if we exclude the FVO and DVA charges. If we compare this to the second quarter, revenues declined on lower mortgage banking revenue as well as mostly seasonal declines within our sales and trading area.

Total non-interest expense of $16.4 billion included 1.1 billion in litigation costs, $600 million increase in litigation costs from second quarter levels. The increase in these costs was partially offset by the improvement in both our legacy assets and servicing costs as well as the benefits of our New BAC initiatives. Asset quality improved significantly with net charge-offs improving 20% from the second quarter of 2013 to $1.7 billion and with the reserve reductions we took in the quarter, we recorded provision expense of just under $300 million in the quarter.

On slide 6, you can see that our period end balance sheet remained relatively stable versus the prior quarter at about $2.13 billion. Customer activity remained solid with loans, largely led by commercial loans up $12.8 billion. Consumer lending activity in the quarter improved as we saw increased loan generation in our dealer financial services area and our continued stabilization of card balances which was partially offset by the run off within our home equity portfolio.

Period end deposits were up over $29 billion or 2.7%, led by commercial client activity and solid flows from our wealth management clients. If we move down the page, tangible book value per share improved to $13.62 and our tangible common equity ratio increased above 7%.

Couple of other things that I like to mention, during the quarter we repurchased 60 million shares for roughly $900 million during the quarter. OCI increased by about $900 million during the quarter and our preferred stock includes the completion of our previously announced preferred stock redemption for just under $1 billion.

On slide 7, you can see our Basel 1 Tier 1 common ratio of 11.08%, increased 25 basis points from the second quarter of 2013. Under Basel 3 on a fully phased-in basis under the advanced approach, Tier 1 common capital increased by approximately $6 billion to an estimated $131.8 billion. Our Tier 1 common ratio is 9.94% showing a 34 basis point improvement from the second quarter of 2013.

In our estimate of the Basel 3 Tier 1 common ratio on a fully phased-in basis under the standardized approach would be just over 9% above our proposed 8.5% 2019 minimum requirement.

If we move to the supplemental leverage ratio, based on the proposed U.S. requirements that don't take effect until 2018, at the end of the third quarter our bank holding company leverage ratio improved to above the proposed minimum of 5% and our two primary banking subsidiaries BANA and FIA continued to be in excess of the 6% proposed minimum.

So to reiterate what Brian mentioned there are a lot of new capital regulations proposed or finalized and we already exceed the requirements for the various known rules on Basel 3 capital and the supplementary leverage ratio.

On Slide 8, funding and liquidity, you can see our long-term debt end of the quarter $7 billion lower as maturities and the completion of our $5 billion tender offer outpaced issuances. We have $40 billion of parent company maturities through 2014 and as we look forward, we expect issuances to be materially below that number as we continue to reduce and smooth the maturity profile of our debt footprint.

Global excess liquidity sources of $359 billion increased from $342 billion at the end of the second quarter of 2013 and parent company liquidity remained strong at $95 billion. That translates into a time to required funding of 35 months well above our two-year coverage that we target.

I would also like to highlight that on October 1 of this year, we completed the legal entity merger of the Merrill Lynch holding company into Bank of America Corporation as part of our continued efforts to both simplify the company and reduce costs.

We turn to Slide 9, net interest income. Net interest income on a reported basis was $10.5 billion down from the second quarter of '13 as the improvement in our core net interest income was more than offset by negative impact from market-related impacts. If we exclude those market-related impacts, net interest income built off of Q2 '13's $10.4 billion to be just north of $10.5 billion.

During the quarter we benefited from higher rates in our discretionary book, lower long-term debt levels, higher commercial loans and lower rates paid on deposits. These positives were partially mitigated by lower loan yields and lower trading-related NII.

As you'll note on this slide, the net interest yield excluding market-related impacts improved from 2.36% to 2.44% driven by the lower balance sheet levels as well as our lower funding costs. And consistent with what we mentioned last quarter, we expect to realize the benefit of higher long-term rates as we reinvest but note that some of those benefits will occur through time.

On Slide 10, we'd spend a few minutes on expenses. Total expenses for the quarter were $16.4 billion, a $1.1 billion improvement from the year ago quarter but up $371 million from the second quarter of this year. I want to be clear as you look at expenses and see that the uptick in the linked quarter expense, we continue to deliver on our non-litigation expense reductions in our legacy assets and servicing area as well as the ongoing benefits from our New BAC initiatives in the balance of the company.

Compared with second quarter '13, progress on LAS and New BAC in addition to lower revenue-related incentive compensation was more than offset by increased costs of litigation as well as some marketing initiatives that were accelerated from the fourth quarter 2013.

Our litigation expenses did increase as they continued the valuation of legacy exposures led to an addition to reserves. Our LAS expenses ex-litigation which are shown on the grey bar on Slide 10 of $2.2 billion declined $110 million from the second quarter of '13 and we continue to expect our fourth quarter LAS expenses ex-litigation to be below $2 billion as we continue to make very good progress on reducing the number of 60 plus days delinquent that we have in that business.

Our New BAC savings in the third quarter were approximately $100 million and are included in All Other, the red bar. We also remain on track to achieve the expected $1.5 billion of New BAC quarterly cost benefits by the end of 2013 and ultimately the $2 billion quarterly benefit upon completion of the project.

From an employee staffing perspective, our number of FTEs ended the quarter at 248,000, a decline of more than 9000 or 3.6% from the second quarter of '13 and that was driven by staff reductions within our legacy assets and servicing area, declines in home loans given the slowdown in mortgage productions as well as the continued optimization of our branch network.

And while we were down by 3.6% from the end of the second quarter to the end of the third quarter, the average LTEs only declined 2.3% so we'll get some additional benefits during the fourth quarter relative to the third from those reductions.

