Operator

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

Lee McEntire

Good morning, thanks everybody on the phone as well as the webcast for joining us this morning for our second quarter results. 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 the other SEC filings.

So with that I'll turn it over to Brian Moynihan our CEO for some opening comments before he goes to Bruce.

Brian Moynihan

Thanks, Lee, and good morning everyone, and thank you for joining us. As you look at our results, you can see the storyline for this quarter is much the same as it was for last quarter. You can see that the revenue is showing stability in most of the core businesses. You can see the good core expense control, continued credit improvements, and solid business activity throughout the franchise.

You can also see obviously the litigation expense from our legacy mortgage issues continued to affect our earnings this quarter. And you can also see we've continued to build our strong balance sheet position and capital and liquidity. So in a minute, Bruce will take you through the details of the results.

But I thought it would be good if we spend a couple of minutes at the outset here talking about what our customer and client data is telling us about the economy and what we see in our franchise.

As we all know the economy is off to a little bit of a slow start this year, but growth has picked up recently. Most recent jobs data shows nearly 1.4 million are created in the first half of this year.

As we have strong positions, leadership positions across consumer and commercial companies in the Americas, we have a view into the key indicators of an improving economy which shows signs everywhere of improvement. Even in advance with the short-term interest rate is changing which would help our rich consumer – our deposit rich consumer and business banking segments, our consumer business had another good quarter. It performed well growing earnings 29% from last year included solid origination activities across the various products.

In addition, as we look at our underlying consumers, they have increased their spending. We can see in our data that the retail volumes on debit and credit cards were up 4% from last year's second quarter but more importantly up 8% from the first quarter of this year showing increased momentum in spending among our card customers.

Consumers are growing card balances also, they're borrowing a little bit more and they continue to add to their deposit balances. As you know, home sales continue to improve across the industry and we can see on our own results, as our originations and mortgages increased from first to second quarter, but importantly our purchase mortgage origination continue to grow. Our home equity originations also were up almost 30% for the quarter.

When you look at the underlying transactional activity and volume activity in our stores, 7 to 8 million visitors come in each week showing continuous strong activity. We can also see that in our online activity where 30 million online customers continue to grow their overall volumes and importantly in our mobile activity where 15.5 million mobile customers continue to increase the use of technology including depositing 10% of all the checks, retail checks in our company through their mobile phones and other devices.

The health of the consumer is also evident in our asset quality. Delinquencies continue to improve. Our consumer card loss rate ended the quarter at less than 3%. We see on the wealth management side, the consumer, the market's growth has added to consumer wealth. We have nearly $2.5 trillion in client balances in our global wealth and investment management business including a $100 billion in the brokerage assets for their retail and preferred customer base in our consumer business.

We also see encouraging signs throughout our commercial customers. Commercial construction has improved and manufacturing activity in our clients has accelerated. The borrowing by our commercial customers remains healthy across the industry and credit quality is very strong.

Encouraging is that middle-market utilization rates are moving forward again this quarter ever so slightly. Industry sales and trading activity among our trading counterparties has been low as many of our peers have talked about in this low volatility environment.

However, our business – underlying business performed well. Tom Montag and his team had - our global markets business posted $1 billion - $1.1

billion in earnings for the quarter. Our investment banking pipeline remains strong and the back half of 2014 looks healthy.

While the economy still faces challenges, progress is being made throughout the economy but also throughout our company. We are seeing good business activity and a strengthening as we go through 2014. We are seeing improved financial health for our consumers, our customers and our corporate customers.

But the most important thing to think about is the signs of a gradually improving economy, is how our businesses is continually positioned to take advantage of the activity and deliver for you our shareholders.

With that I'll turn it over to Bruce.

Bruce Thompson

Great, thanks, Brian, and good morning everyone. Let's start on slide 2 and work through the second quarter results. We recorded earnings of $2.3 billion or $0.19 per diluted share this quarter which included pretax litigation expense of $4 billion which equated to roughly $0.22 a share after-tax. $3.8 billion of the litigation expense is associated with the build in reserves for previously disclosed legacy mortgage related matters which also included the AIG settlement that we announced this morning.

We are very pleased to have reached the definitive agreement with AIG which resolves all outstanding RMBS litigations between the parties for a settlement amount of $650 million. This agreement is important for two primary reasons.

First, we have now resolved 95% of the unpaid balance of all RMBS as to which securities litigation has either been filed or threatened for all Bank of America related entities. It also includes AIG's agreement to withdraw as an objector to the Bank of New York Mellon private label securities settlement referred to as the Article 77 proceeding.

Revenues this quarter, on an FTE basis were $22 billion, relative to the second quarter of 2013 revenue was down $990 million driven by lower net interest income and mortgage banking income. Relative to the first quarter of 2014, it was approximately $800 million lower as higher investment banking fees, higher mortgage banking revenue was more than offset by seasonally lower sales and trading revenue, as well as lower equity investment income.

Total non-interest expense for the quarter was $18.5 billion, but included $4 billion of litigation expense. If we back out that litigation expense and compare it to Q2 2013's expenses, expenses improved by $1 billion or 6%, which was driven by lower LAS non-litigation expenses and to a lesser extent, our new BAC savings.

If we back out the $1 billion of retirement-eligible incentive comp from our first quarter results as well, you can see expenses declined roughly $700 million from the first quarter as a result of lower revenue-related compensation within our global markets business, lower LAS expenses ex litigation and to a lesser degree, our new BAC savings.

Provision for credit losses was $411 million with net charge-offs of $1.1 billion and a reserve release of $662 million during the quarter. Our results from the quarter also benefited from the sale of $2.1 billion in non-performing residential loans.

The income statement benefit from that sale was approximately $350 million of pre-tax or $0.02 a share after-tax and you saw roughly a $150 million of that benefit flows through other income and the balance through the recovery of net charge-offs.

And lastly, the aggregate amount of a few other items including debt securities gains, equity investment income, net DVA, as well as FAS 91 resulted in a benefit to EPS of approximately $0.04 a share.

If we move to Slide 3 and look at our balance sheet highlights, you can see the balance sheet increased $21 billion from the first quarter of 2014. Our debt securities increased as a result of valuations and increases to highly liquid securities in our primary banking subsidiaries. Our Repo match book increased as well.

If we look at ending loans, they were down $4.3 billion, primarily due to lower residential mortgages, principally within our discretionary portfolios and that also included the $2.1 billion bulk sale that I just mentioned.

If we exclude residential mortgage loans, our consumer loans rose slightly as our US card balances grew $1.3 billion and our securities-based lending with our wealth management clients increased $1.8 billion. This was partially offset by pay-downs within our home equity book.

If we move to the commercial side, commercial loans were up modestly as C&I growth was mostly offset by a few sizable loan pay-downs, as well as a focus on overall relationship returns.

Period end deposits were over $1.1 trillion and reached record levels. Our tangible common equity ratio improved 14 basis points from the first quarter of 2014 to 7.14%. Tangible book value per share was $14.24, a 3%

improvement from the first quarter and it was driven by both our earnings during the quarter, as well as a $2.3 billion increase in the value of our debt securities which you saw flow through OCI.

Lastly, to further enhance our Tier-1 capital structure, during the second quarter, we received shareholder approval and amended the Series T preferred shares, which increased our Tier-1 capital by $2.9 billion, and we issued $1.5 billion in preferred stock during the quarter at a favorable rate.

On Slide 4, we show our capital ratios under Basel 3. Under the transition rules, our CET1 capital was $153.6 billion, risk weighted assets $1.28 trillion, and that resulted in a ratio of 12%. If we look at our Basel 3 regulatory capital ratios on a fully phased-in basis, we saw very strong improvements in the first quarter of 2014. Our CET1 capital improved $7 billion driven by earnings, OCI improvement, as well as well as lower threshold deductions.

The numbers in the chart reflects risk weighted assets under the standardized approach with our CET1 ratio improving from 9% to 9.5%, well above our 8.5%, 2019 proposed minimum requirement. Under the advanced approach, our CET 1 ratio improved from 9.6% at the end of the first quarter of 2014 to 9.9%. That was driven by the improvement in our capital, partially offset by an increase in risk-weighted assets.

If we turn to the supplementary leverage ratios, we estimate that at the end of the second quarter of 2014, we exceeded the updated US rules that are applicable beginning in 2018.

Our bank holding company exceeds the 5% minimum and our primary bank subsidiaries, BANA and FIA are both in excess of the 6% minimum.

If we turn to Slide 5 on funding and liquidity, our long-term debt of $257 billion was up modestly during the quarter as our debt issuances were larger than maturities during the period. As we look forward at our debt issuance during the balance of the year, we'll continue to be opportunistic but we do expect our parent issuance to be below the $13 billion of contractual maturities in the second half of 2014.

