Operator

Good day everyone and welcome to today's program. At this time all participants are in a listen-only mode. Later you will have the opportunity to ask questions during the question-and-answer session. [Operator Instructions]. Please note this call is being recorded.

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

Lee McEntire

Good morning. Thanks to everybody on the phone, thanks on the webcast for joining us as well. Welcome to the third quarter results. Hopefully, everybody has had a chance to review the earnings release. It is only available on the Bank of America Investor Relations website.

So before I turn over the call to Brian, let me just remind you we have a new CFO that will be going through the results this morning, Mr. Paul Donofrio. And so, we will -- we may make some forward-looking statements. For further information on those, please refer to either our earnings release documents on our website or our SEC filings.

So with that I will turn it over to Brian.

Brian T. Moynihan

Thank you Lee, and good morning everyone, and thank you for joining us to review our third quarter results. Today, we reported $4.5 billion in after tax earnings or $0.37 per diluted share. When we think about the quarter, the key message is we continued to make good progress in a tough revenue environment due to low interest rates and a sluggish economic recovery. In addition with the late summer's volatility, especially the fixed income trading markets are remaining challenging. So with that we produced another good quarter of progress in all the businesses.

Before Paul takes you through the details of the quarter, I want to provide a little context from my vantage point. We continued to make progress towards our full earnings capacity here at Bank of America, and this quarter represents the fourth consecutive quarter of solid results following the resolution of our large legacy exposures in the third quarter of last year. When you think about it, over the last four quarters we have reported over $16 billion in after-tax income. That compares to the previous four quarters leading us to the third quarter of 2014 of about 5.2 billion, including the significant litigation cost.

Returns over the last four quarters in aggregate generated an ROA of about 76 basis points and a 10% return on tangible common equity. This quarter, we were able to keep the absolute level of our balance sheet flat to the second quarter. But by doing that, we continued to replace discretionary assets with good core customer loans, and we believe that is a very good trend. We continue to build record liquidity, and we believe we are well positioned against 2017 LCR requirements.

Our capital is again at record levels, and we returned over $3 billion back to shareholders so far this year through common share repurchases and dividends. Our tangible book value per share improved this quarter to $15.50. It is the highest level in many, many years. So, I am going to spend a couple more minutes focusing on a few drivers in our business. Our teams here at Bank of America are focused on the everyday engagement with our customers, deepening relationships by growing the core things we do with them, deposits, loans, managing their risks, helping them invest their assets, all while keeping our cost down, and you can see that in our results. When you think about our deposit franchise, we grew $50 billion in deposits over the last year, on an all-organic basis. That in and of itself is a large bank.

As a reminder, our consumer franchise is the largest retail bank in the United States. In our consumer banking business, as you can see, we grew revenue and earnings year-over-year despite the low interest rate environment. We have been restructuring our branch structure, selling some branches, closing some branches, and changing account structures, and with that this quarter our core consumer checking accounts continued to grow. We grew those accounts and improved the percentage of those customers who use us as a primary bank, and importantly the average balance per account continues to grow.

On cards, on credit cards, we issued another 1.3 million credit cards this quarter, and active accounts continued to grow. The good news is we are doing it through the lowest cost possible through our core franchise much lower than other means of growth. When you go to the change in our financial services business for mobile and digital banking, we now have 18.4 million active mobile customers and 31 million active online customers. Digital sales this quarter were up 30% over the last year. More customers are using mobile device to deposit checks and access their accounts, and now are starting to buy products as well as book appointments. To get a sense of that, we are now booking 15,000 appointments a week off of our mobile devices.

Our Merrill Lynch teammates who work within our consumer business helped push us through a new standard of 2 million accounts this quarter. When we go to our wealth management business, this business is showing the effects of lower market valuations pressuring revenue, but actively here has reflected good long term flows, good deposit flows, and good loan growth. In addition, we continued to invest in long-term growth in this business. More advisors, better products, and better advice in building and preserving wealth for our clients, and these clients continue to use the full range of our products including banking products.

As we switch to our commercial banking business, the business we call global banking, loans to commercial and corporate clients around the globe grew nicely from last quarter and the year-ago quarter. And although investment banking fees were down year-over-year, the industry fee pools appeared to be down as much or more. We maintained our leadership across many of the products.

In our global markets business, despite the challenging market conditions in the late August and September timeframe, we reported $1 billion in after-tax earnings in that business. Excluding DDA impacts, this is the best third quarter in earnings for this business we have seen in recent memory.

Our net interest income in the company is benefiting from loan and deposit growth showing momentum this quarter after you exclude the impact of FAS 91. Focusing on expenses, which we have talked to you much about, we continue to hold our costs in check. Expense less litigation LAS costs remain well below the $13 billion threshold at $12.7 billion, and that was in line with our second quarter despite the additional costs of CCAR and additional investments in the business.

We are taking the benefits of our simplify and improve program, which keeps our costs flat, while we continue to invest in customer-facing client people to grow our businesses. This ability to invest in growth is key to driving our franchise forward. When you go to the risk side of the house, credit risk remains very strong, market risk remains subdued, and we get a great return on that VAR as you look at it across the competitors.

We continue to feel good about our legacy exposure risk, and LAS business continues to work itself down. So, in the context of the environment we faced, we are operating what we feel is a solid quarter, and as evidenced, the continuing progress on our strategy, our strategy of responsible growth with our customs. With that let me hand it over to Paul.

Paul Donofrio

Thanks Brian, good morning everybody. Starting on slide 3, we present the summary of our income statement and returns for this quarter as well as Q2 and Q3 last year. As Brian said, we earned $4.5 billion in the quarter compared to a loss of a couple hundred million dollars last year and earnings of $5.3 billion in Q2. Earnings per share this quarter were $0.37. Let me mention a few larger items that in aggregate benefited diluted EPS this quarter by a penny. First, a negative $597 million market related NII adjustments, primarily FAS 91, cost us about $0.03.

More than offsetting this was a $0.02 benefit from DVA of $313 million and a $0.02 benefit from a collective impact of three other items; gains from selling some consumer real estate loans, tax benefits from restructuring some of the non-U.S. subsidiaries, and a provision for payment protection insurance in the UK. Revenues were 20.9 billion this quarter, expenses were 13.8 billion, significantly lower than a year ago because of litigation costs and compared to Q2, expenses were flat as we managed costs well, while investing in our franchise. Return on assets was 82 basis points this quarter and return on tangible common equity was 10%.