We touched on asset quality, Slide 11. You can see that credit quality once again improved significantly. Net charge-offs declined to $1.7 billion, a 20% improvement on a linked-quarter basis.

As Brian referenced our third quarter of 2013 loss rate of 73 basis points declined 21 basis points from the second quarter and is now at 2005 levels. Delinquencies, a leading indicator of charge-offs, again declined nicely.

During the quarter we did reduce reserves by $1.4 billion on the back of steadily improving consumer data which resulted in a provision expense of just under $300 million. Given what we see from the improving delinquencies as well as the current HPI trends absent any unexpected changes in the economy, we expect net charge-offs to decline again in the fourth quarter and stabilize sometime in 2014 at approximately $1.5 billion per quarter.

Let's move into the individual lines of business on Slide 12. Our consumer and business banking segment we were very pleased with the results during the third quarter as we delivered improved earnings with revenues growing modestly and expenses declining from both the previous quarter as well as the year-ago quarter. This coupled with lower credit costs within the segment resulted in net income of approximately $1.8 billion during the quarter, a 28% improvement over the previous quarter and a 32% improvement over last year.

That was achieved as we continued to do more business with our core customers. Our average deposits were stable as our organic customer growth was offset by some small branch divestitures as well as migrations to our Global Wealth and Investment Management area. Our brokerage assets are at record levels within this business, up 6% from the second quarter and up 18% over the prior-year’s quarter. Average loans as I mentioned reflect stability in card balances as well as growth within our dealer financial services area. Card issuance during the quarter remained strong.

We issued more than one million new cards in the third quarter which is at the highest level going back to 2008. Consistent with our relationship strategy, 63% of this issuance was to people that we have existing relationships with, and credit quality continues to be strong as delinquencies and net losses continued to improve during the quarter. Reduced expense levels in the segment reflects the benefits of our network optimization partially offset by investments we continue to make as we build out our specialist sales force in this area.

On Slide 13, commercial real estate services where we operate the production, origination and servicing of consumer real estate loans. In our supplemental information we report the two separate components of this segment, one focused on loan origination and the other focused on servicing and legacy issues. On originations this quarter, first mortgage retail originations were $22.6 billion which was down 11% from the prior quarter and up 11% compared with originations in the year ago period. We believe that the current period decline in production is less than our industry peers as we have been working through our existing pipeline.

Our current pipeline at the end of the third quarter is however down approximately 60% compared to the end of the second quarter of '13 which reflects the significant reduction in market demand particularly in the refinancing space. Since our production revenue is booked at the point in which you lock alone is opposed to funding, I should point out that our lock volume was down 23% from the second quarter of 2013. In addition to those lower lock volumes, we saw a gain on sale margins decline compared to the second quarter of 2013; our reduction was about 60 basis points during the quarter.

As a result of all these factors, core production revenue was down 46% to $465 million from the second quarter of 2013. From a staffing point of view just on the origination side as we saw demand slow we reduced headcounts by more than 1000 employees towards the end of the quarter. We will continue to reduce these staffing levels to be consistent with the lower volumes that we've seen. The other primary component in this segment servicing revenue declined approximately $100 million versus the second quarter as our servicing portfolio declined as we continued to complete certain servicing transfers.

The other item that I want to highlight on this slide that's particularly important is the servicing cost that we see within the legacy assets and servicing area. We've spoken a lot about reducing the number of 60 plus day delinquencies in this portfolio and we had a lot of success during the quarter as the number of 60 plus day delinquent loans dropped below 400,000 units at the end of September nearly a 100,000 lower than what we had at the end of June. Roughly half of the decline was driven by the transfers of servicing that I referenced in conjunction with the MSR sales agreements that we announced in the first quarter of 2013. And once again, as a result of this work we continue to believe that our LAS expenses ex-litigation will be below $2 billion during the fourth quarter of 2013.

On slide 14, our global wealth and investment management area had another strong quarter generating solid earnings and solid returns. Within this segment both Merrill Lynch and U.S. Trust maintained their leadership positions with a total of $2.3 trillion of client balances. Revenue remains near record high at $4.4 billion up 8% over the third quarter of 2012.

Relative to the third quarter of 2012 net income improved 26% and with the third consecutive quarter in which our pre-tax margin was above 25%.

Asset management fees achieved the new record during the quarter while our brokerage income did decline from the second quarter due to reduced market activity. Client engagement remains quite strong, long-term AUM flows were $10.3 billion near doubling last year's production. Ending deposits were up $6.5 billion or roughly 3% from the prior quarter, and our ending client loan balances of $117.2 billion reached record levels and are up 2% from the second quarter of '13 and 11% over the third quarter of a year ago as we continue to provide more banking products to both our Merrill Lynch and U.S. Trust clients.

On Slide 15, you can see global banking earnings were stable relative to the year ago period. Revenue compared to a year ago includes the benefit of strong loan growth and stable investment banking fees. Expenses this quarter include very good cost controls offset slightly by elevated litigation expense. Global fee pools did decline but we maintained our strong second place ranking of global net investment banking fees recording $1.3 billion of fees in improving our market share to 7.7%. In addition if you look at fees within the Americas we ranked number one within 11% market share.

During 2013 we have advised on 7 of the top 15 announced M&A deals. As we head into the last quarter of the year, the pipeline looks quite strong but I do want to highlight that during the fourth quarter of last year we did see record levels of debt issuance during that period. If you look at the balance sheet, average loans increased $4.4 billion from the second quarter with more than half of that growth driven by commercial real estate lending with the balance by C&I lending particularly with our large corporate clients. Average deposits increased $12.2 billion from the second quarter of '13 above our expectations given certain timing consideration as well as customer liquidity that's been built around the fiscal cliff concerns.