We'll also likely to continue to issue term debt out of our primary bank subsidiaries. Our second quarter 2014 long-term debt yields improved 12 basis points from the first quarter of 2014 2.29%. We realized significant improvements given only two years ago this yield was over 3% and our average debt balances were nearly $75 billion higher.

Our total global excess liquidity sources during the quarter increased to a record $431 billion as bank liquidity continue to grow in the second quarter and our time to required funding remained strong at 38 months.

If we turn to Slide 6, our net interest income on a reported FTE basis was $10.2 billion, consistent with the first quarter of 2014 is a less negative impact from market-related adjustments was offset by an anticipated decline in the core net interest income. Negatively impacting our reported net interest income during the quarter were market-related adjustments of $175 million and that compares to $273 million negative in the first quarter of 2014, as you all know, long-term rates declined again during the quarter.

Our net interest income, if we exclude the market-related adjustments declined as previously expected and communicated, due to seasonally lower average consumer loan balances and yields offset by an extra day of interest and all of that resulted in net interest income of $10.4 billion.

As a result of the increased liquidity in the first half of the year, as well as lower loan balances and loan yields, the net interest yield excluding market-related adjustments declined 10 basis points to 2.26%.

We continue to thoughtfully manage our OCI sensitivity and are very mindful of the liquidity and leverage rules as this quarter we invested more into shorter duration treasury securities. We continue to remain positioned to benefit if interest rates move higher, particularly from the shorter end of the curve.

And as we head into the back half of 2014, we still expect modest improvement off of the second quarter of 2014 level of net interest income, which was $10.4 billion, excluding market-related adjustments.

Non-interest expense on Slide 7 was $18.5 billion during the second quarter and once again included $4 billion of litigation expense. As we mentioned, $3.8 billion of the litigation expense relate to a build in reserves associated with previously disclosed legacy mortgage related matters including the AIG agreement. If we exclude litigation, total expenses were $14.6 billion this quarter.

If we compare those to the first quarter of 2014 and exclude retirement eligible costs that we saw during the first quarter of 2014, our expenses declined $700 million on the lower incentives related to sales and trading revenue, reduced LAS non-litigation expense and to a lesser extent New BAC savings.

Our legacy assets and servicing expenses during the quarter ex litigation were $1.4 billion and declined approximately $150 million from the first quarter of 2014. As we look forward with respect to our two expense programs, New BAC as well as our LAS expenses ex litigation, we have modified our expectations slightly.

Our New BAC expense program is ahead of schedule and we now expect to reach a quarterly level of $2 billion in expense savings in the fourth quarter of 2014 as opposed to mid 2015. This means on an annualized basis, we will have fully achieved the $8 billion target that we announced in 2011. In the second quarter of 2014, our quarterly savings rate that was achieved on New BAC was $1.8 billion plus.

Moving to our LAS expenses ex litigation, we continue to make very good progress, but our compliance with applicable mortgage programs as well as governance guidelines may delay the expected timing of achieving our $1.1 billion goal by one quarter.

If we turn to asset quality on Slide 8, you can see credit quality once again improved on all fronts. Net charge-offs declined $315 million from the first quarter of 2014 to $1.1 billion or a 48 basis points net loss ratio.

As I mentioned earlier, this quarter did include a $2.1 billion sales of bulk non-performing loans, which included recoveries of $185 million on previously recorded net charge-offs. If we exclude the effect of the bulk sale net charge-offs, they've declined a $130 million or 9% and the net loss ratio would have been at 56 basis points. These are decade level loans.

Delinquencies, a leading indicator of net charge-offs also showed improvement during the second quarter. Provision expense during the quarter was $411 and we released $662 million of reserves. We would expect net charge-offs going forward to continue to show modest improvement from the second quarter of 2014 levels of $1.3 billion, which excluded the recoveries that we received on the non-performing loan sales. We would also expect reserve releases to decline modestly through the balance of 2014.

Let's walk through the business segment results now starting on Slide 9 with consumer and business banking. We continue to make solid progress on the strategy in this business through deepening relationships and reducing our costs by optimizing the delivery network. We are simplifying the product set as we reduce the number of offers, offerings and focus the smaller product sets on customer feedback and offer greater rewards to customers who bring us more of their relationships.

Some of the more significant operational activity during the quarter included the rollout of an advanced platform for mobile banking that had added functionality, rolling out the safe balance checking account, as well as an enhanced preferred rewards program that we launched after a successful pilot program. We are pleased with the results again this quarter as our earnings of $1.8 billion grew $29% from the second quarter of 2013 and were up 7% from the first quarter of 2014.

This business generated a 24% return on allocated capital during the quarter. Our revenue was relatively stable across the periods as lower net interest income was partially offset by higher service charges. Our expenses are down 4% from the second quarter of 2013 and lower operating, litigation and personnel costs. Our network delivery optimization benefit continued as we reduced another 72 banking centers through both sales as well as consolidations.

Our credit quality remains strong as net charge-offs decline versus both periods. Our U.S. credit card business exited the quarter with less than a 3% loss rate in June. Second quarter provision expense was $534 million, our net charge-offs improved $313 million from the second quarter of 2013 and $36 million from the first quarter of 2014.

We released $120 million more in reserves this quarter than the second quarter of 2013 and $242 million more than the first quarter of 2014. From a customer activity perspective this quarter, we saw continued growth in our mobile banking customers which reached 15.5 million customers and our customer deposit transactions using mobile devices represented 10% of all transactions.

Our average deposits of $544 billion are up organically almost $11 billion or 2% compared to the first quarter of 2014 and up 5% or nearly $25 billion compared to the second quarter of 2013 and we did that as our rates paid on our deposits reached a new low of 6 basis points.

Our brokerage assets surpassed $105 billion and are up 26% year-over-year based on both improved market valuations as well as customer flows. Our card issuance remained strong at 1.1 million new accounts in the second quarter of 2014 with approximately two-thirds of those cards going to existing customers.

We saw growth in ending U.S. credit card balances this period with ending balances up $1.3 billion relative to the first quarter of 2014 and our risk-adjusted margin remains strong at approximately 9%. If you move to consumer real estate services, the loss in the quarter was driven by $3.8 billion of litigation expense.

Overall, we saw higher originations, improved mortgage banking revenues, and lower cost in both the fulfillment as well as the servicing sides of the business. Let’s focus first on the reported sub-segments of home loans where we record the origination of consumer real estates.

Our home loans saw better leverage versus the first quarter of 2014 as both revenues and expenses improved. Our first mortgage retail origination were $11.1 billion and were up 25% from the first quarter of 2015 leading to higher core production revenues. As Brian mentioned, our mix of originations continued to shift to purchase as we are now at 47% purchased versus 17% in the year ago quarter.

At the end of the quarter, our origination pipeline was up 15% from the first quarter of 2014, but our applications per day are slowing a bit. Our home equity originations were $2.6 billion and increased 31% from the first quarter of 2014. We continued to reduce production staffing levels and the savings from several quarters of these reductions are beginning to show in our expense levels.

If we move to the legacy assets and servicing sub-segment, the driver here was aforementioned litigation costs. From a cost of servicing perspective, our LAS expenses ex litigation did declined $141 million to $1.4 billion and our number of 60 plus day delinquent loans dropped 14,000 units to 263,000 units or down 5% from the end of the first quarter of 2014.

The primary revenue component in our LAS sub-segment servicing fees declined $40 million versus the first quarter as the size of our servicing portfolios declined. This was offset by a better net hedge performance on our MSRs. Also during the quarter, we did benefit from lower rep and warrant provisions which was $87 million or down nearly $100 million from the first quarter of 2014.

If we turn to Slide 11, global wealth and investment management, this business turned in another record revenue quarter, our pre-tax margins remained strong north of 25% for the sixth consecutive quarter. Our revenue of $4.6 billion was up 2% from the second quarter of 2013 and 1% over the first quarter of 2014.

Record asset management fees offset the softness in transactional activity. Net income, $724 million was slightly lower than both comparative periods, driven by increased expenses. Our expense levels versus the second quarter of 2013 reflect higher revenue-related incentive comps, other volume-related costs, as well as continued investments in technology and other areas that support the growth that we are seeing within the business.

Relative to the first quarter of 2014, expenses were driven by higher revenue-related costs, litigation-related expenses as well as marketing. Our return on allocated capital during the quarter was 24%. The momentum we are seeing in flows continued and was quite strong during the quarter.

Client balances were up $72 billion from the end of the first quarter of 2014 to a record $2.5 trillion. Long-term AUM flows were nearly $12 billion for the quarter marking the fifth straight year of positive quarterly AUM flows. Our ending client loan balances were up $3.9 billion to a record $123 billion, which is up 3% from the first quarter of 2014 as we saw growth in both our securities-based lending as well as our residential mortgage lending.