Turning to slide 4, the balance sheet ended basically flat relative to Q2 with assets of 2.15 trillion. However, we grew deposits 12 billion from Q2 while long-term debt declined by approximately 6 billion. Liquidity rose to nearly $500 billion, a record level and the time required for funding is now three and half years. Tangible common equity of 162 billion improved because of earnings supplemented by 1.5 billion in OTI. This was partially offset by 1.3 billion in capital return to common shareholders through share repurchases and dividends.

Tangible book value increased 10% from Q3 last year, and our tangible common equity ratio grew to 7.8% as equity improvements outpaced asset growth. With regard to regulatory capital I want to start by pointing out that our transition ratios under Basel III increased with CET1 ending the quarter at 11.6%. However, I will focus my comments on Basel III fully phased in regulatory capital ratios. CET1 capital improved 4.8 billion to 153 billion driven by net income, positive OTI, and DTA utilization. This was partially offset by capital returned to shareholders.

Under the standardized approach, our CET1 ratio improved to 10.8% as risk-weighted assets decreased modestly even as loans grew. Under the standardized approaches, the CET1 ratio increased from 10.4% to 11% as RWA improved by roughly 30 billion, largely due to reductions in risk. During the quarter, we announced that we exited parallel loans, and we will begin reporting under the advanced approaches beginning in 4Q. So, we have also presented our CET1 ratio for 9/30 on a pro forma basis, which includes the addition of approximately 170 billion in RWA primarily for wholesale credit under the advanced approaches. The pro forma CET1 ratio at 9/30 was 9.7%, an increase of approximately 40 basis points from Q2 on the same pro forma basis. In terms of the supplementary leverage ratio, we estimate that as of 9/30 we continue to exceed U.S. rules applicable at the beginning of 2018 at both bank and parent.

Turning to slide 5, we grew loans and deposits both of which are key drivers to our financial performance. We reported loans on an end of period basis increased 1.2 billion from Q2. However, underneath the consolidated number there was significant activity I want to take a moment to point out. With that in mind, let’s review why loans in all other and LAS are declining. First, the portion of our mortgages that we report in all other continue to run off due to pay downs. This run off is being replaced by new loans which are now reported in business segments like GWIM and consumer where they are originated.

Second, also in all other, we converted 6.2 billion of mortgages with long-term standby agreements into securities thereby improving HQLA. These types of conversions are largely complete. Third, we sold roughly 3.6 billion of other mortgages and NPLs as we continue to clean up and optimize the balance sheet. Lastly, in LAS, where we report our legacy home equity portfolio, second lien loans continue to run off. Now, if one excludes the above activities in LAS and all other, ending loans in our primary lending segments increased $19 billion or 3% from Q2.

Turning to deposits, on an ending basis, they reached 1.16 trillion this quarter, growing 50 billion or 4% over Q3 last year. We produced solid growth across the franchise. Global banking grew deposits 6% year-over-year. GWIM grew 3%, and consumer grew 7%. However, as you can see at the bottom right , if one includes CD run off, consumer deposits grew 10%. We have also included two other tables to give you a sense of the composition of our deposits.

Turning to quality on slide 6, I won't spend a lot of time here as asset quality continued to be strong and mostly consistent with Q2. Net charge offs were flat around 930 million versus adjusted Q2, Q3 provision expense of 806 million, and we released a net 126 million in reserves.

Releases in consumer real estate and credit cards were partially offset by reserve builds in commercial. In commercial, we saw small increases in reserve over criticized exposure from Q2 driven by a downgrades in oil and gas that were partially offset by some improvements in the rest of the commercial portfolio. Also noteworthy, the increase in oil and gas reserve over criticized in Q3 was less than half the size of the increase from Q1 to Q2.

Turning to slide 7, net interest income on a reported FTE basis was 9.7 billion, declining 1 billion from Q2. The decline in long end rates in the quarter caused adjustments in our bond premium amortization, which resulted in a linked quarter decline in NII of 1.3 billion partially offset by good growth in NII otherwise. The Q2 adjustment increased NII by 669 million while the Q3 adjustment decreased NII by 597 million.

NII excluding these adjustments improved 292 million from Q2, to 10.3 billion. Three factors drove this increase. First, we grew core commercial loans. Second, we improved the composition of the balance sheet and our global markets business which improved trading related NII. And third, we benefited from one extra day in the quarter. With regard to asset sensitivity, at the end of the third quarter our overall asset sensitivity increased as a result of the decline in long end rates, which drove the FAS 91 adjustment. As of 9/30, an instantaneous 100 basis point parallel increase in rates is estimated to increase NII by approximately 4.5 billion over the subsequent year with a little more than half of that improvement caused by increases in short end rates.

Turning to slide 8, non-interest expense was 13.8 billion in Q3, matching the level of expense reported in Q2. The 20.1 billion expense in Q3 last year included 6 billion in litigation costs. Litigation this quarter and in Q2 was less than 250 million. Excluding litigation, expenses were 13.6 billion in the quarter, a decline of 600 million or 4% from last year and consistent with Q2 despite additional costs related to our CCAR submission.

Headcount continues to trend lower, down 6% compared to Q3 last year. LAS costs, excluding litigation, were relatively stable compared to Q2. However, we still expect to lower that number to roughly 800 million in Q4 and move lower in 2016. As a reminder, in the fourth quarter, we tend to experience some seasonal increase in expenses as we close out the year.

Let’s walk through the business segments starting on slide 9 with consumer banking. Consumer earned 1.8 billion, 5% greater than Q3 last year. The business segment generated strong 24% return on allocated capital. Revenue increased over last year as increases in non-interest income outpaced the decline in NII. With respect to NII compared to last year, the benefit of higher deposit levels was more than offset by the allocation of ALM activity and lower card yields [ph].

Non-interest income benefited from divestiture gains as well as higher card income driven by increased customer activity while service charges declined. Expenses declined from Q3 last year despite a 5% increase in sales specialist and higher fraud costs in advance of ruling changes regarding EMV chip implementation. Those increases were offset by savings from the continued optimization of our delivery network. The cost of operating our deposit franchise remains low at 180 basis points, and the consumer bank reported an efficiency ratio of 57%.