If we move to Slide 16, global markets; we earned $531 million during the quarter after excluding the $1.1 billion U.K. tax charge as well as DVA losses of $291 million. On a comparable basis this is a decrease of $341 million compared to the third quarter of 2012 and down $403 million from the second quarter of '13 due to lower sales and trading revenue as well as higher expense from litigation. Sales and trading revenue ex-DVA was $3 billion during the quarter an 8% decline from the comparable year ago period. Fixed sales and trading revenue was down 20% versus the year ago period once again impacted by concerns regarding the present decision out of stimulus program as well as political uncertainty both domestically in abroad.

Our equity sales and trading area had another very strong quarter with revenues ex-DVA up 36% over the year ago period as we experienced higher market volumes and continued to benefit from the repositioning of this business that's happened over the last 18 months. We are gaining market share and we're improving our performance in each of the product lines. Expenses in the quarter compared to the third quarter of '12 included higher litigation costs that were partially offset by a reduction in operating expenses. Average trading related assets were down 4% from the year ago period while our VaR was effectively flat.

On Slide 17, we show you the results of all other. Gains on the sale of debt securities were $347 million in the third quarter down $105 million from the second quarter of '13. You can also see the breakout of $1.1 billion of equity investment income which reflects the CCB gains, as I mentioned earlier, as well as an additional $368 million of gains. The FPO that I mentioned earlier is also recorded in this segment.

Expenses include roughly $350 million during this quarter for litigation. That compares to $100 million in the second quarter of '13 and $950 million in the third quarter of 2012. As we close on All Other, I would note that the effective tax rate for the quarter ex the impact of the U.K. tax reduction charge was 25% and as we look forward to the fourth quarter of 2013, we expect the effective rate to be in the high 20s.

Before we take questions, I'd like to leave you with several thoughts about our results. Capital and liquidity both strengthened during the quarter. We had encouraging business results as we saw improvement in both activity and profitability within Consumer and Business Banking. We saw continued strength in Global Wealth Management. We maintained our top position in investment banking and had another quarter of strong growth in our equity sales and trading business.

Credit continued to improve. Our cost initiative work remains on track and to the extent of the steepened yield curve environment stays with us, it should allow us to move NII upward as we move forward. We'll continue to execute on our strategy and continue to deliver on the earnings power of the company.

With that, we'll go ahead and open it up for questions.

Question-and-Answer Session

Operator

(Operator Instructions). We'll first go to the site of Moshe Orenbuch with Credit Suisse. Your line is open.

Moshe Orenbuch - Credit Suisse

Great, thanks. In addition the slides have got a good breakdown of the rep and warrant reserving. Could you talk a little bit about the litigation and how to think about the litigation costs as we go forward because that's obviously still volatile, maybe discuss what's still remaining that could get kind of roped into that as we go forward?

Bruce Thompson

Yes. Moshe, what I'll say is that if you look as we referenced, it was roughly 1.6 billion a year ago, it was 500 in the second quarter and it was roughly 1 billion this quarter. I'd go back to and I think we've been pretty consistent, if you go back to 2010 and look at the build over the course of four years from both the litigation and rep and warrant perspective, I think you can see that we have more of that over the course of a 3.5-year period than anyone else out there. And as we look at the remaining pipeline, we put it in really four different buckets. The first is the GSE bucket for rep and warrant which with one exception we've got global settlements from the end of '08 back with Freddie and Fannie. So as we look at that bucket, we feel very good about that.

We then go to the second bucket which is monolines. We've got global settlements with three of the five monolines and we've established the reserves for the remaining two based on that history of the three. We then go to the rep and warrant with respect to the private-label securities, the 8.5 billion Gibbs & Bruns case which represents half the exposure continues to go through the core process and they'll be back in court on that I believe in November. And obviously we set up reserves at that point based on the Gibbs & Bruns history and as we've said before for that which we didn't have the basis to establish a reserve, we put out a range of possible loss for rep and warrant that continues to be up to $4 billion.

And then you move into the other piece that we have that's the RMBS securities litigation. During the quarter, the Luther-Maine settlement received preliminary approval during the quarter and we'll look to get final approval by that sometime during the fourth quarter and we obviously set up a reserve in that settlement, it was for $500 million which represents in the zip code of 65% to 70% of the company-wide exposure that we have for RMBS litigation.

And then the other two pieces that we continue to work through in that bucket are the FHFA litigation on behalf of Freddie and Fannie as well as AIG and there's really nothing to report new on either those fronts. And what you saw during the quarter as we said was really an adjustment to the reserves based on as we get more information into the extent that there are additional discussions with some of the people that we're in a party with those discussions still.

Moshe Orenbuch - Credit Suisse

I guess just to follow-up on that because JPMorgan had indicated that they had expenses in this quarter that were substantially higher than what they would have anticipated as possible even three months ago because of the change in the regulatory environment do you feel like you've taken that fully into account?

Bruce Thompson

Yes, let me be a little bit more specific when we go back to because I think the one thing that's been overlooked a little bit and this is not a number we're particularly pleased with, but if you go back to the beginning of 2010 and look at the combined litigation of rep and warrant expense that we've had in this company, it's been over $40 billion which I think is quite a bit higher than the number that they've quoted. Obviously those numbers are particular to each institution but I think as you look at what we've tried to do that those numbers have been significant and I think at this point relative to our peers, we've tried to be out front and get through some of the larger settlements that we have and we think that $40 billion plus number reflects that.

Moshe Orenbuch - Credit Suisse

Just shifting gears on the mortgage business, you had a decline in rate locks that you identified but the pipeline actually is down substantially more. Just talk a little bit about how you see the fourth quarter and into 2014 because you've got both the potential for obviously a further decline and as that pipeline kind of moves through, but then again you also had a fairly high rep and warrant in the quarter. How should we think about that from a revenue perspective?