From a referral perspective, we continued to see coordinated efforts across wealth management and the banking groups as our referrals resulted in the funding of more than 250 institutional retirement plans worth more than 2.4 billion assets this quarter and that compares to a 156 wins in the year ago quarter of 600 million assets.

If we turn to Slide 12, our global banking earnings for the quarter were $1.4 billion, up 4% from the second quarter of 2013 and up 9% over the first quarter of 2014. Our return on allocated capital was very strong at 18%.

Compared to the second quarter of 2013, our revenue showed modest improvement while expenses increased and credit cost declined. Within the revenue category, our investment banking fees, company-wide this quarter were $1.6 billion, up 5% from the second quarter of 2013 and up 6% on a linked quarter basis. We maintained a solid leadership position in investment banking fees and we had particularly strong equity underwriting results during the quarter.

Our provision was $132 million during the quarter and included a $156 million reserve build. Our provision costs were favorable to both comparative periods as we added less reserves in the first quarter of 2014 and had less charge-offs compared to the second quarter of 2013.

Expenses increased $50 million versus the second quarter of 2013 on higher litigation, but improved $129 million from the first quarter of 2014 on lower personnel and back-office support costs.

If we look at the balance sheet, average loans were $271 billion during the quarter, up 6% compared to the second quarter of 2013, but flattish compared to the first quarter of 2014. Our loan balances relative to the first quarter of 2014 bear – I think several comments, but I'd like to make the first is, we saw sizable pay-downs during the quarter as our customers accessed the capital markets. We had approximately $2 billion of such pay-downs where our customers chose access to markets and refinanced existing bank loans.

Within commercial real estate, we continued to optimize the mix with several small portfolio sales that took those balances down, little over $2 billion. We are being sensitive with respect to pricing of commercial loans as we are not going to chase loans at the expense of overall client relationship profitability goals.

And lastly within the global banking segment, deposit flows remained solid and were stronger at the end of the quarter.

If we move to global markets on Slide 13, we earned $1.1 billion in the second quarter of 2014, that's up 14% from the year ago period and down seasonally 16% from the seasonally strong period of the first quarter. Net DVAs during the quarter was a gain of $69 million versus gains of $49 million in the second quarter of 2013 and a $112 million in the first quarter of 2014.

Despite the slowdown in FICC across the industry group, we were pleased with the results this quarter. Our revenue was up 9% from the second quarter of 2013, but down 9% from the seasonally high first quarter of 2014. Our second quarter of 2014 revenue did include an equity gain of roughly $240 million on the modernization of an equity investment. That is not reflected as part of our sales and trading revenues. Our sales and trading revenue net of DVA was $3.4 billion which was 1% lower than the second quarter of 2013 and 17% lower than the first quarter of 2014. Our FICC sales and trading revenue during the quarter increased 5% compared to the second quarter of 2013 and was down 20% from the seasonally higher first quarter of 2014 levels.

Driving the year-over-year improvement within fixed were results in our mortgage business, our munis business, as trading conditions and our performance improved in both areas. Those improvements were partially offset by weaker financial performance in foreign exchange as well as commodities.

On the equity sales and trading side, we were down 14% from the second quarter of 2013 and 11% from the first quarter of 2014 as lower market volatility depressed overall secondary market client activity. Expenses were up from the second quarter of 2013 on higher technology and staff support investments and to a lesser degree incentives, but down from the first quarter of 2014 in line with the seasonal revenue decline that we saw.

Trading-related assets on average increased $23 billion to $460 billion during the quarter and our return on allocated capital was 13% during the second quarter.

On Slide 14, we show all other; revenue was down $463 million from the first quarter of 2014 and lower equity investment gains of $618 million which were partially offset by lower negative market-related adjustments to net interest income during the quarter.

Our second quarter 2014 expense and all other is down $1.3 billion from the first quarter as it included retirement eligible incentive costs and some litigation expense. The second quarter of 2014 provision benefit of $246 million was $111 better than the first quarter of 2014 and $67 million better than the second quarter of 2013.

Net charge-offs of $11 million improved $195 million from the first quarter of 2014 driven by the recoveries that I had mentioned associated with our bulk NPL sales.

During the quarter, our effective tax rate was relatively low, primarily as a result of the impact of tax preference items on a lower earnings base. For the back half of 2014, we would expect to see an effective tax rate of approximately 31% ex any unusual items.

I am going to wrap up before we take questions with a couple closing comments. We feel like we made very strong progress during the quarter. We saw good business activity across the customer base. We experienced year-over-year revenue growth in our global banking, global markets and global wealth management businesses.

Our consumer business profitability grew 29% from last year and in the mortgage business we are taking cost out of the fulfillment side as well as the cost to service our delinquent loans. We reported $0.19 of earnings and absorbed cost allowing us to resolve all outstanding RMBS issues with AIG and build substantial reserves for our remaining legacy mortgage issues.

We did this while adding to our already strong Basel 3 capital ratios and improving our liquidity measures to record levels and our asset quality improved to decade low loss ratios. And with that, we'll go ahead and open it up for questions.

Question-and-Answer Session

Operator

(Operator Instructions) And we'll take our first quarter from Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck – Morgan Stanley

Hey, thanks. Good morning.

Brian Moynihan

Good morning.

Betsy Graseck – Morgan Stanley

Hey, a couple questions. One, you had some callouts on some nice gains and I know a couple of other banks reporting here this cycle have done the same thing. I'm wondering how much more in your pipeline do you think you have to extract some value from the mortgage-related portfolio here that you're in the process of selling down (inaudible)?

Bruce Thompson

We took, Betsy, a piece of our non-performing loans out and as non-performing loans and as you know, when you receive it, to the extent that you receive income you write down the basis for those loans and we took those loans out and saw healthy gains. We continue to look at the sale of non-performing loans, but I would not expect anything near the magnitude from the sale of non-performing loans that we saw this quarter.

Betsy Graseck – Morgan Stanley

Okay, separately, on just litigation related stuff you highlighted the AIG agreement that – it looks like a great win for you guys. I guess the question is does them pulling out as a dissenter do anything to speed up the timing on that Article 77 case?

Bruce Thompson

I think the – the timing is going to progress on the schedule that it otherwise would have – I think you all know that from an objector perspective that they were probably the strongest and most vocal objector with respect to the case and we'll just have to see as we move forward what the impacts from them dropping their objection to the cases.

I think the other thing that's important is as it relates to holding of the securities or at least a basis to object, but they were the largest holder that was out there from holding securities as part of the settlement. I think they noted that in the release this morning.

Betsy Graseck – Morgan Stanley

Yep, thanks. Okay and then just lastly, it's been a lot of debate recently about how the Fed could potentially start to exit. Obviously in the [inaudible] they talked about that, and it sounds there were calls recently about how people are thinking about rate betas.

I know from the Q you have a relatively positive outlook for what rising rate does to your earnings stream. Could you just remind us what percentage of your deposits are consumer and how you are thinking about rate betas in a rate rise environment relative to asset betas?

Bruce Thompson

Sure, couple of things, if you look at asset sensitivity, you'll see that the exposure to a 100 basis point parallel shift in rate, that the benefit increased this quarter from about $3.2 billion in the first quarter to $3.4 billion. As you look at the deposit base, a couple of things of note, the first is, north of 70% of the overall deposits that we have throughout the company are within our consumer and wealth management business and as it relates to – I would say overall asset betas that through history given the branch network and the relationships those tend to be very stable.

I think you get a sense for that as you look at the continued deposit growth that we've seen while at the same time taking rates paid down pretty significantly. If you move to the institutional side, and look at where we are, roughly 75% of the deposits that we have within the institutional business are domiciled here in the U.S. and the predominant mix of that is with our core corporate and commercial customers and if you look at the reason that they are holding those deposits with us is because we tend to be their core relationship bank.

We do their cash management, we do their treasury service revenue and have relationships that are beyond just a place for them to put their deposits. So, as we move forward, there is obviously a level of uncertainty to the extent of a Fed withdrawal, but as we look at the overall deposit base, the stability of it and our outlook going forward, we feel like that we're very well positioned.

Brian Moynihan

I would add on the consumer side also as you look at year-over-year dynamics in terms of deposit growth of $25 billion, also look at this, we are still running off a CD portfolios that was more of a funding portfolios for some of the companies that we acquired.

So that I think there is a round number of $10 billion reduction in CDs over that time period and we've also obviously sold some deposits not a huge amount. So that growth is over top of all that and net.

So, we feel good about the consumer franchise ability to continue to grow deposits even while being very disciplined on price and as rates rise, that value will be recognized and we expect those deposits now are much more core, you have the checking account deposit year-over-year I think were up to 25% to 30% in terms of average balance.

Betsy Graseck – Morgan Stanley

Okay. Thanks a lot.