We continue to experience shifts in consumer activity away from branches towards self-service options. Self-service trends are driven by mobile banking, online banking, and ATM usage. Mobile banking customers increased to 18.4 million and deposits via mobile devices now represent 14% of consumer deposit transactions. Mobile processing is better for us and it is better for our customers. It is one-tenth the cost relative to processing of financial centers and more convenient for customers.

On slide 10, we present key drivers and trends. Average loans grew across mortgages, card, and vehicle lending. Deposits, as Brian mentioned, continued to increase particularly if one excludes the impact of CD declining. On this basis, deposits were up 10% from the year ago. Regarding brokerage assets, Merrill Lynch accounts crossed the 2 million mark and are up 2%, while asset levels are up 8% from last year even with declines in equity markets this year. Mortgage production, although up from 3Q last year, was down from 2Q as refinances declined.

In the future, mortgage banking income in the consumer segment will be lower by approximately $30 million per quarter given the Q3 sale of a small appraisal business. A similar amount of expense should reduce quarterly as well. Looking at our card activity, card issuance was strong at 1.3 million. Combined credit and debit spending volumes were up 3% from last year despite the decline in fuel prices. Average outstandings were down slightly from Q3 last year as customers paid off more of their balances. However, average balances showed modest growth over Q2.

U.S. card credit volume was strong as net charge offs declined this quarter to a decade low of 2.5% driving risk-adjusted margins higher to 9.3% excluding divestitures. Turning to service charges, they were down moderately versus Q2 last year -- Q3 last year as we continued to open higher quality accounts that carry higher balances. These higher quality accounts tend to have fewer account fees.

Turning to slide 11, global wealth and investment management produced earnings of $656 million. Results were down from Q3 last year driven by lower market values and lower [indiscernible] client activity. Compared to Q3 last year, asset management fees were up 2% but more than offset by declines in transactional revenues. The trend of lower transactional revenues continued this quarter as clients migrated from brokerage to managed relationships which was compounded by lower markets and muted new issuance. On NII, the benefits of higher loan and deposit flows was more than offset by the company's ALM activities driving NII down from Q3 last year.

Non-interest expense was modestly higher than the year ago period as litigation costs were higher and wealth advisors grew 6%. Pre-tax margin was 23%, down from a strong Q3 last year. Margins were pressured this quarter by a few factors. First, markets declined pressuring revenue across many products especially those in which we record transactional revenues. Second, operating leverage was challenged as areas of revenue where incentives are high like asset management grew while NII where incentives are much lower declined.

Moving to slide 12, despite the lower market levels, business drivers improved. Wealth advisors were up almost 1000 or 6% from Q3 last year. Long-term AUM flows were more than 4 billion, deposits increased more than 7 million, average loans were up 10% from last year, our 22nd consecutive quarter of loan growth in this segment.

The last thing I would note that’s not shown here is referral rates across the company remained strong. For example, our retirement solutions business continues to win in the marketplace. We have won more than 1200 retirement plans year-to-date, many of which were referred from global banking. On a year-to-date basis, this is up more than 40% from 2014.

Turning to slide 13, global banking’s earnings were 1.3 billion, generating a 14% return on allocated capital. Earnings declined from Q3 last year but were up modestly versus Q2. The comparison to Q3 last year reflects higher provision expense and lower NII driven by the company’s ALM activities as well as increased liquidity costs. Additionally, we saw year-over-year compression in loans spread; however, loan growth was a positive contributor to NII. Growth from Q2 reflects improved NII from loan and deposit growth. Regarding provision expense while flat to Q2, it is up 243 million from last year. We added 125 million to reserves in Q3 compared to a release of 116 million in the year ago quarter.

Looking at trends on slide 14, let’s first focus on fees relative to the same period last year given seasonality. Despite a lower level of IBCs this quarter, we maintained our number three global fee position and believe we increased our market share as industry fees pools declined. Investment banking fees for the company this quarter were 1.3 billion, down 5% from Q3 last year. Advisory fees were up 24%. Debt underwriting was down modestly, equity underwriting was down from Q3 last year, in line with industry volume declines.

Outside of IB, our treasury fees improved from Q2 on increased activity. Looking at the balance sheet, loans on average were $310 billion up 9% year-over-year and a similar percent relative to Q2 on an annualized basis. The growth was broad across both corporate and commercial borrowers and asset quality was consistent with our overall portfolio. Importantly, the decline in spreads year-over-year flattened as the decline from Q2 was relatively small.

On deposits we saw good performance with average deposits increasing by $8 billion over Q2 and we continued to optimize the portfolio improving the composition towards higher quality deposits from an overall LCR perspective.

Switching to global markets on slide 15, earnings were $1 billion on revenue of $4.1 billion despite challenging markets. We generated 11% return this quarter. Earnings were up from Q3 last year which included litigation cost of roughly $600 million most of which was non-deductible for tax purposes. As you can see, we had a net DVA gain this quarter which was higher than last year. Total revenues excluding net DVA declined from Q3 last year driven by lower fixed sales and trading and to a lesser extent IBCs, offset partially by improved equity sales and trading. Non-interest expense excluding litigation improved a $102 million versus Q3 last year, up 4% improvement.

Moving to trends on slide 16 and focusing on the components of our sales and trading performance. Sales and trading revenue of $3.2 billion excluding net DVA is down 4% from Q3 last year. Comparing to the same period a year ago, fixed sales and trading revenue declined 11%. Similar to the first half of this year the year-over-year comparisons reflect good activity and macro related products like rates and after tax. Conversely, market activity remained muted in credit products driving lower client activity this quarter than Q3 last year.

As a reminder, our mix remains more heavily weighted towards credit products driven by the strength of our new issues capability and market share. Equity rose 12% driven by strong performance in equity derivatives reflecting favorable market conditions. Asset levels were down modestly from Q3 last year.

Turning to legacy asset servicing on slide 17, this segment lost roughly $200 million. I want to focus on three things here; the reduction in delinquent loans, mortgage banking income, and expenses and compare each to Q2. First, the number of delinquency for mortgage loans continued to decline down 14% this quarter as the teams continued to work through solutions for customers.