Brian Moynihan

Let's talk about the production first. You remember that we had a lot of HAMP going on and that's been dropping each quarter as we sort of get through the volumes of that and that had a pretty good impact. It was down roughly 3.5 billion or so linked quarter. The rest of production continues to move forward. But if you look at what's really going on as we speak because during the third quarter you have significant changes in July, August as we ran through the pipeline, et cetera. The current pipeline stands at a level 30,000 odd. The current application volumes today are around 1,000. The purchased piece of that has maintained relatively constant 300-ish a day. So if you think about that, we had sort of a month and a half of pipeline and that's been pretty consistent as we got into September and through October. So it kind of extrapolates that out. You should see production levels that would be down again in the fourth quarter, but will start to mitigate. The issue on the revenues as spreads have come in and the refinancing volume is at a higher profit margin because the work is not as much. And so we expect to see a lot like we're seeing now, spreads that come in a couple hundred basis points or so, and we expect that to hold and the volumes will come down. And so I think the number will continue to work in that direction. What you do mention is the other side which is sort of the rep and warrant exposure and stuff that goes through there, stuff that changes and Bruce can touch on that. But in terms of overall volumes we're starting to take the people down to max the volumes. You remember we had a lot of work to do here. If you look at our non-HAMP production, it's continued to grow each quarter. Our home equity loan production has doubled in the last few quarters and we'll continue to drive that forward. As we told you many times it will never be a huge business for this company because it's a business which is very competitive out there and the profit margins will always be thin, but we need to do it for our customers and clients.

Bruce Thompson

And on the rep and warrant front, you're right. The rep and warrant expense was just over $300 million a quarter and we clearly would expect that the run rate of that expense is going to be much more in the $150 million quarter type run rate as opposed to the $300 million plus.

Moshe Orenbuch - Credit Suisse

Got it. The very last one from me is as you had mentioned the expected improvement in charge-offs, the provision obviously was substantially low. How should we think about the provision relative to those charge-offs in Q4 and into '14?

Brian Moynihan

Yes, I think once again our comments will be assuming that we don't see any slippage in the economy. During the quarter if you look at the reserve release, roughly 250 of it was from a purchase credit impaired and roughly a 1.150 billion from the core. As we go forward, I would think about the reserve release much more consistent with what you saw on the first and second quarters of this year over the next couple of quarters, and that ultimately as we get into that latter part of ’14 and beyond you’d expect most of that to go away, but I do think there are probably another couple of quarters where it could be in line with what we saw on the first and second quarter, but clearly not at the third quarter of this year given the sharp improvement in credit we saw.

Moshe Orenbuch - Credit Suisse

Great. Thanks. Thanks very much.

Operator

We'll now go to the side of Betsy Graseck with Morgan Stanley. Your line is open.

Betsy Graseck - Morgan Stanley

Hi, good morning.

Bruce Thompson

Good morning, Betsy.

Brian Moynihan

Good morning.

Betsy Graseck - Morgan Stanley

Just one follow-up on the conversation we just had regarding the reps and warranties and litigation, so I heard you that the monoline three out of five are done, you established reserves for the other two based on the three out of five; is that part of the rep and warranty this quarter? Is establishing reserves for the other two based on the three out of five done?

Brian Moynihan

No, it is not.

Betsy Graseck - Morgan Stanley

Okay. And then on the litigation reserve, I mean we've seen obviously a long list of stuff in your Q, so it is fair to say that litigation reserve was just all of the above of that long list or was there something specific that you saw in the quarter that drove the higher number. I'm just wondering, do we do the billion quarterly in our model going forward or is it going to be more episodic than that?

Bruce Thompson

But I think as we've said that number tends to be lumpy. And I wouldn't say that there was any one specific item during the quarter that you could point to. It was really just a continued evaluation of the reserves as well –as well as reflective of any current discussions that we're having with the different parties that we're trying to work through this with.

Betsy Graseck - Morgan Stanley

Okay. And then on the LAS expenses you indicated that next quarter sub $2 billion.

Bruce Thompson

That's correct.

Betsy Graseck - Morgan Stanley

Okay. And so you highlighted that your delinquents are down half from the asset sales and half from your own actions. So, is it fair to say that the reduction, roughly $300 million or so, well $200 million to $300 million or so that you're calling out for next quarter is also equally half and half, and part of the question is trying to understand, you know the run rate of how those expenses are coming out associated with the asset sale and I'm wondering is that front end loaded in 4Q, is that going to be 4Q through 2Q next year and are the organic actions you're taking likely that'll be equivalent size in terms of the decline in the LAS expenses?

Bruce Thompson

Yeah, I think and I would say a couple of things on that too, Betsy -- once again the, we told you at the end of the second quarter that we would get the number of 60 plus day units down below 375,000 units by the end of the year. And you can see during the third quarter alone we got them down below 400,000. So we feel particularly good with that guidance. There's a lot of work that goes on in a quarter to move out and to get the servicing transfers done as it relates to both our own teammates as well as people that we use to help us with that. So that's why you saw some of the numbers Q2 to Q3 a little bit sticky. But the point that you raised, I think is the right one which is now that you've got the loans out you have the ability to take the expense out and that's why we would expect the expense reduction in the fourth quarter to be greater than what we've seen in the third quarter. And I think as you look out at and as you look through 2014 the guidance that we've given is very -- really remains the same and you can feel more comfortable with given the delinquencies that as you go through 2014, you should see that expense number go from below $2 billion in the fourth quarter of '13 to below $1 billion by the end of '14 and it always can be a little bit lumpy, but you should see that occur generally consistently throughout the year.

Betsy Graseck - Morgan Stanley

Okay, thanks. And then lastly on page 7, you highlight the regulatory capital. Obviously it seems like you have set yourself up well for a bigger ask in CCAR from a buyback perspective, is that a fair assumption to make. And could you highlight how SLR factors into that, and are your SLR numbers that you present fully loaded in 3Q or is it on a phase end approach?