Operator

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

Jim Mitchell – Buckingham Research

Yes, hey, good morning. I just wanted to follow-up quickly up on that deposit question. I noticed that non-interest bearing was up 11%; interest-bearing up only 1%. So that speaks to your efforts. Do you think there is more to go there or should we start to see deposit growth more in line with your peers at this point?

Brian Moynihan

I think if you look at the - just on the consumer business, the year-over-year growth was $25 billion and the linked quarter growth was $10 billion so obviously we are growing at a faster rate in the current environment, at the spots so to speak Jim than we have been year-over-year. And so the growth rate of 2% was nominal in a quarter which would be annualized 8% about high 5% to 6% year-over-year. So, it's accelerating still by the good core activity.

Jim Mitchell – Buckingham Research

Right, okay, great, and then on loan growth, you still have – as you mentioned, a couple of asset sales, still some legacy asset run-offs. When do we start to see the inflection point in your view and maybe if you can give us a sense of underlying demand that you are seeing in your customer group?

Bruce Thompson

Sure, let's go – it's a very good question Jim and I think we need to break out and discuss – if you look at the declines that we saw in the residential mortgage area, that those are largely due to whole loan repayments of loans that are held within our investment portfolio.

And so if you look at the consumer business, I think there are couple of key things that I would note. The first is, on a linked quarter basis, this is the first quarter in some time where we actually saw ending card balances within our domestic card balance increase and those were up as we mentioned roughly $1.3 billion from the first quarter to the second quarter.

So we saw growth there and then if you move to what we saw within the wealth management area as I mentioned, we saw very strong growth both in securities based lending as well as within mortgage origination there. Once again on the home equity front, the progress that we are making on the origination front where we saw about $2.6 billion is really being masked by the run-off and the amortization of the home equity book that we have that runs off to the extent of $3 billion to $4 billion a quarter.

So, within the consumer businesses, if you look at kind of the core front-end, we are seeing some consumer loan growth that just gets masked by the run-off of some of the consumer real estate. On the overall commercial and corporate side, I did referenced the couple pay-offs.

As we look at one of the benchmarks that we look at is the revolver draws that we have within our commercial banking business, that number which had gotten as low as in the low 30s was up almost 100 basis points this quarter, and it's now in the high 30s.

So we are starting to see some greater activity on the revolver space within our commercial banking customers and overall activity with the corporate customers continues to be good but we are seeing – as I reference customers taking advantage of favorable debt capital markets which we obviously benefit from a debt underwriting perspective.

Jim Mitchell – Buckingham Research

Right, that's fair. Just one last question on the LCR, did you – maybe I missed it, did you disclose where you are on that front?

Bruce Thompson

We did not, at the parent at this point, we are above 100% at the parent, so we are good from a 2017 compliance there. If we look at the combined BANA and FIA LCR ratios, those two companies or two banks will be put together October 1, that LCR numbers in the high 80s at this point and we'll continue to build the LCR ratio at the banks to be at least a year ahead of where we need to be.

Jim Mitchell – Buckingham Research

Will that put any further pressure on NIM if you are building more liquidity there?

Bruce Thompson

It should not, there – as we look at, there has been a significant build at this point and as we look at the funding and the balance of that between both core consumer deposit growth as well as where we are that should not have an effect. If you look at the build that we talked about in the first quarter and second quarter, at this point I would say we've eaten that expense and we now need to get after it and optimize to get the expense knocked back down.

Jim Mitchell – Buckingham Research

Okay, great. Thanks.

Operator

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

Matt O'Connor – Deutsche Bank

Hi, good morning.

Bruce Thompson

Good morning Matt.

Matt O'Connor – Deutsche Bank

On expenses, it seems like most of the New BAC savings are in the run rate here, yet we still read about – some various expense initiatives that you have underway in terms of branch rationalization and simplification and things like that. So, just wondering is there another New BAC or just ongoing efforts to bring down costs and how meaningful those might be?

Brian Moynihan

I think in the near-term Matt, the number one thing about cost is continue to work down the LAS legacy costs down to a more normalized level on a per loan basis and also keep producing the number of delinquent loans. So, that's the real expense leverage and what Bruce talked about earlier is we get to make sure we do it the right way especially in connection with sort of finishing up some of the regulatory work there. That's the real large dollar amount.

You are pointing out exactly that situation on the core, you run at about $13 billion a quarter on core expenses, not a bad number if you annualize it and sort of think that through but the real question is how do you hold it there and keep investing in the businesses.

And so when we started the New BAC, we never gave a target that said, we are going to save of this money but we are going to reinvest that we gave you a sort of net target and now we are reaching that. And so, what we would challenge our teams too is how to maintain a good operating leverage going forward and so we are more about simplifying the company and continuing to take out expenses.

But a lot of that will offset the 1000 people we've added in the branches that we sell more products if you are seeing the benefit of the continued adds we make in the wealth management business and training programs.

We hired a 30% or 40% more people out of schools this year because we got to keep replenishing our talent base, commercial bankers et cetera. So, as you look forward, the inflationary type things that go on, merit raises and healthcare expenses and stuff like that and investing in the business including the $3 billion plus we put in technology developments every year will need to be offset by hard expense work and so that's the plan we have and we are putting this, we keep driving those plans in place. So there will be less bottom-line reduction on the core expense base and more how you hold it there in a relatively slow growth environment.

Matt O'Connor – Deutsche Bank

Okay, so just to try and summarize, even if there is some modest revenue growth, you would hope to keep that $13 billion relatively stable on a net basis, then?

Brian Moynihan

Yes, if we want accept them, when markets kicks up you are going to have more comp related to that or wealth management comp which is good. So, you got to be careful, because those things kind of come and go and you can see that just the last couple of quarters. But, if you think what David Darnell and the team have done in the retail business, they are still rationalizing the branch structure which will offset putting more people in the branches that are more personal bankers and FSAs. And they've done a pretty good job at offsetting that.

In addition we are repatriating some jobs to help on the consumer credit – customer delight scores and stuffs from places that legacy enterprises had in other places and bringing them in and that rationalization is going on and that's adding to our job count in the near term but we'll rationalize back out.

Matt O'Connor – Deutsche Bank

Okay. And then on the LAS cost, obviously making good progress there and I am not sure there is too much concern if it gets pushed out one quarter. But is there still the goal of getting down to $500 million or below $500 million per quarter?

Bruce Thompson

Yes, and that's going to trail and move with this. We drive down the 60 plus day delinquent loans, but clearly the $1.1 billion that we'll either have in the fourth quarter or the first quarter of next year is still way too high given the number of 60 plus day delinquent loans that we have as well as the size of the servicing portfolio.

Matt O'Connor – Deutsche Bank

Okay, and then just lastly if I can squeeze in on the CCAR capital resubmission process, just remind us when you expect to get an update on that?

Bruce Thompson

Sure. We submitted our materials to the Fed on May 27. They have up to 75 days to respond. I believe the 75th day is August 10 and we continue to see where they come up.

Matt O'Connor – Deutsche Bank

Okay, thank you.

Operator

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

Glenn Schorr – ISI Group

Thank you. Quick question on the match book was up or at least the Fed funds sold and repurchased on the asset side was up 6.5% quarter-on-quarter. It's the opposite of what we're seeing at a lot of banks and trends in the market. So I am just curious is there an opportunity to get closer to clients? Is this a function of the fact that your SLR is in great shape so why not use it when you can? Just curious on what is underlying that trend?

Bruce Thompson

Yes, I would think, Glenn, probably more than anything if you go back and look at both the notional size of the balance sheet as well as the match book, we were probably a little bit lower at the end of 2014 - the end of the first quarter of 2014 than you would normally see. So, that number will bounce around, but I wouldn't read anything into the fact that it was up because it was much lower at both the end of 2013 as well as the first quarter of 2014.

Glenn Schorr – ISI Group

Anything different on the client usage front? It is bucking a trend though I hear your comments on the year-end. It's just with the changes in SLR, it's changing pricing theoretically, I just don't know if it's more theoretical than actual.

Bruce Thompson

I think the pricing is probably more theoretical because if you look across the industry we continue to see both the banks in Europe as well as the banks in Asia provide at so, I am not sure you're seeing any meaningful movement in what you are able to charge from a match book perspective.

Glenn Schorr – ISI Group

I get that, yes thanks. Okay, switching gears, in wealth management, obviously everything is doing pretty darn good in wealth management. But I'll pick a little bit and I'll just ask, expense – negative operating leverage in a quarter when the markets are doing well, meaning revenues were up or expenses are up more.

I heard and saw your comments on the additional investments in technology. Is it comp or is it that additional investment technology? In other words, when markets are growing and flows are great you would expect margins to hold their ground, not give it up. Maybe a little more color on what investments to help that business grow would be helpful?

Bruce Thompson

Sure, well you've got a couple things, the first is that as you look at the expense growth during the quarter, and you look at the buckets roughly, half of it relates to incentive related comp that is a result of increased revenues. We do have a couple of initiatives that you'd expect to roll off over the next couple quarters within the wealth management business.