Second, mortgage banking income declined by more than $400 million. This decline was driven primarily by three factors, servicing fees declined about $50 million as the units we serviced declined. Net MSR and hedge performance declined a $100 million driven by gains on MSR sales in Q2. Reps and warranty provisions swung nearly $300 million from a benefit of $204 million in Q2 to a provision of $77 million this quarter.

Lastly, I want to focus on expenses which excluding litigation were flat compared to Q2 as increased professional fees offset improved operating cost from the decline in delinquent loans. We believe we were on-track to achieve our goal of reducing expenses excluding litigation to approximately $800 million in Q4.

On slide 18, we show all other which primarily includes our ALM actions and the operations of our UK card business and other smaller activities. While other reported a $503 million pretax loss, more than offset by certain tax benefits. The pretax loss was a result of a negative NII market related adjustments and an increase in provisioning for UK credit card payment protection insurance. This was partially offset by gains from securities and loan sales.

Regarding the change in PPI liability, we increased it because of a notice of future regulatory guidance regarding treatments of claims and a case ruling.

A comment or two on taxes before we wrap up. The Company's effective tax rate for the quarter was 26%. It was lower than Q2 due to the tax benefits I mentioned earlier. I will expect the tax rate to be roughly 30% next quarter excluding unusual items and specifically the UK, the recent UK tax proposals.

In terms of 2016, I would expect it to be in the low 30s. As a reminder from last quarter's announcement we expect that the UK tax proposal announced in July will result in a one-time tax charge of approximately $300 million upon enactment from revaluing our UK DTAs.

Let me conclude our prepared comments by offering these takeaways. Although the U.S. economy is improving slowly, revenue growth remains challenging in this interest rate environment. We are focused on those things we can control and drive, these includes delivering for our clients and customers within our risk framework and driving those things we know will result in sustainable profits and returns.

Our results reflect this focus. We grew both loans and deposits across our business. We delivered to our corporate institutional clients in a challenging market environment. We stayed focused on managing risk and we kept cost in check while investing in the business. We are getting better positioned each quarter for the current business environment and we remain well positioned to benefit when rates rise. With that let's open it up to Q&A.

Question-and-Answer Session

Operator

[Operator Instructions]. And we can take our first question from Eric Wasserstrom from Guggenheim Securities. Please go ahead.

Eric Wasserstrom

Thanks, good morning. I was just wondering if you can maybe just speak a little bit about the NII outlook given the dynamics about the stable balance sheet, shifts within the balance sheet, and how we should think about both the GAAP and adjusted NIM if the interest rate environment continues to look more or less like it does today. Can you just kind of help us think through what all those dynamics mean for NII?

Paul Donofrio

Sure so I am assuming some loan growth and adjusting for day count we would expect normalized NII excluding marketable adjustments to be flat to grind up and as long as rates don't decline in the future. In the fourth quarter, we think they'll wind up slightly based upon the realization of the expected forward curve and some loan growth.

Eric Wasserstrom

Okay and with respect to the loan growth, is that in the context of growth in the overall balance sheet or continued stability given mix shift?

Brian T. Moynihan

I think we just look at commercial loans year-over-year at 10%, last quarter up 3% so you got to annualize that out and what we're looking at is that we replaced discretionary assets with actually good core assets. So whether the balance sheet grows a little bit or not is not as critical as the assets . So it is probably driven in near-term more by mix than aggregate size growth on a GAAP basis .

Eric Wasserstrom

Okay, thanks very much.

Operator

And we'll take the next question from John McDonald with Bernstein. Please go ahead.

John McDonald

Hi, wondering on expenses, you kept the core expenses flat to last quarter. Did you digest additional CCAR expenses and also some cost related to the proxy vote? What are the puts and takes in keeping that flat and what's your outlook on the core expenses going from here in this kind of environment?

Brian T. Moynihan

Sure, so the short answer to your question but then I'd like to elaborate a little bit more is yes we kept core expenses flat and we absorbed CCAR expenses and other investments in the business in the quarter. Just take a step back I think the way we would ask you to think about expenses is we are seeing good expense progress within our business importantly as we continue to invest in the future. So core expenses which everybody excludes litigation LAS are expected to remain relatively flat at probably a little less than 13 billion per quarter in a moderately improving business environment. As we invest in growth and [indiscernible] other initiatives to offset inflationary pressures.

If the business environment is close, we would have to adjust. If the business environment is better we are going to use SIM and other efforts to improve the operating leverage of this company even as incentives and other expenses increase.

Paul Donofrio

One more point Brian, I would remind everybody that we did guide you that we would have increasing cost expenses in the second half of the year so we do have a little bit of that in the fourth quarter as well.

Brian T. Moynihan

So John just when you think about it from a headcount perspective because that's what going to drive our 60% people cost now. For the quarter we are down by 1.5, in that we actually had an increase in client facing headcount for the quarter of 1.6. So basically we are able to achieve a reduction while we continue to invest. On top of that the risk in CCAR FTE count was up about 400 for the quarter and other business hiring especially the new kids from school were up about a thousand. So to attrition and then through other reductions we got that down in that 1.5. So if you follow that course last quarter we were down 3,000 or so and that was just 15 quarters in a row or something like that. We are down a little less this quarter which is expected to be similar pickup next quarter.

So the 12.7 we did in the second quarter remember was a surprise to all of you. We called it flat this quarter which I think exceeds what our expectations were. We are laser focused on keeping it to that kind of level where we continue to invest in the thousand plus people to go generate the business growth you are starting to see.

John McDonald

Okay and Paul in terms of their credit outlook do you expect to kind of bounce around here, you got charge offs in the low 900s and you did about 100 million reserve release so charge off is 900, provision is 800, is that the kind of ballpark you expect to stay in near term?

Paul Donofrio

I would expect to see provision in 2016 roughly you know where it is today.

John McDonald

So that's around 800 a quarter, something like that ballpark?

Brian T. Moynihan

Yes, because we are going to get a little help. John, if you look at it, you still got a little excess mortgage charge offs going through. Card continues to work its way down because of this period of credit quality and the question on the commercial side is bouncing around, gets lumpy. But if you look at the reserve release we are down to 100 so think of that sort of 800 to 900 range a quarter and I think that is a way to think about it over the next several quarters.