Brian Moynihan

Yeah, our SLR numbers are fully loaded at both the bank holding company as well as at the subs. And as we look at CCAR what I would say is, we've been consistent on this that we've done and done everything we can both in the way intrinsically, the way we run the company which in many respects is not in consistent with what you get tested in CCAR net. But built our Basel 1.5 ratio up significantly from last year. The Basel 3 ratio is across the board or up. As you look at both credit risk and market risk those have obviously gotten better and we've continued to put the legacy issues behind us. So as we look at, we obviously we're able to return $5 billion to the common shareholders during this year is part of the CCAR process and we'll look to move forward from that realizing that and until we see the exact case that we're running and what the test is. I think it's probably premature to say anything more than this.

Betsy Graseck - Morgan Stanley

Okay. Thanks a lot.

Operator

And we'll next go to the side of John McDonald with Sanford Bernstein. Your line is now open.

John McDonald - Sanford Bernstein

Hi, good morning. Bruce I was wondering on the net interest income side, do you think that the core NII should kind of grind higher at a similar pace that we saw this quarter, it looks like it was up $100 million assuming no big change in rates?

Bruce Thompson

I think that’s fair John and there’s -- you always thought a little bit subject to mix loan pricing as well as rate environment but that’s clearly the trajectory that we’re on. So the answer would be, yes.

John McDonald - Sanford Bernstein

And how should we think about the market sensitive component; do you still have the NII hedges on or is it really the FAS 91 that adds volatility from here?

Bruce Thompson

Yeah, I think it's important and the one thing that doesn’t come out when you look at this slide is it's not that we saw much variability in either FAS 91 or hedging effectiveness during the third quarter. It was that we had some benefits in the second quarter when you had the sharp increase in rates. So, as long as you’re within a reasonable range where rates aren’t bouncing around, you shouldn’t see much of that but keep in mind that what you saw on the first and second quarters was because of the largely unprecedented movement up in rates that we saw that gave us the FAS 91 benefit.

John McDonald - Sanford Bernstein

Okay. And over time does that FAS 91 effect, dissipate over time or is it always going to be with you?

Bruce Thompson

Well it gets reset so that you don’t have any aberration from quarter-to-quarter, and the only time you have an aberration on a run rate basis is when the underlying rates move.

John McDonald - Sanford Bernstein

Okay. And then any update on your rate sensitivity relative to where you stood at the end of last quarter for a 100 basis point move in long rates?

Bruce Thompson

Yeah, I think – I want to think we’re in the same zip code both on a 100 basis point steepening as well as a 100 basis point parallel shift in the guidance that we’ve given once it takes us about three years to earn back any impact in OCI and we’re a touch better than that this quarter. And if you look at the supplemental you’ll see that, the level of debt securities is down modestly as we’re very sensitive to managing that OCI risk.

John McDonald - Sanford Bernstein

Okay. And then just a follow up on litigation expense. Back in July you were thinking perhaps $500 million per quarter and clearly it came in much higher than at this quarter and, I recognize things are fluid here. But should we be thinking of litigation expense more or like this quarter or more or like last, are you able to say?

Bruce Thompson

Yeah, John that’s really difficult to say. I think that the punch line is, is that it can be lumpy and we obviously do and work hard each quarter to the extent that we can get things put behind us at reasonable levels for the shareholders, we do that. It is an evolving process and it's something that we’re working hard on and at the same time there’s no question that the expense was elevated this quarter.

John McDonald - Sanford Bernstein

Okay. And then one more clarification on the core expenses; how much did the expenses come down for mortgage so far and what do you see left on that, and then just any comment on the IB comp ratio, how we should think about that going forward?

Bruce Thompson

Sure. I am not sure I understand your question on the mortgage expense …

John McDonald - Sanford Bernstein

Yeah, any capacity reduction that you’re doing as originations come down. Have you gotten the benefit from that and how much might we expect for you to do that going forward?

Bruce Thompson

No, as we referenced on the front end, so on the legacy piece we talked about the Q3 going to Q2 and how we’ll have that below two. As we talked about we needed to get through the pipeline on the front end during the third quarter which we did. The 1000 people that we referenced on the front end happened late in the quarter. And as I mentioned we're going to continue to reduce that to, to size that for the volumes that we're seeing now but we've not put out a specific number on that.

John McDonald - Sanford Bernstein

Okay. And in terms of IB comp what we saw this quarter and how we should think about that.

Bruce Thompson

Yes, we typically – if you look at combined investment banking and sales and trading you tend to be in the mid to high 30s and I don't think you're going to see any significant variations in that Q3 to Q4.

John McDonald - Sanford Bernstein

Okay, thanks.

Brian Moynihan

John, one thing on both in the mortgage and otherwise, as Bruce talked about, the actions we've taken during the quarter to reduce headcount overall in the company, a lot of it is in the second half of the quarter so you always get a continuing on effect of that. And by the way next quarter as we reduce further LAS and mortgage, you'll see it go in the first quarter. So it doesn't lag and it's just the nature of severance accruals you take at the time plus as we move the headcount out, sort of paying them on as you go on the severance also in certain cases. So you should expect that those volume-related reductions will continue to move forward and the economics of what we did in the third quarter is probably more in the fourth quarter than it is in the third quarter.

John McDonald - Sanford Bernstein

Got it. Okay, thank you.

Operator

We will next go to the site of Glenn Schorr with ISI. Your line is open.

Glenn Schorr - ISI Group

Thank you. A question on SIC, I think the explanation on the down 20% was fair enough and a lot of macro and political reasons which I get. Just curious on if you had any early comments on swaps execution and clearing impact in the quarter and what do you see going forward as clients migrate?