We obviously have the rollout of Merrill One over the last couple of quarters where you saw some expense there. There we spent some additional money spend as we invest in system related to retirement systems and retirement programs as we continue to see growth there.

And so, you do have some of that activity as well as just making sure that the right investment within the various control support functions are appropriate. So – at the same time, as we look forward, you need to see positive operating leverage not negative operating leverage and that's what we'll look to work for as we go through the next couple quarters of the year.

Brian Moynihan

You point out, I mean, it's an obvious point and we – the team is focused on it, but we have made some near term investments including training programs and hiring people into the business working to the branches and stuff to help, but it something that we got to monitor closely and we think it will come back down and more in line with what you would expect.

Glenn Schorr – ISI Group

Great, I appreciate that. Last one is, slide 20 shows that the private-label outstanding claims keep going up every quarter. Anything new there? I am not sure what's driving that and if – I know that we have most of this stuff accounts for in the settlements, but just curious?

Bruce Thompson

I think that the notable think that I would call out is that when we get private-label claims that comp, there are two different types of claims that come in, there is the first that our claims where people have had the ability to look at loan files and submit a claim based on a loan file, not being what they've thought it be and the second is that, you can have people that at points in time do what we call or throw in what we would characterize as a bulk claim where they are just throwing it in without having done any work whatsoever on the loan file.

And what's important when you look at what we saw during the second quarter of 2014 we saw roughly $1.9 billion of original unpaid balance on the loans not loss, gross of that amount, the amount of bulk claims were no file reviews and went down was $1.9 billion.

So, I would not read too much into that number because it's not for loan files where there has been any work done and I would just say generally if you look at what we've seen regarding some of the recent decisions where there seems to be some stickiness at this point on different statutes of limitations as well as a recent ruling that came out of California with respect to RMBS litigation that we do feel like we are moving forward and getting AIG behind us is significant in regards to putting the rest of this behind us.

Sure,

Glenn Schorr – ISI Group

Okay. I appreciate it. That's it for me. Thanks.

Operator

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

Jonathan McDonald – Sanford Bernstein

Hi, good morning. Bruce, the increase in Tier-1 common of $7 billion was impressive relative to the net income in the quarter. Any more color on the drivers there? You mentioned AOCI. What were the threshold deductions that helped drive the capital expansion so much more than that income?

Bruce Thompson

Sure, so, as we've said, given where we are from a disallowed DTA position that we're at a point where broadly speaking, we accrete capital on a pre-tax as opposed to an after-tax basis and so, as you look at the results we had roughly $3 billion of pre-tax income.

We had roughly $3.5 billion of pre-tax OCIs that gets you to above $6.5 billion and then as you look at threshold deductions of roughly 10%, take 10% of that $6.5 billion, it gets you roughly $700 million, that gets you to roughly $7.2 billion of capital build, you back out the common dividend of 100 and that gets you to your $7.1 billion build.

Jonathan McDonald – Sanford Bernstein

Okay and that building at a pre-tax due to the DTA, that's something that should continue on a steady pace, right?

Bruce Thompson

Clearly, at least over the next – I would say, probably two to four quarters it will be a function of the exact earnings but, for the near term that's correct.

Jonathan McDonald – Sanford Bernstein

Okay and can you give us the numbers on what the excluded DTA is today and what it changed in during the quarter?

Bruce Thompson

I believe that the excluded DTA was roughly $15 billion and it was down over – little over $1 billion.

Jonathan McDonald – Sanford Bernstein

Okay. On RWA, are there risks that the continued legal settlements would drive up your operational risk metrics or is there a forward-looking component to the op risk calc that already anticipates more settlements coming?

Bruce Thompson

Yes, we are mindful of the fact of settlements, there is obviously a lot of discussion and dialogues around op risk RWA. If you look at and when we noted that the reason risk-weighted assets went up during the quarter under the advanced approach, it was we are doing exactly what you referenced was reflecting an increased amount of operational risk RWA. We don't give the exact number, but you should assume that that amount is in the 26% to 27% of our total risk-weighted assets number and is in line with our largest peer.

Jonathan McDonald – Sanford Bernstein

Okay. On capital, on the last CCAR your binding constraint was the leverage ratio more than the risk-based Tier 1 minimum. I assume the recent preferred issuance and the Buffett conversions will help close that gap and position you better for next year's CCAR minimum. Could you comment on that? Or are there more things you can do to close the gap and have a quantitative cushion that's bigger to that leverage ratio next year as well?

Bruce Thompson

Well, the first John, is jut to manage the notional size of the balance sheet which we continue to do. The second thing that I would note is, when you look at the sale of the re-performing loans that we did, those are the types of assets that in the CCAR at least we believe we don't have access to the federal reserves' models, but those are types of assets that tend to get hard.

So, we continue to look hard and look to drive down the non-performing consumer real estate piece of what we have and this quarter was a good example of it. And then, you are exactly right, with respect to the leverage ratio that there is a benefit that that preferred stock gives with north of $4 billion this quarter that we generated will continue to look to see if more preferred makes sense and then lastly, we'll continue to look at and see if sub that makes sense from a total capital perspective as well. The incremental cost of those is very low and we just want to make sure the balance sheet is optimized for those different buckets.

Jonathan McDonald – Sanford Bernstein

Okay, thanks and on sales and trading, just in terms of the dynamics of the quarter, did you see a pickup in June as the other banks did? And any sense of what drove that? Have you seen any follow-through on that?

Bruce Thompson

Yes, our activity levels and – if you saw a P&L throughout the quarter, while June was marginally better, I would characterize the activity that we saw within the sales and trading business during the second quarter to be fairly consistent. And if we look out at the third quarter, typically with the summer the third quarter is a little bit seasonally slower than the second quarter. If you look at our results last year, you'll see that and as we come into the third quarter, there is nothing unusual in our third quarter numbers of last year and how we compare to those numbers is going to be a function of how well we perform this quarter and that's obviously up to us.

Brian Moynihan

John, if you look at page 19, you can see the second quarter, second quarter, second quarter, across the last three years and it's remarkably stable in terms of markets revenue lower part of that page. And so, Tom and the team did a – a few years ago we actually reduced the headcount almost 5000 people and that's allowed us to make $1 billion in this current environment as we did this quarter.

So, this ebb and flow as you and I've talked about in various occasions, it is a core part of what we do. But we show you the separate P&L, we show that from the first quarter half a good quarter, this quarter had a $1 billion bucks and it may come down as activity moves around the clients but it's a relatively stable revenue base that we can make money on because of the expense adjustments we made last year – in the last couple of years.

Jonathan McDonald – Sanford Bernstein

Okay and last thing for me, Bruce, on the CRES page, in terms of mortgage servicing revenues, is this quarter's core mortgage servicing revenue a stable base as you see it? Or is there further shrinkage in the size of the servicing book from sales that are ongoing that would impact the servicing fee?

Bruce Thompson

Yes, there we've got one more sales that we'll look to wrap up this quarter that's got fairly high consent of 60 plus day delinquent loans. But beyond that, that one transfer this quarter were largely at the end of servicing sales and we are at a base of what you see should be what we have going forward with the plusses and minuses being what runs off versus what we put on.

Jonathan McDonald – Sanford Bernstein

Okay. You're still taking rep and warranty provisions. What are those for? Is that for current originations, or is it still catch-up from past stuff?

Bruce Thompson

As you look at I think, rep and warrant was less than $100 million this quarter. You are going to always have that as you go forward, but we are not seeing much rep and warrant at all on recent originations that's going to be more legacy related.

Jonathan McDonald – Sanford Bernstein

Okay, thank you.

Bruce Thompson

Thank you, John.

Operator

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

Guy Moszkowski – Autonomous Research

Thanks, good morning. First question I had was just a follow-up on CRES. Is there any sort of immediate benefit in terms of the ability to accelerate LAS legacy servicing cost reductions now because of the bulk sale?

Bruce Thompson

From a number of units perspective, as you look at the bulk sales over the – there is a piece of it that was – that we service and the results of a piece that others service. So in the context of the number of 60 plus day delinquent loans it was not meaningful relative to the total.

Guy Moszkowski – Autonomous Research

Got it. So what we're really looking at is more what you were talking about in response to John's question a minute ago, which is the potential for one more sale this quarter and then just normal run-off.

Bruce Thompson

That’s correct.

Guy Moszkowski – Autonomous Research

Got it. Question for you while we're on the topic of mortgage stuff. Obviously you had the $4 billion litigation reserve build essentially this quarter. It appears, based on what you gave as an after-tax impact that you take a full tax benefit against that. Of course, what we find with a lot of these things, especially with like the DOJ settlements is that a large amount is not deductible. Do you have any flexibility with respect to being able to use a lower tax rate?