John McDonald

Okay, thank you.

Operator

[Operator Instructions]. We take our next questions from Betsy Graseck with Morgan Stanley. Please go ahead.

Betsy Graseck

Hi, good morning. Paul I just wanted to ask you to elaborate a little bit on the comment that you made during prepared remarks regarding the composition of the balance sheet improving and that being a benefit for trading related NII, could you just talk through what you did and is that sustainable, the benefits to NII?

Brian T. Moynihan

Sure, I think the answer is we just sold, for lack of better word, sold some lower yielding assets that we used to run our business and markets and we positioned them to high yielding assets. So maybe we led a little bit of as an example, we would do a little bit less in prime brokerage and a little bit more in fixed income where some -- yields are higher.

Betsy Graseck

Okay, and then on the conversion of loans to securities for HQLA , given the fact that you mentioned that is done, what kind of core loan growth are we looking for as we move forward here?

Paul Donofrio

Well by core do you mean loan growth in the business segments or for the consolidated company.

Betsy Graseck

Well, I guess I will take the consolidated more than anything.

Paul Donofrio

Yes, so we grew in loans as a consolidated company year-over-year by 1%. It was up slightly quarter-over-quarter. I wish that we would be able to continue to grow the whole company in the sort of -- in that range. You can see faster growth in the core lending businesses. We grew that year-over-year at 9%. I am not going to stand here and tell you that we are going to do that every quarter, but we would expect to see more robust growth in our lending segments. You have to remember that in LAS, home-equity loans are still coming down and in the discretionary portfolio even though we are not going to have $6 billion -- as much as $6 billion LTSE conversions we still are going to see first mortgages run off there.

Betsy Graseck

And just then lastly on this topic when you are thinking about reinvesting deposit growth, etc. in securities, where are you relative to your new investments in securities versus what the portfolio yields are, are you close to breakeven there or…?

Brian T. Moynihan

In terms of the running off yields, Betsy, versus the coming on yield?

Betsy Graseck

Correct.

Brian T. Moynihan

It is relatively stable.

Betsy Graseck

Okay.

Brian T. Moynihan

Our portfolio has been priced down over the years and so it is relatively stable.

Betsy Graseck

Okay. Thanks.

Operator

And our next question will be from Matt O'Connor with Deutsche Bank.

Matthew O'Connor

Good morning. Can you give us an update on the CCAR resubmission and then also comment on some of the management changes that occurred there as you think about the 2016 process, just how you might approach it differently or similar to what you have done in the past?

Paul Donofrio

Why don’t I start with CCAR and then maybe Brian will speak to some management. So in terms of CCAR we submitted our resubmission on September 30 as planned. That had the involvement of the leadership of the company and the Board, significant involvement for the line of business. We tried to keep the regulators involved and up to speed every step of the way and they have until 75 days after that submission to get back to us.

Brian T. Moynihan

Yes, in terms of the change, three months ago we told you that we are making the changes. Nothing has changed and Terry continues to work on the CCAR process, Terry Laughlin and Andrea has moved over as Chief Administrative Officer and been heading the process from the day that we announced it. And that transition will continue to take place over the period of time between now and the next CCAR submission in 2016.

Matthew O'Connor

Okay, and then just separately in terms of the credit quality comments that you provided for the next several quarters, how are you thinking about energy as part of that?

Paul Donofrio

I think we mentioned in the prepared remarks that our criticized assets were up modestly. If you sort of dive into the oil and gas segment, you will remember last quarter we increased in criticized assets about $1 billion because of oil and gas.

This quarter we saw that increase decline significantly to about 40% of that level and then be offset by improvements in the rest of the portfolio. So we saw a modest increase in criticized assets. We feel pretty good right now where we are with oil and gas. As you know our clients are going through the redetermination process.

Matthew O'Connor

Just a big picture question following up on that, there was a lot of concern I think among credit folks that energy default is have increased a lot and will continue to increase from here but we are not really seeing all that much pressure with either you guys or the banks. Is it -- are you guys higher in the structure, different customer base, why do you think there is kind of less pressure with you guys than we are seeing for the industry as a whole outside of banks?

Brian T. Moynihan

I think the answer is yes. The hiring structure and from lot of the risk is distributed out to investors and things like that. The Company has had reserve base methodologies our hedge involved and it is more complex, I think than oil price changes. So I think as you look at it our lending portfolio is done consistent with our quality standards and had held pretty well under the significant change in oil revenue from oil price changes.

Paul Donofrio

And large corporates, we are just dealing with larger companies that have a lot of different options and in middle market, as Brian said a lot of that lending secure .

If you look at our overall energy portfolio we are about 22ish and really only about 40% of that really isn't tied. Of course everything in that sector is tied in some way to oil and gas but 40% of that's not really directly tied to the price of oil and gas. So when you start just walking through the numbers and you whittle that down and then you whittle it down for the number of loans that we have where we have reserves, it gets to something I think that is manageable.

Matthew O'Connor

Okay, thank you very much.

Operator

And the next question will come from Jim Mitchell with Buckingham Research. Please go ahead.

James Mitchell

Hey, good morning Paul just a quick question on the liability side of the balance sheet. You had highlighted that the long term debt was down $6 billion or so in the quarter. I know that long term debt cost were down about 11 basis points quarter-over-quarter. Is that sustainable in the context of TLAC, as there is just some movement underneath the hood or is it timing, just kind of help me think about where that footprint and cost go from here?

Paul Donofrio

Sure, but we generally don't comment on our issuance plans. I guess the only guidance I would give you is we are going to try to have prefer that's roughly 1.5% of tier 1 capital and sub debt that's roughly 2%. And in terms of TLAC we don't know what the rules are yet. We may have to issue a little bit more debt, but based upon what we are hearing at least from the rumor perspective it looks to be quite manageable.

Brian T. Moynihan

Technically, quarter-to-quarter there were some hedges that went from a deduct to a benefit -- that is the other way around the change that rate. So, I wouldn't think that the rates, the underlying rates haven't changed much is the way to think about it. There is just a hedge cost and a hedge benefit that came through that increased the spread.

Paul Donofrio

Or, you were referring to the decline in the yield, sorry.