Brian Moynihan

I wouldn't really know any specific change there, Glenn. It's something that we continue to look at. The one thing I'd say that we are working hard on and this really flips more to some of the capital in central clearing type things that as we continue to have more and more of that migrated, that is going to benefit certain capital ratios as we look at counterparty. So I think that the ongoing to the extent that there is economic negative going forward, we're obviously continuing to spend a lot of time with that. But the one piece that is a little bit more tangible that we work through is that there will be some decent benefits over the course of 12 to 18 months as more and more of that gets migrated.

Bruce Thompson

Okay. As you think about the markets business, one of the things that Tom and team have done is got the – we've talked about in various quarters, he's kept the breakeven point relatively low. So in a quarter which the equities business was very good for us comparatively, but the fixed income business which is a lot bigger than the equity business was obviously down, we still made $0.5 billion. And so the goal there is to be able to serve our client and customers while keep the balance sheet in good shape and also keep the expense base so that when we get $2.5 million to $3 million we start making some decent money. And in a good quarter we'll make a good amount of money and Tom and team have done a good job to keep that expense base in line and mostly expense increase here is with litigation and things that were non-fundamental to show up in this line of business related to the broader question.

Glenn Schorr - ISI Group

I appreciate that. I might be putting words in your mouth but it sounds like that you have pretty good operating leverage build in on the upside then. In other words it doesn't necessarily scale up and down with revenues to the same degree?

Bruce Thompson

Yes, if you just look across the last four quarters you see it but the key was going from '11 and '12 we moved the fundamental level so there is good operating leverage. You get another 1 billion in revenues. A lot of it comes through net of an incremental compensation care.

Glenn Schorr - ISI Group

Okay. One other question just on cards. It looks like issuance and balances have been grown good. I'm just curious how much of that as you are turning up the heat on marketing, selling to the branches and how you feel about the outlook because it's been a while since we saw the industry in general have decent balance growth?

Brian Moynihan

Yes. I think a couple of things in there just kind to reiterate a little bit we touched on is that we may over the course of the last 12 to 18 months the investment of having more bankers in the branches and trying to do more things with our customers. And I'd say the two things that we feel best about as you look at that growth in cards to over 1 million cards in the quarter is the first is that 63% of those people once again we already have an existing relationship with and obviously know something about and are trying to do more with. And the second thing I'd say is that as you look at the overall FICO and credit volume of those borrowers, they tend to be in the mid 700s on average. So it's the right customer, it's sold the right way and it's part of an overall deepening strategy. And now that we're starting to see some of the balances creep up, it's reflective of that activity which I think quite frankly overshadows a little bit as we cleaned out some of the affinity and other programs that the new stuff that you saw got overshadowed by thinks that were legally in the books but now that we're largely through that, what we're doing on the front end is starting to come out.

Glenn Schorr - ISI Group

Okay, perfect. Thank you.

Operator

We will next go to the site of Derek De Vries with UBS. Your line is open.

Derek De Vries - UBS

I just have a detailed question on the OCI. There was a 1.4 billion gain I think from pension – changes in pension. Can you just explain what that was about?

Bruce Thompson

Sure. What happens is that typically you mark your pension OCI once a year as you update the asset values and assumptions at year end. You typically do that on an annual basis. Because we merged several pension plans at the end of August, we will require to re-measure those assets as of the end of August and that $1.4 billion reflects that the change in value from Jan 1 to August 31 and then obviously we'll re-measure those again at year end.

Derek De Vries - UBS

That's great. Thanks. Then talking more generally, I mean you obviously have a lot of corporate relationships and I guess there was some unease about what's going on in Washington, but assuming we can get through that, do you get the sense that the corporate you're looking has kind of moved from margin preservation to investment or are they just really worried about the macro environment? I'm trying to get a sense of loan growth going forward?

Brian Moynihan

Yes. I think if you look at our client base which ranges from small businesses through largest companies in the world, I'd say all of them feel very good about their operating position making money. Have done a tremendous job of keeping the cost structure in line. An example with a company that had 200 employees whose sales are going to go by 25% and they said, we're only going to add five employees. So the American business has gotten very efficient. But when you put on top of them the uncertainties because we're all engaged in global commerce, the macro uncertainties at the world level, the U.S. level, I think there has been an uncertainty in the whole back here that will come through as more and more clarity both economy, i.e. final demands of the products and the macro situation comes clear. And so is the sprint out of the blocks? No, they're running forward and it would probably be a speed up of the process. And you saw some of that this summer with some of the M&A activity and stuff in the larger companies has strengthened and you're seeing it go on. So I think there's demand in the system so to speak. There's money on the sidelines from investor side and the more clarity you'll see better activity. Meanwhile underneath it you see the core economy continue to push forward even with all things going on around the world.

Derek De Vries - UBS

That's very helpful. Thanks.

Operator

We will now go to the site of Jim Mitchell with Buckingham Research. Your line is now open.

James Mitchell - Buckingham Research

Hi. Good morning. Can you talk, run me through the expense line a little bit on the compensation side? I guess I'm just struggling a little bit with on a year-over-year basis you guys were down around 1 million on the comp line but headcount stay on 25,000 employees; capital markets, revenues are down. Why are we seeing that still elevated and how do we see that go down more significantly going forward?

Bruce Thompson

Sure. We have a couple of things going on. First I'll tell you that the expense number during the third quarter of last year and I'm going to speak to if you flip to Slide 10 for a moment that if you look at that comp or the All Other bucket which is I think what you're referring to, that $13 billion in the third quarter last year was particularly low if you look out where it was in the fourth quarter, it was at $13.4 billion. So that can bounce around by a couple hundred million dollars. So realized, it was off a low base. You did see a couple of things in the third quarter this year that you wouldn't have had. The first is that the Wealth Management revenues which there's a fair bit of formulaic compensation are running at, as I mentioned, at higher levels in '13 and '12, so you have some compensation there. The second thing that you had this quarter, as Brian referenced, as we took down headcount we had roughly $100 million of severance that came through the P&L during the quarter. The third thing that you had during the quarter as I referenced you had some elevated marketing expense that will go down in the fourth quarter that you also didn't have in the third quarter. So a combination of a variety of items, but I think what we would say is that as you look to go forward, you should see that red bar come down based on our overall expense initiatives as well as New BAC.