Bruce Thompson

A couple things, we don’t give the exact numbers, but if you go back and look at the first quarter, we look at and try to understand what the tax treatment is for the different settlement. There was a piece of it in the first quarter that we would have assumed was not tax deductible and you are right, the piece that – and the reserves that we took this quarter there was a presumption that it was tax deductible.

And the short answer is, until you get to the end, you don’t know the exact mix. But we try to be thoughtful with that and I would just say as it relates to the total number, as we said last quarter, there was $2.4 billion of litigation expense over and above what was for settlement. In this quarter you got in the high threes and I think it gives you a sense as to the magnitude of the reserves that are built over the last two quarters.

Guy Moszkowski – Autonomous Research

Got it. Switching topics, you did talk about pricing on commercial loans in the context of not seeing a meaningful increase in commercial loan balances this quarter, and I guess alluded to some discipline that you're exercising. Can you talk a little bit about the conditions that you're seeing in the commercial loan market and where you think there is froth?

Bruce Thompson

Sure, if you look at an embedded under the global banking segment, we’ve got the loans that are done within our corporate investment bank that tend to be for the larger companies and as we look at spreads and yields on a linked quarter basis, within our business, we saw relative stability in the yields in those businesses.

And, as we look out at in the marketplace given that those loans that are brought for those customers tend to be broadly syndicated and there tends to be a relationship in the yield between that and where they can access capital in the capital market, that low in pricing over the last quarter has hung in there and like I said it was generally flat, Q1 to Q2.

I would say, we tend to see a little bit more of a competitive pressure tends to be within the base commercial bank which is for middle-market companies where that they tend to be more one, two, or three bank deals and we have seen that area continues to be pretty competitive and we are just being disciplined with how we approach that market and given the footprint that we have, we do have the flexibility to not chase things within some of these regional markets.

Guy Moszkowski – Autonomous Research

And just to follow-up on that, when you say banks competing for that business, are you using the word bank in a traditional sense or are you actually seeing a lot of the competition for those type of mid-market loans coming from outside of what we would think of as the traditional banking sector?

Bruce Thompson

No, I would – for the core commercial customer, that's going to be the traditional banking customer as you think of it.

Guy Moszkowski – Autonomous Research

Okay and then just a housekeeping question, just to make sure I understand what you were saying. You said there were – maybe $250 million of gains in Global Markets, I guess, probably – not to put words in your mouth, but things like market. And you – but I think you said that you did not include those numbers in the core equities or fixed income segment revenues. Is that right?

Bruce Thompson

Yes, but that's correct so we had a position that went public during the quarter. There was a gain and it's reflected in the revenues of the global market segment. But we did not think that was appropriate to include that in the core FICC and equity sales and trading. So if you go to the table on page 13, when you look at that FICC and equity sales and trading number ex DVA that that does not include any benefit from the gain that we saw within the overall segment during the quarter.

Guy Moszkowski – Autonomous Research

Got it, perfect. Thanks for the clarification.

Bruce Thompson

Sure.

Operator

And we'll go next to Moshe Orenbuch with Credit Suisse. Please go ahead.

Moshe Orenbuch – Credit Suisse

Great, thanks. I was wondering; you've got a little less than $250 billion of residential real estate loans and $90 billion of home equity. How much do you think those decline before those stabilize, because I think you tried to talk about in terms of the overall loan growth. But that's really – those are really the categories that are shrinking. I mean, do you have a sense as to where those categories will level out?

Bruce Thompson

Well, if you start from a home equity perspective, I think that the repayment and run off of those is a god thing and not a bad thing. And so, you'll continue to see – I would expect over the next couple of years that the amortization of those is going to be greater than the new loans coming on the book. We would not expect though as you look at net interest income given the yields on those versus what you can do with other things that the run off of that book will have a negative impact from an overall net interest income perspective.

And as it relates to the whole loans piece, that we have, I would expect that that over time that will continue to run down. We continue to look as we talked about before on the home loans business to put and to originate mortgages for customers where we want to hold those loans during the quarter, we put about $6 billion of home loans that were originated for our customers on our balance sheet.

Roughly 75% to 80% of those would have been of the jumbo variety. But I think to be realistic over the next probably couple of years, you are likely to see a little bit more run-off of that then you'll see new loans coming on and we obviously have the decision at that point of do you want to reinvest those proceeds and other whole loans that you can buy out in the market or invest those in securities and I would say at this point with LCR as well as what we are focused on from a customer perspective, they are much more likely to be invested in securities than new whole loans that are not for our customers.

Moshe Orenbuch – Credit Suisse

Got it and secondly, the reserve build for legal, I guess, could you talk about how much you have in reserves in total? Or maybe address as to how you came up with that number? Given the fact that I think, if I'm reading the footnotes correctly, that your possible but not accrued losses kind of have stayed flat from the first quarter?

Bruce Thompson

Yes, couple things, the range of possible loss that you quoted of being flat from the first quarter to the second quarter relates to our representation and warranty reserves not our litigation RTL. So, you are correct that the rep and warrant piece was flat quarter-over-quarter. We do not update and provide a range of possible loss on litigation expense until we file the 10-Q.

As it relates to overall litigation reserves, we do not put out an exact or a level of our litigation reserve, what I do think is notable and probably most relevant is the information that I gave you as it relates to the litigation reserve that's been built over the last two quarters that relates to legacy mortgage related matters and I think you can see and people are aware of what the most significance of those matters are.

And obviously each quarter as it relates to the reserving, we go through each quarter and assess where we are and what we think is appropriate from a reserving perspective and we did that again in this quarter just like we do in any quarter.

Moshe Orenbuch – Credit Suisse

Okay, great and just a quick follow-up to the first one. You had mentioned kind of investing some of the run-off from the mortgages and home equity portfolio in securities. Is that in the context of keeping those balances kind of stable or would you actually increase that portfolio?

Bruce Thompson

Yes, the first goal is obviously, as we've talked about it to find and invest in loans that are for our core customers across the platform and that's priority one to the extent that there is residual or excess which there has been given the deposit growth that we've seen the money does gets invested and it's been invested primarily in the most recent several quarters in securities.

I mentioned OCI risk, the notable thing is that if you look at the OCI risk that we have as a company, even though the securities book has increased significantly over the course of the last twelve months, the overall level of

OCI risk based on the different metrics that we look at is not changed and that's the result of us shortening the portfolio investing in shorter duration treasury securities.

Moshe Orenbuch – Credit Suisse

Okay, thanks.

Operator

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

Steven Chubak – Nomura Securities

Hi, good morning.

Bruce Thompson

Good morning.

Steven Chubak – Nomura Securities

So the first question I have pertains to capital and RWA specifically. So over the last five quarters, we have actually seen the RWAs on a flat to upward trajectory; and then effectively the growth has mirrored the balance sheet growth that we've seen over that same period.

And I just wanted to get a sense as to whether there were any additional mitigation levers that you guys could potentially pull, or whether those types of opportunities have been largely exhausted, and thus the growth going forward will likely continue to mirror the balance sheet?

Bruce Thompson

Yes, I think as it relates to the risk-weighted assets they can either bifurcate risk-weighted assets under Basel 3 standardized versus those under Basel 3 advance. As you look at the Basel 3 standardized ratios, the benefits that we have there tend to come from the roll-offs of the different consumer loan portfolios both in first mortgage as well as in home equity and we would expect as we talked about throughout the call that you will continue to see a run-off there and given that a lot of the stuff that's running off is higher loan to value than the new stuff that's coming on that there is incremental benefit there.

So, if you look at over the last five quarters, I think the way that the standardized metric is set up, the standardized metric is going to tend to mere the overall loan growth that you have and I am just – as I mentioned going forward, on average it will probably be a little bit lower mix coming on than what rolls off.

On the advanced approach at this point, as we look forward, there will continue to be opportunities and stuff that's advanced that tends to be heavier risk-weighted that rolls off between now and 2017, it's not going to be anywhere near material as what we've seen and under the advanced approach, the recent increase as you've seen has largely been attributable to operational risk as opposed to what we are seeing within the kind of the core loan categories.

Steven Chubak – Nomura Securities

Okay, thanks. Now, that's really helpful. And switching over to GWIM for a moment and actually taking a longer-term view on the earnings power within the segment, there is one area where we have struggled from a modeling perspective. It's trying to contemplate exactly how high the operating margin can get in a rising rate scenario, because the operating leverage improvement can be fairly dramatic.

But presumably there is that peak margin level where competition is going to intensify to such a degree that effectively there's going to be no more room for improvement beyond, I don't know, let's call it 30%. I didn't know if that was something which you guys had evaluated at least in the context of a rising rate scenario.

Bruce Thompson

I think, you've got one of the levers in the business that people often overlook is the lever towards rising rates, because in the business itself the amount of total deposits and loans are significant $250 of deposits and loans. And I think we said on the last call, and as said many times, we can see this margin moving towards 30% and that dynamic yield in that environment.