James Mitchell

That's all helpful and maybe just on the loan growth side what are you seeing on the demand side, consumer has begun to pickup for you guys where are you seeing the most strength and do you think the environment still is pretty positive from a loan demand perspective in the U.S.?

Brian T. Moynihan

Remember we are focused on in the consumer business on two things that we have been consistently focused on. We are making loans to our customers i.e., in connection with the whole franchise. And then secondly, we are staying in the very prime orientation so if you think about this quarter, home-equity production was $3 billionish which was kind of consistent with other quarters that have grown from $1 billion up to $3 billion across the last couple of years and have been very consistent.

As Paul said earlier mortgage has tipped down a little bit, but year-over-year they are up strong. Little bit seasonality and there is a little bit of refi going out. Our other lending business was still was strong. The direct to consumer piece of that we didn't have two three years ago. We are at half billion dollar a quarter production, so we are seeing good demand. But part of it is just capturing that inherent client share, wallet share that we have been after and you're seeing that materialize. The other key honestly in terms of nominal growth for us is the one off non-core part that has gotten small enough over the last couple of years that we've overcome it. So the only place we still have that hold from a quarter perspective is really the home equity business. So, we resized the card business and you are seeing all the hardwork the 1.3 million cards producing some loans even though it is a huge payment rate on that.

You are seeing the auto lending business close direct to consumer and then what we do with dealers and stuff. They are strong and stable and you saw the car sales numbers strong and you are seeing the consumer real estate strong from the home equity production is solid. So, when you go over to GWIN, you saw loan growth there between U.S. trust and what we call structure lending but don't think of it that way. It is lending strategy, assets, wealth assets again also in the margin lending with more stable, it was very stable. I thought [indiscernible] we haven't seen him change in our margin lending. Lot of people think, investors that lower the risk is basically been relatively stable across the last few months.

James Mitchell

Okay, great. That is helpful. Thanks.

Operator

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

Brian T. Moynihan

Hello Steven.

Operator

Hello Steven, your line is open please shut the mute button.

Steven Chubak

Sorry, can you hear me now.

Brian T. Moynihan

Yes.

Steven Chubak

My apologies for that. So, one of your competitors revealed that their efforts to mitigate some of the GSIF indicators had actually helped push them into a lower GSIF bucket and looking at the metrics that have been published as of year-end it looks like you are actually closer to the lower end of that 3% threshold and we have seen some progress in terms of reduction of level 3 assets at your end, I just wanted to see if you actually see opportunities to manage that bucket lower or somewhere closer to 2.5%?

Brian T. Moynihan

We always manage the balance sheet against all the different constraints and you can see the improvement in the pro forma advanced ratio by 40 basis points this quarter closing down the gap. So, we are always looking to manage the balance sheet; I wouldn't put a lot of stake in us moving ourselves fundamentally in buckets at this point because we have been working at that the last three years to make sure that this rule came out that we have had ourselves positioned as well as we could. So we will continue to work on it but I wouldn't expect us to change. If you look about risk assets and level 3 assets and things like that and our company continued to trend down. We just worked the balance sheet. I wouldn't say that we expect to move our bucket. We could but we don't expect to.

Steven Chubak

Okay, that is really helpful. Thanks Brian. And maybe just thinking into some of the GWIM guidance that Paul you had given earlier, the negative operating leverage has been fairly pronounced which you acknowledged and I did appreciate the detail based on some of the specific factors that weigh on the margin such as litigation and maybe some remixing in terms of revenue. But just wanted to get a sense as to how we should be thinking about that margin trajectory going forward assuming no elevated litigation and without any rate boost, just to get a sense as to how we should be thinking about that profitability trajectory?

Brian T. Moynihan

Let me -- if you remember last quarter we talked a bit about this. There are some things that will help us which are that some of the deal stuff runs off this year relative to next year which would give us some positive help, round numbers nearly $100 million a quarter of expense. So, that's just amortization that finally runs off, so that is positive, and I think Paul cited it and you cited back examples of some non-recurring things. I think you have to be careful in the year-over-year comparisons on the margin because this business [indiscernible] big bank it's harder to do one business at 250 to $1 billion deposit franchise, big money franchise. So all dynamics that we talked about from the corporate obviously hit them also. And so they will benefit more by stability in that as we compare quarters and then hopefully they'll grow out of that as they grow loans and deposits, that's the thing.

The question then comes down to more philosophically, would you quit investing in new advisors to get a point on margin or so and in the context that business were in $600 million or $700 million after tax for us in the context needing to drive it to another level. We still believe the right trait is to continue to invest in growth and the world changed and people weren't becoming successful which they are, we could change that. And the thought is that we are adding advisors, you don't see that in other people's franchises and we are doing in connection with consumer bank which is a critical increased success factor for our advisors. In other words if we hire people in what they call BFAs that worked within a consumer franchise with our Merrill teams and we are seeing them get up to speed fast. We think that's a competitive advantage for people entering this business and we will continue to invest in that. So, if we can't see the successful pull back on that right now it is worth it for our shareholders and our customers.

Steven Chubak

Okay, thanks for that detail Brian, and maybe just one more from me on the investment banking side. One of your competitors was talking about a pause in activity that they have experienced so far in 4Q. I recognize it is early days but just wanted to get a sense as to what you are seeing within the global banking and markets businesses and also if you can provide just some additional color or detail on what you are seeing in the backlogs by channel that would be really helpful too.

Brian T. Moynihan

I'll let Paul hit that but in terms of the – but just want to make sure you are talking about trading or investment banking fees or both?

Steven Chubak

Both?

Brian T. Moynihan

Okay, Paul.

Paul Donofrio

SO I guess in terms of the pipeline, the pipeline right now looks quite – if this is investment banking fees, pipeline right now looks quite strong. There is a decent amount of M&A in it, the timing of which can move around a lot. Some of the pipeline increase I guess can be attributed to transaction that were in our pipeline in the third quarter, didn't come out in the third quarter and we are now into the fourth quarter. We saw that type of activity in ECM and as markets improve we hope that pipeline activity will come out.