Brian Moynihan

And remember also that when we give these reduction numbers we're not giving you a reduction and saying, but then we're going else with this is a net number that you pointed out. So all the investments we are making in the third quarter last year with third quarter this year you've seen that the mortgage production cost go up, which will come back down. But all the investment we made, sales people do the cards that we talked about earlier, small business lending, investment services you can see at the branch level, you can see the numbers growing there, all those are in those numbers. So all those investments are more commercial bankers that are helping our commercial loan growth in the (indiscernible) then you have the natural salary increases and stuff like that are all absorbed in that and you have to nominal numbers are flat and frankly if you back out a couple of things that Bruce just mentioned are down and so we're comfortable on course for New BAC. But remember these numbers are absorbing all the usual costs that we do plus the investments in business which we're making strong investments in the areas we have growth opportunity.

James Mitchell - Buckingham Research

Okay. Now that's helpful on the severance and I guess I would assume that we'd see some less of that going forward given the significant reductions in mortgage this quarter right?

Bruce Thompson

That’s correct.

James Mitchell - Buckingham Research

Okay, great. Thank you.

Operator

And we will next go to Matt O'Connor with Deutsche Bank. Your line is now open.

Matthew O'Connor - Deutsche Bank North America

Hi guys.

Bruce Thompson

Good morning.

Brian Moynihan

Matt how are you?

Matthew O'Connor - Deutsche Bank North America

Just as we think about the overall size of the balance sheet, you mentioned managing the securities book with OTI risk in mind and obviously the securities that come down as you mentioned this quarter while the loans are growing, how do we think about the net impact of this to, I guess, looking out the next several quarters?

Brian Moynihan

As far as just notional side of the balance sheet?

Matthew O'Connor - Deutsche Bank North America

Yes and I’m really focused on the loans plus the securities, because obviously liquidity levels can vary quarter-to-quarter and the trading books can vary quarter-to-quarter. So just -- I mean loans are growing nicely, but it's being offset by security is coming down. So I’m really just focused on those two components.

Bruce Thompson

Yes. I think at this point, what I would expect is that generally speaking the securities book should remain relatively consistent with where it is and then if you look at the loan book, I would say that you are going to see that the loan book as well as well as the shrinkage of the debt footprint will be absorbed through deposit growth as well as a reduction to some extent in our parent company liquidity as we are carrying an elevated level of parent company liquidity to address these significant debt maturities in 2014 and the net of those which I thought you're getting to initially is that you should continue to see this balance sheet in the 2.125 to 2.25 type area, but as we go forward we should continue to get it to be more and more efficient.

Brian Moynihan

Yes, I think one thing that we haven't -- we don't -- haven't talked about in a while is we still have a significant run off portfolios that we're replacing as to which gives us ability to grow the core business without growing the balance sheet footings and I think that's something that will help us in our capital levels that are already very strong today going forward because effectively we don't need the incremental capital to grow the balance sheet even that have commercial loan growth and other types of growth you're talking.

Matthew O'Connor - Deutsche Bank North America

Great. So, flattish balance sheet, but optimizing the capital usage and then obviously the NIM probably benefiting from the remix there?

Brian Moynihan

Yes and by the way everything is on the NIM is still the short rate move drives a lot of profit because the deposit franchise is an advantage to funding source as you all know.

Matthew O'Connor - Deutsche Bank North America

And then just separately circling back on the kind of core expenses that's $13.1 billion, I guess its $13 billion extra severance and there is some of the mortgage staff reduction, still some New BAC coming in and maybe some investments. I mean, where is that on the revenue base that you've right now, where is that $13.1 billion go to if you just fully loaded all the stuff that you can see?

Brian Moynihan

I think the best guidance that we give at this point is we've got roughly 600 million a quarter in New BAC to get done over the next five to six quarters.

Matthew O'Connor - Deutsche Bank North America

Okay. That's a net number. So to think about it 12.4 to 12.5?

Brian Moynihan

Yes, but you have got to remember you've got to add back some of LAS costs -- with the subtracts in there, but there is always -- LAS is a servicing business, it always had some cost that we probably took.

Matthew O'Connor - Deutsche Bank North America

Yes, I guess I was just breaking the – you got the litigation which is the moving target, you got the LAS which had been pretty explicit and then everything else is 13.1 that …?

Brian Moynihan

Yes that -- sometimes people take that lower number [multi] times, but you've got to remember -- parts of other costs will also be in there.

Matthew O'Connor - Deutsche Bank North America

Yes. Okay, thank you very much.

Operator

And we will go next to the side of Vivek Juneja with JPMorgan. Your line is now open.

Vivek Juneja - JPMorgan

My questions have been answered. Thanks. Thank you.

Operator

And we will now go to Mike Mayo with CLSA. Your line is open.

Michael Mayo - CLSA

Hi. I just wanted to clarify the New BAC benefits. So how much of New BAC have you achieved?

Bruce Thompson

Roughly 1.4 billion a quarter Mike.

Michael Mayo - CLSA

Okay.

Bruce Thompson

Relative 2 billion a quarter that we've previously announced.

Michael Mayo - CLSA

And originally I thought you're looking for mid 2015, so when you say 600 million more that's what you mean when you say over six or so quarters?

Bruce Thompson

That's correct.

Michael Mayo - CLSA

And just to clarify the last answer, so you expect all that to hit the bottom line or some of that will be offset by investments in sales people and other investments?