But I think when you get to there, you start to top out a little bit if you just understand the broad base of revenue and the amount that goes through the grid and things like that that become a govern on what you can do beyond that. But as the mix of our business of wealth management with the private banking business and loans and deposits from a general client base and what's been there, that gets leveraged in the upside as you described.

Steven Chubak – Nomura Securities

Okay, great and one final one on credit. At your Analyst Day a number of years ago, you had given some guidance on through the cycle charge-off rates. But clearly since that update your loan mix has changed fairly dramatically and at the same time underwriting standards have tightened meaningfully.

From what I recall, I believe the through-the-cycle charge-off rate at that time that was implied was somewhere in the neighborhood of 120 bps. And clearly it's going to be lower than that going forward, but I was hoping you could give us an update, maybe some updated guidance on where you think that through this cycle and net charge-off rate will likely end up?

Brian Moynihan

I think, if you look at the charge-offs, the key is that when you really think about the broad constitution of $1.3 if you remove the recoveries, you got to look at the card business and what changed since that time as we have changed our position the card business fairly dramatically with the sales from international portfolios and even how we've approached the U.S. is based on the dynamics of the card business.

The good news is the card business is starting to grow in terms of balances and going back to an earlier question we got rid of the non-core aspects and now you are seeing the core start to come through $1.1 to cards. People are using the cards more and the balance is growing.

And so I think that if you just think about that, that number is going to be – is today and will be the dominant part of the charge-off questions and you should think that $100-ish billion and balances as you look forward you would expect that to grow but not continue to stop dramatically, it's not for us to change dramatically in terms of positioning our balance sheet because we need to keep that book balance because there is higher charge-offs and period of unemployment level.

So, I'd say, if you went back and look at that that is the biggest core adjustment between the two items and then, the counter to that is, if you look at the appendix page as you see the charge-offs on the mortgage business in the first mortgage business again recoveries, but if you look at home equity side.

You still have a charge-off rate which based on the underwriting criteria the stuff going on will be much higher and so we had a couple $100 million before the charge-offs that you can see on page 21. So we'd expect to see improvement in that from where we are, but I'd say the card business is kind of about as good, is getting very strong.

If you look at home equity you can reversal from the recoveries on the first mortgage loans. But it is a fundamentally different level because we mix the balance sheet differently on purpose.

Steven Chubak – Nomura Securities

Okay, that's great. Thank you for taking my questions.

Operator

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

Paul Miller – FBR Capital Markets

Yes, thank you very much. Going back to your LAS costs, excluding litigation, where you mentioned that it's probably – to get to that $1.1 billion target it's going to take another quarter or two. What should we be watching and how long do you think that LAS expenses are going to move to become non-material, I guess is another way to say it? Can you give us things, what we should be tracking?

Bruce Thompson

Sure. The first thing I want to be clear Paul that the – getting to the $1.1 billion has moved back – maybe moved back one quarter not two.

Paul Miller – FBR Capital Markets

I'm sorry.

Bruce Thompson

We are looking at one quarter. The second though that the biggest item that really relates to the trajectory of LAS expenses is your number of 60 plus day delinquent loans, because the cost to service that is many multiples what the cost of servicing a current loan is. So, as you go forward, we have full limitation of the national settlement effective September 30.

That will be a big benchmark and then as you go beyond then, as we said, one to two quarter lag you will see expenses trend down as your number of sixty plus day delinquent loans trend down and as those trend down, you need less people as well as a variety of other expenses. So that's the key metric to watch.

And as it relates to just how long that's going to continue, I would not expect that we get down to the level of what should be a recurring number of 60 plus day delinquents until probably the end of 2015 or the first part of

2016, so as it relates to continued expense leverage, we would expect to see upside in that business probably all the way through the end of 2016 as it relates to driving expense down.

Brian Moynihan

And Paul we've got work to do in a sense if we go back I think as we look at, I think at the fourth quarter of 2012 it was about $3.1 billion, the fourth quarter of 2013 I think it was $2.1 billion Bruce, and then, we said 1.1 – originally said higher then we brought down the $1.1 billion announced.

I think it is somewhere little higher than that but that's the broad move and the question is how do you keep going on that and that is really going to be as Bruce said a number of 60 plus delinquent loans, it's largely where these people.

But we are also getting condition as we now got the place stable and that's behind us so we can start to invest in technology that will add a level of improvement that we haven't been able to invest in while we just had to get the work done.

And so we expect the systems deployment in that business as we move into the middle of 2015 and to 2016 and we expect consolidations of physical plans and things like that which will add to the expense leverage but we haven't been able to do that as much yet just because of just the mass of the amount of the work that had to take place.

So, there is still lot of work ahead of the team but if you put in the context the $2 billion, this first quarter and expense reduction across eight quarters that lot of work has been done too.

Paul Miller – FBR Capital Markets

And just a follow-up, you talked about you do have another MSR sale, I don't know how material that is. But right now there has not been a lot of transfer of MSRs due to various – well, Lawsky, up in New York, questioning a lot of the stuff that other companies are doing. Is that – can that interfere with the sale or you think you can sell the MSR without the headline risk of Lawsky?

Bruce Thompson

The MSR sales that I referenced that will happen in the second half of the year. In the context of what we've done is relatively small. It's just that the delinquency content associated with that sale is high. So it's material from that perspective, but from an overall size perspective it's not material.

Paul Miller – FBR Capital Markets

Okay, guys. Thank you very much.

Operator

And we'll go next to Marty Mosby with Vining Sparks. Please go ahead.

Marty Mosby – Vining Sparks

Thanks. I want to ask you a couple questions. First off, you've been harvesting about $400 million worth of gains out of the debt portfolio. Is that in the sense of trying to minimize your AOCI risk when rates do go up, as you're shortening the portfolio or just wanted to think about your strategy; because that's been a pretty consistent flow through over the last year?

Bruce Thompson

As we look at those gains, we are committed to not – as we continue to see liquidity build not taking incremental OCI risk as I referenced. And so over the last year, even as the securities portfolios has grown, we've managed to keep the OCI risk from an absolute dollar perspective relatively flat and as you see markets move up and down, obviously selling longer duration securities as you growth in the securities portfolio as part of that strategy.

Marty Mosby – Vining Sparks

No I just want to make sure that the gains are just an outflow of that overall strategy that you had talked about.

Bruce Thompson

Yes, you are exactly correct.

Marty Mosby – Vining Sparks

Okay, when you look at the kind of the consumer and business bank, you have a considerable amount more in deposits than you really have in loans, which to me seems a little bit more skewed than what you would normally expect. How do you strategically think you can utilize that balance sheet funding over time or what are some of the initiatives that you are doing because you should be able to penetrate that customer base with more lending?

Brian Moynihan

That I think – yes, we should be able to penetrate on more lending. So, that if you look on page 17, you can see the – 18 excuse me, you can see the growth in card originations, the growth in home equity originations, which go on a balance sheet as Bruce talked about early would put about, I'd say half broadly stated of the originations and mortgages are going on the balance sheet.

And in the business banking segment which is a small part of our commercial banking segment here to – $50 million on the revenue companies we are actually starting to see net loan growth the first time and a lot of times as it been up for non-core portfolios and so that's the core opportunity in the franchise as it continued to originate credit to the core customer base and there is lots of opportunities there, but you can see us making progress against each quarter.

I think, on a broader context you got to think about these businesses and how they mix together. So in every company's retail business, it's an excess deposit generator just by the very nature of it and not only as it fund alone for the consumer customers but also provides the funding for the rest of the franchise.

So, I think we have to keep that broader context and that's why we invest going to your first question on mortgages and securities to – lack of better term get the value out of those deposits for the shareholders.

Bruce Thompson

The other point that I just want to mention is that, historically, if you look at the front-end lending in consumer real estate that we've done, from a segment perspective that that consumer real estate lending on a first mortgage basis, it shows up in the balance sheet and all other. So, you should – you can assume that those deposits that you see within page nine, a lot of the loans that they do for our customers are reflected in the all other segments.

Marty Mosby – Vining Sparks

And then in the mortgage segment, the CRES, you are still, if you take out the litigation, generating about a $700 million negative loss in the sense of your just pre-tax pre-prevision of between the revenues and expenses. You are talking about bringing down the Legacy Assets & Servicing expenses. But what is the timetable in your mind that would be reasonable to think of closing that $700 million gap?

Bruce Thompson

A couple of things, the first is, within consumer real estate services, if we look at the home loans business on the front-end, we talked about how we saw during the quarter that we increased both front-end originations as well as took down expense. So, Q1 to Q2 we saw about a $100 million improvement on the front-end of the business that's reflecting the consumer real estate services.