In terms of sales and trading we talked a little bit about that in the prepared remarks. We saw I think great activity in equity sales and trading as clients needed to rebalance risk or take advantage of opportunities. But if we are in Asia we were getting some of that [flow] [ph] and feel good about it. On the other hand we do have a strong FICC business that's tied into issuance and the new issuance market in the third quarter wasn't as strong so some of the flows just weren't there.

Brian T. Moynihan

Year over year - last year's fourth quarter was pretty tough so I think [being better than that] [ph] wouldn't be great performance in sales and trading, but Tom and the team have got business pretty well positioned in terms of effectiveness. And that's why even with the slowdown in the latter part of the quarter we still made a billion bucks and you subtract out DVAs 800 million or so, and that's good performance numbers.

Steven Chubak

Alright great, that's it from me. Thank you for taking my questions.

Operator

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

Glenn Schorr

Hi thanks, a couple of quick follow ups. Heard all your comments so no need to repeat on the feeling decent about credit quality and energy specifically. Just looking for two pieces of info if you are willing to share either a reserve as a percentage of loans for energy specifically or it may be what percentage of the criticized exposure is energy related, just get looking for more detail behind the comfort, thanks?

Paul Donofrio

I don't think we have any of that perspective with us handy and not sure we can disclose that but we'll follow up with you if we do.

Glenn Schorr

Okay, worth trying. In terms of what's going on in terms of the mix shift on balance sheet, added some of the discretionary assets and into the core loan growth, I think everybody will take that all day long. I am curious on if there are RWA implications that we need to think about, is that a heavier RWA mix even though we'll take it I am just curious on how that plays on the capital side?

Paul Donofrio

Yes, I think that as we grow loans obviously our RWA is going to increase particularly on a standardized basis less of an increase on an advanced basis. But they are completely tied and as you said we are comfortable with that given the interaction with our clients and the opportunities that brings to increase our margins relative to other investment opportunities.

Brian T. Moynihan

I think as you think about it remember that if we go look at page 5 and you look at the content of what's leading coming on especially in the consumer business and then think about running that through all kinds of models including the CCAR process and think about getting rid of $5 billion of home equity loans which are basically non performing and putting on $3 billion of good home equity loans, that dynamic is pretty favorable to the overall sort of calculation and so. It's not only within category -- it is not only category, it's also within category that we are seeing improvement in credit quality on what's coming on but especially when you run through models and things like that.

Glenn Schorr

Okay, I appreciate that. One last one on you commented earlier about the strength in equities, partially driven by the good performance in the derivatives business during the quarter. I guess the question is it ebbs and flows but maybe over the last 12 months not just the last quarter, is derivatives 40%, 50% of overall equities, is that a number you want to share.

Paul Donofrio

Are you talking about the percentage of equities as a function of what?

Glenn Schorr

I am saying in any given period your equity markets revenues how much of that is driven via the derivatives business?

Brian T. Moynihano

I don't have a number on top of my head but I think you can look at it in various pieces; we're checking it out but you can remember that it is an integrated business. It is between 30% and 40%, we just found a number, but remember it's an integrated business so you can't say grow derivatives but the cash – because the clients do all things whether it's including fixed income and equity, so we are going together, so think 30% to 40%.

Glenn Schorr

Understood, alright, thank you.

Operator

And our next question comes from Ken Usdin with Jeffries. Please go ahead.

Ken Usdin

Hi, good morning. Brian just one question follow up on the loan side. You talked about the demand and where you're seeing it but I am just wondering in terms of like the no excuses growth mentality from a supply side, where are the lending officers now in terms of like using the excess capacity to continue to grow the balance sheet, is there still room from the BofA supply side to extend that growth on top of what the economy and the marketplace is giving you broadly?

Brian T. Moynihan

Yes, I think, so if you look at the different segments, if you think about on the consumer side using – it's more sales force growth and effectiveness in building that team. And then also the digital sales coming up whether it is auto, whether its credit cards are up dramatically. So think of that engine as being both people and a machine for lack of better term. But don't think of it as changing credit quality or taking any kind of more risk, so Tom and Dean that run that business for us has done a good job and so I'd say the supply has been more from a delivery capacity than it is from an expanding the box or anything like that. We really kept it to where we want it and we think that holds us in good stead as you think through all the different dynamics on company.

When you go to the commercial side it is simply couple of things and a very small business which is reported in consumer we have actually seen that business stabilize and start to make its way out of runoff position and that's again more automated scored approach, we sped up approval times and done a lot of work to make ourselves more competitive, more on delivery than credit. But if you go on business banking, commercial banking, and global corporate investment banking segment, our three versions, [Indiscernible] the team they've actually hired over a 100 people, loan officers this year. So they could add 10% to 15% growth on loan officers. Got them hired and they are working, it takes time for them to get up to speed. [Alistair] [ph] looking at our middle market business. I think there's about 60 this year something like that, 70 people delivering and running products and things behind that also is treasury services people.

So again capacity expansion in the global corp investment bank work differently. As we look at middle market I think that is scenario where we are, we used to think if we are going to take 10 let's only take 8, that's better. We are now telling our teams, we need to understand why you are not taking 10 if that's our whole limit and our capacity in a given transactions as example and they are doing that. So I think we are probably creating a little more not risk rating type of supply but just take a little bit more loans because we are twice the equity we used to be. And therefore we can absorb it and the team does a great job in credit quality there. So I'd say if you look at across the board, consumer is more delivery capacity and commercial it's more both delivery capacity and then as you cite take a little more risk in terms of dollar denomination but not in terms of [Indiscernible] credit quality.

Ken Usdin

Okay, got it, and then Paul one quick follow up on GWIM, just remind us how that business kind of marks itself in terms of the asset level pricing versus the transactions. It seems like there was kind of went in different directions this quarter and the result was kind of flattish on a revenue perspective. So what do we need to think about in terms of where the markets have come and where we are looking ahead in terms of assets levels versus transaction type revenue activity?

Paul Donofrio

So we continue to grow AUM and that's all good. I mean we grew it a little bit slower this quarter but in a bad market environment we continue to grow AUM, we continue to grow deposits, we continue to grow loans. So I think everyone is doing their job. You are right, that when market activity is lower we tend to see less activity in the transactional side of that business. There is a lot of new issuance there, mutual funds, other products that just don't come to market. And so that sort of exacerbates things when the markets are bad. Does that answer your question?