Bruce Thompson

I think what we said was at the current run rate level you should be expecting that to hit the bottom line.

Michael Mayo - CLSA

Okay. Switching back to the legal questions, you said you had taken over $40 billion of charges. What is your legal reserve as of the end of the third quarter?

Bruce Thompson

We did not put out a litigation reserve on a standalone basis. The number that we do put out is where we are in rep and warrant and that was just over $14 billion at the end of the third quarter.

Michael Mayo - CLSA

14 billion in rep and warrant?

Bruce Thompson

That's correct. 14.1 billion.

Michael Mayo - CLSA

Okay. And would that include anything other than the $8.5 billion settlement?

Bruce Thompson

That includes another 5.5 for a variety of matters.

Michael Mayo - CLSA

So for the Gibbs & Bruns settlement you have an $8.5 billion reserve for that settlement. I think I asked this on some other earnings calls, but if that agreement was not approved by the judge, what is the potential range for that $8.5 billion reserve?

Bruce Thompson

As we have said before, we would need to look at that based on the circumstances that come out at the time and I don't think it's a foregone conclusion, it goes one way or the other.

Michael Mayo - CLSA

Okay. Switching gears in terms of loan growth, what's the loan utilization level? And what are you seeing as far as acceleration or deceleration in loan growth?

Bruce Thompson

I would say that -- we really haven't -- and one of the things that we try to do and we'll continue to optimize particularly the way that the Basel 3 standardized ratio works that focus more and more in for those places where we make credit commitments to have the loans be funded as opposed to unfunded given the capital treatment that's out there. So, I would say generally as you look at line utilizations, there hasn't been much that's changed at all the -- where you're seeing the loan growth has been more funded type loan growth in many cases for a large high quality companies that are making acquisitions, a couple that we'd have seen this quarter would have been Verizon Wireless as well as Amgen.

Brian Moynihan

Mike -- overall Mike the loan utilization rates, they haven't moved around a lot, but they're at low levels historically across the board whether it's our business banking segment, the middle market segment and the large corporate not -- don't really use their lines other than as Bruce described and they're doing something inorganic, but they're very low which gives you two things. One it indicates that they have got lots of cash and have lots of room for investment, but secondly as the economy picks up moving back with thousand basis points or so we are from sort of more normal levels like a better term is a lot loan growth within -- without new customer relationships, or any more work.

Michael Mayo - CLSA

I understand you're picking and choosing your spots more. So would you say that demand really hasn't changed a whole lot over the past year or two or is it picking up in certain areas?

Brian Moynihan

I think demand has picked up over the last couple of year. I think that the company have a line of credit in their dynamics. They are using it a lower level than they did not necessary two years ago, but during the normal economic times and that's the second point the demand has been picking up across the consumer demand and things like that, but it's still not as strong as it would be because it's a 2% growth rate economy out there.

Michael Mayo - CLSA

All right. Thank you.

Brian Moynihan

Thank you.

Operator

We will take our final question from the site of Guy Moszkowski with Autonomous Research. Your line is now open.

Guy Moszkowski - Autonomous Research

Good morning. I just have a few cleanup sort of questions. With respect to the long-term debt footprint then, have you talked about how much of the 40 billion that is coming due that you would expect to refi, or are you going to let it all just go?

Bruce Thompson

It won't all just go, but I think it's safe to assume that less than half of it will be refinanced.

Guy Moszkowski - Autonomous Research

Okay, thanks. That's helpful. On the last question you were asked about the litigation reserve which understandably you don't want to go there, but do you have an estimate of what your reasonable and possible beyond those litigation reserve will be this quarter?

Bruce Thompson

Yes, I believe, Guy, that – at the end of the second quarter, I believe that we had said that the range of possible loss with respect to litigation was in the high-2s and we'll obviously need to freshen that up as we get the third quarter Q out. But I wouldn't expect to see anything significant one way or the other.

Guy Moszkowski - Autonomous Research

Got it. The 1.1 billion litigation expense and I guess reserve build this quarter, can you give us a sense of how it breaks down by business unit, because it didn't seem like it all goes to All Other?

Bruce Thompson

Yes, if you look at by business unit, I referenced that as you flowed through that you had – and you can see it in the commercial real estate services area, the results were 300 million of it there. There was roughly 300 of it between banking and markets and then the majority – the rest of it was in All Other.

Guy Moszkowski - Autonomous Research

Great. That's helpful. You mentioned that you had accelerated some marketing initiatives from the fourth quarter to the third and I was just wondering if you could just give us a little color on specifically what they were since everybody is looking for growth?

Brian Moynihan

Yes, I think only two things is that you've obviously seen a little bit more brand that's out there and then with CCP there was the acceleration of what we do from a charitable perspective from the fourth to the third, those were the two items.

Guy Moszkowski - Autonomous Research

Got it. And then the very final question is you had meaningful improvement in your Basel 3 capital above and beyond the earnings and it looks like it's a pretty meaningful reduction in the threshold and other deductions. I was wondering if you could just give us a little bit more granularity on what was going on there.

Brian Moynihan

It's a great question. And really two things going on. Keep in mind as we've said because we have a decent chunk disallowed DTA from a Basel perspective that ballpark we will accrete capital on a pretax basis generally speaking as opposed to a post tax basis for a decent number of quarters going forward. So when you look at that, I think pretax not so much post tax. And then the second benefit that you had which was an earlier question was the benefit of OCI during the quarter of roughly $1 billion after-tax or $1.5 billion pretax and that was the combination of the pension to the positive and then to the negative CCP coming out as well as some of the debt securities gains.

Guy Moszkowski - Autonomous Research

Got it. Okay, that's great. Thanks so much for taking my questions.

Brian Moynihan

Thank you. Okay, I think that's all the questions that we have. So thanks for joining us this morning.