And as it relates to the $700 million number that you quoted, we obviously, relative to the guidance have $300 million of expense to get out of that business over the next 90 days and then as we've talked about earlier on the call, we've got work to do to continue to drive that down significantly in both 2015 and the first part of 2016 and that's clearly one of the highest priorities we have within the company.

Marty Mosby – Vining Sparks

And just lastly, and thanks for letting me ask you a few questions. As if you are looking at valuation of your servicing portfolio, it dropped off to 82 basis points this quarter, which seems relatively low as the duration of that portfolio is extending. I know interest rates came back.

So the models force you to write it back down. But when you're looking at the prepayment speeds and the refinancing behavior, it seems like eventually that there is some value as that portfolio lasts a lot longer than the model assumes at this point.

Bruce Thompson

Well, I think your point, the value and the fact that on a basis point basis the came down was reflective of the lower rates that we saw at the end of the second quarter relative to the end of the first quarter and you are right, at a point in time when rates start to move out, you would expect that MSR to extend and for there to be value there, but we do not – I want to emphasize that we look to manage the MSR risk as part of the overall strategy and are mangling that to have it be a plat book.

Marty Mosby – Vining Sparks

While from an interest rate standpoint I understand that this seems like the models have assumed a lot faster prepayments than we've really actually experience, which eventually has to true up?

Brian Moynihan

At the end of the day it comes down to what the customer does here, exactly right.

Marty Mosby – Vining Sparks

All right, thanks.

Operator

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

Matt Burnell – Wells Fargo Securities

The questions have been asked and answered. Thanks very much.

Brian Moynihan

Thanks, Matt.

Operator

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

Mike Mayo – CLSA

Hi, a couple follow-ups. First on the deposit betas, I appreciate you giving us the color, for every 100 basis point increase it would help by $3.4 billion. You describe the deposit base. But what is the actual deposit beta that you use to come up with the $3.4 billion benefit?

Bruce Thompson

We did not quote, Mike, the actual deposit data. We obviously go back and look at historical data. Our assumption is as it relates to pass through rates as far as how much of the first 100 basis points that has to get passes along, we are in the 40% area with respect to that.

Mike Mayo – CLSA

Okay, 40% for the first 100?

Bruce Thompson

Correct.

Mike Mayo – CLSA

All right. So I think that's in the ballpark of one of your large peers, but below some others. And is the reason that would be below others just because it's a lot of branch-based deposits?

Bruce Thompson

You are exactly correct and if we go back and look at what it's been throughout time, at points where arguably we don't have the competitive position now, we look at a lot of historical data to come up with that number.

Mike Mayo – CLSA

As it relates to expenses, you've achieved 90% of the $8 billion New BAC savings. I see the branches are 5023 and I think you said you wanted to be around 5,000 branches. And so if I heard you right, I think you're going from a period of rightsizing to growth. Is that a fair characterization?

Brian Moynihan

Yes, we've been growing underlying activity. If you look at some statistics in the back things were up Mike, but you are right, the – if you go back a couple years ago we started New BAC we were running $59 billion of core expenses, now run at $13 billion.

And so we are largely getting there and then question then is now how do you hold at there in the economic and environment which is lower growth and traditionally expected in the United States and that's been – this vigilance on our part. But during the whole time period we've invested literally thousands and thousands of people into the sales side and start to try that growth and we'll continue to do that. The question is how do you balance that investment grade.

Bruce Thompson

And I'd just, Mike, before – I assume, the – achieving the balance of the $2 billion in quarterly New BAC savings in the fourth quarter is not dependent on future branch sales. So I just want to make sure that there is not an assumed linkage there.

Mike Mayo – CLSA

And are you reallocating some of the people assigned to New BAC to other areas? It seems like you could dismantle that project group, so to speak?

Brian Moynihan

It's not a big project, I mean, this is done by the people run the businesses, with just committed plans that we did this wasn't – it's not a huge project group to actually accomplish. It's done by who have to run each business, each function.

Mike Mayo – CLSA

Okay as it relates to loan pay-downs, Bruce, you mentioned that some bank loans declined as customers went to the capital markets. In a way, a type of disintermediation from the bank. But can you elaborate on that? Are you still seeing that this quarter? Do you think that was a one-off event or is that something we should watch out for?

Bruce Thompson

Our sense is from what we saw during the quarter, it was more a one-off event. There were a couple of loans that were for acquisition-related purposes that people then went out and refinanced. So that was just a little bit of an anomaly that we saw in the second quarter and if you look at just the attractiveness that the capital markets have been, you would expect that to largely be over.

But every now and then when you deal with large multinational companies where some of the loan holds are little bit higher. You can have those one-time events where that happens and we had a little bit of that in the second quarter. It's not something we would expect to recur.

Mike Mayo – CLSA

What I'm getting to is, do you guys think this is an inflection point for loan growth? I can find one of your large peers who implied that it is; and I can find a large regional bank who says it's not. Where do you fall out on the spectrum? You said, Brian that middle-market utilization was up ever so slightly, can you just give us that utilization number and where you stand?

Brian Moynihan

Bruce, gave it early, but I have to do again.

Bruce Thompson

Sure. The middle market utilization rate was kind of 37 plus percent at the end of the first quarter and was up about almost 1% to mid 38%, which I don't think in and of itself is not material, but it does seem that that people are a little bit more willing to access the revolving credits. At the same time practically speaking, you are not going to tend to see loan growth that's dramatically higher than the rate at which the overall economy is growing.

So, we clearly, as Brian Alluded to in his opening comments, we did see an economy that improved in the second quarter relative to the first quarter and on the commercial side, our loan growth is going to tend to mere or be a little bit above what we seen in the macro economy.

Mike Mayo – CLSA

So do you think this is an inflection point for loan growth? Or is that an answer you would rather not delve into?

Brian Moynihan

We've seen – we are seeing signs of improvement, I am not sure I'd go as far as saying it's an inflection point.

Mike Mayo – CLSA

Okay, at the Annual Meeting, the clock ran out on me before I could ask one question, a very simple, what are your financial targets with and without higher interest rates?

Brian Moynihan

We've been pretty consistent if we go back, I believe Mike – the third and fourth quarter earnings call, that as we look out to and as we look at and embed in our models of 100 basis point parallel shift in the yield curve that we are looking at that point with a tangible common equity ratio of 7% and return on asset of 1% to be at a 14% return on tangible common equity.

As you get into the – you don't see that rate environment until 2016 and if you look at those metrics and back out what we've said a 100 basis points is worth to us on a parallel shift, you get a sense for what we need to get to ex the 100 basis point move.

Mike Mayo – CLSA

I'm sorry. So without the 100 basis point shift, the target for ROA and ROTCE is what?

Brian Moynihan

That's going to be roughly $3.3 billion or $3.4 billion pre-tax and at $0.63 it's $2 billion less which on roughly $140 billion on tangible common equity is going to be about 20 basis points less on assets at that point.

Mike Mayo – CLSA

Okay. And then last question, as it relates to Citigroup's settlement with the DOJ for MBS securitizations and CDOs, you had quite a bit more in MBS securitizations and CDO structuring; and so how can we think about this number and the amount of reserves that you have, I read one press article that you were willing to offer $12 billion and the DOJ wanted $17 billion.

I know you can't go into too much detail on this. But can you just give us a framework for how you view resolving this? I mean, on the one hand you could argue maybe you shouldn't pay hardly anything because you bought a lot of these entities that created these deals and you are just punishing the new shareholders. And on the other hand, if you say that you had ten times the level of some of this MBS activity, it could be a huge number. So how should we think about that?

Brian Moynihan

As we said, Mike, I think, we can't discuss that and you get a rendition of all the different criteria that people written about. I think this quarter we are able to put away the AIG case, which if you remember was back in 2011 lot of the people said it was worth a lot more money for $650 million. So we will continue to figure out where we get behind us a reasonable cost for our shareholders. We just can't talk about details on this.

Mike Mayo – CLSA

All right, well, good job with the AIG. I was one of those people who thought it was going to be more, and it wasn't. But that's fine. I will take any guidance I can get on the legal costs ahead. Thanks a lot.

Bruce Thompson

Okay, thank you.

Operator

And we'll take our last question from David Hilder with Drexel Hamilton, please go ahead.

David Hilder – Drexel Hamilton

Thanks. Most of my questions have been answered. Just on the AIG settlement, I actually thought AIG was the only remaining objector, are there others?

Bruce Thompson

There are several other objectors that had not been as vocal and as I said, we'll have to see where it goes with that dropping out.

David Hilder – Drexel Hamilton

And AIG has agreed to dismiss all its claims or its objections, I should say? Okay, great.

Brian Moynihan

That's correct, it's part of the settlement agreement.

David Hilder – Drexel Hamilton

Great. Thanks very much.

Brian Moynihan

Great, super. Well, I think we are through all the questions. So thanks a lot for joining us and we look forward to talking next quarter.