Operator

And we are going to take our next question from Nancy Bush with NAB Research.

Paul Donofrio

Good morning Nancy.

Nancy Bush

Good morning guys, how are you? Two questions, one there is an issue out there I think this was supposed to happen in 2018 on credit quality, it is this current expected credit loss. Can you just tell us where the argument is about that right now and whether you have been able to do any preliminary work about how that would impact you?

Brian T. Moynihan

I don't think - the idea about like a loan type of reserving on the commercial - all loans is out there. It's -- the FASB is working on it, I think there has been voluminous comments, big questions about it. But when it comes out it will be basically a one-time adjustment type of thing and then it will be over with and -- and so over a course of time it should come out the same because you think about it, this as just putting it all - you put the loans on in the commercial side especially be changed. So, we'll get to that when we get to that but it hasn't been clarified what the rule is; lots of people commented on it and it would be a one-time thing and as you say somewhere out in 18 is what people currently think.

Nancy Bush

Okay, secondly, another credit quality question. I mean there was a lot of speculation before the quarter that and I think this is probably based on the energy outlook that this would be the "inflection point quarter" and beginning to build reserves but what you are saying and what JP Morgan said yesterday was that the credit quality outlook remains pretty stable. Can you just comment on this inflection point issue and when you think we will get there?

Paul Donofrio

We're still seeing reserve releases on the consumer side of the bank that is certainly starting to moderate. And consistent with loan growth we're seeing some reserve additions on the commercial side of the bank. And as I said earlier if you are looking for when those lines are going to cross we think provision as Brian and I both said is going to be roughly sort of 800 million to 900 million in 2016, that's kind of where the conversion is going to happen, some place - per quarter, that is some place in 2016.

Brian T. Moynihan

Nancy remember we still have massive risk coming off in consumer that we are not - reserves are going over the commercial side and some is coming out net of that 100 plus million this quarter. We expect that to probably mitigate and then if you get loan reserve you'll build reserves at some point but I think that is still a bit out there.

Nancy Bush

So sometime in 2016, probably?

Brian T. Moynihan

It depends on what the loan growth is, it depends on the economic scenario. But I think it's -- we're still repositioning reserves on the consumer side that are excess, as we can see in the credit statistics. We're carrying a healthy reserve for areas that have continued to come down in terms of risk.

Nancy Bush

Okay, thank you.

Operator

Our next question comes from Paul Miller with FBR Capital Markets.

Thomas LeTrent

Good morning guys, it's actually Thomas LeTrent on behalf of Paul. Most have been asked and answered but one quick question on the servicing side, the servicing income has been coming down at sort of a faster rate than the portfolio and I know you guys have sort of exited most of the sales on the portfolio side, so at what point can we sort of expect the fees to level off and is that just a function of the legacy stuff continuing to run off?

Brian T. Moynihan

If you go to page 17 you can see that the rate of reduction will come down -- will slow down, but it will still come down on of the theory the units doing. Remember the other issue we have is we're holding more of the loans so that from a corporate perspective that also has an effect here comes in - in yield or not in servicing fees. So expect the fee to work its way down but it is 345 this quarter I think, 300-ish is where ought to flatten out.

Thomas LeTrent

Okay, and then also on slide 17 if I may, on the 60 days delinquent how much of that is the quarterly change, how much of that is from sales there, is that mostly just run off?

Paul Donofrio

Most of it is just run off.

Brian T. Moynihan

We are just working it out, and so we still got a room to go to get it normalized but there is nothing big material going on in terms of sales and stuff this quarter.

Thomas LeTrent

Okay, that's all, thank you.

Operator

And we'll take today's last question from Mike Mayo with CLSA. Please go ahead.

Michael Mayo

Hi, I had three small questions; first, you sold $3.6 billion of assets, mortgages, and NPLs, what was the gain or sale on those sales, I am sorry the gain or loss?

Paul Donofrio

In total our gain on all our loan sales in the quarter 400 million.

Michael Mayo

I am sorry, 400 million.

Paul Donofrio

400 million.

Michael Mayo

Okay, that added a little bit, should we assume that repeats or this is kind of a one off?

Brian T. Moynihan

Mike, it's in the puts and takes we put on the first slide there.

Michael Mayo

Okay, that is fine. Higher rates, you are more asset sensitive now I guess 4.5 billion to 100 basis points, you are 3.9 billion last quarter. Are you intentionally -- I mean, how do you think about that, are you leaving money on the table by being so asset sensitive, do you want to be this asset sensitive, maybe give the answer in the context to the last jobs report which seems to imply rates will increase later than previously expected?

Paul Donofrio

We have not changed how we manage these rates in the company. All that happened was long end rates went down from Q2 to Q3 increasing…

Brian T. Moynihan

The FAS91 is really the major difference.

Michael Mayo

And then lastly, Paul you are new on the job as CFO, actually Brian this is the first call when we can ask the question why did the old CFO leave and we have heard a lot of different reports to why the last CFO leave and Paul, as you are new on the job as CFO what changes might you want to make and Paul or Brian if rates don't go up for a lot longer than you expected, what is your Plan B to deal with the tougher environment?

Brian T. Moynihan

So, let me answer that and I am going to let Paul talk about three months ago; Bruce has served as Chief Risk Officer and CFO for a combined six years and wanted to get back and run a business or do something different. And so we announced that and Paul became CFO. There is nothing new to add. In terms of what we do in the environment, as we have said a lot of times to earlier questions, we continue to be able to hold the core expenses flat while we make the investments pay - the increased CCAR expenses pay for the cost of repositioning the franchise, severance and everything and we will continue to work at it. If the environment changed and we didn't think we're getting returns from that, [we'll just go] [ph] for the long-term interest of our shareholders, we would reduce the investment rate.

Michael Mayo

And Paul philosophy on being CFO, any changes with your predecessor?

Paul Donofrio

I think it is a little early for me to have developed a plan in terms of radical change. We have -- Bruce did a tremendous job of cleaning up the balance sheet and positioning our company for growth. He -- we have got a great team that he built and I am getting to know all that and we will see how it goes.

Michael Mayo

Alright, thank you.

Operator

And as it appears we have no further questions, I would like to return the program to Mr. Lee McEntire for closing remarks.