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Management's Discussion and Analysis of Financial Condition and Results of Operations

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Throughout the MD&A, we use certain acronyms and abbreviations which are defined in the Glossary beginning on page 176.

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### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This report on Form 10-Q may contain, and from time to time our management may make, certain statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "believes," "estimates" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could" are intended to identify such forward-looking statements. These statements are not historical facts, but instead represent the current expectations, plans or forecasts of Bank of America Corporation and its subsidiaries (the Corporation) regarding the Corporation's future results, integration of acquisitions and related cost savings, loan modifications, investment bank rankings, growth opportunities, business outlook, loan and deposit growth, mortgage originations and market share, credit losses, credit reserves and charge offs, business levels, consumer credit card net loss ratios, tax rates, payments on mortgage backed securities, global markets originations and trading, and other similar matters. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Corporation's control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Corporation's forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this report, under Item 1A. "Risk Factors" of the Corporation's 2008 Annual Report on Form 10-K and in any of the Corporation's other subsequent SEC filings: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the credit quality of our loan portfolios (the degree of the impact of which is dependent upon the duration and severity of these conditions); the level and volatility of the capital markets, interest rates, currency values and other market indices which may affect, among other things, our liquidity and the value of our assets and liabilities and, in turn, our trading and investment portfolios; changes in consumer, investor and counterparty confidence in, and the related impact on, financial markets and institutions; the Corporation's credit ratings and the credit ratings of our securitizations, which are important to the Corporation's liquidity, borrowing costs and trading revenues; estimates of fair value of certain of the Corporation's assets and liabilities, which could change in value significantly from period to period; legislative and regulatory actions in the United States and internationally which may increase the

Corporation's costs and adversely affect the Corporation's businesses and economic conditions as a whole; the impact of litigation and regulatory investigations, including costs, expenses, settlements and judgments; various monetary and fiscal policies and regulations of the U.S. and non-U.S. governments; changes in accounting standards, rules and interpretations and the impact on the Corporation's financial statements; increased globalization of the financial services industry and competition with other U.S. and international financial institutions; the Corporation's ability to attract new employees and retain and motivate existing employees; mergers and acquisitions and their integration into the Corporation, including its ability to realize the benefits and costs savings from and limit any unexpected liabilities acquired as a result of the Merrill Lynch acquisition; the Corporation's reputation; and decisions to downsize, sell or close units or otherwise change the business mix of the Corporation.

Forward-looking statements speak only as of the date they are made, and the Corporation undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

The Corporation, headquartered in Charlotte, North Carolina, operates in all 50 states, the District of Columbia and more than 40 foreign countries. As of March 31, 2009, the Corporation provided a diversified range of banking and nonbanking financial services and products domestically and internationally through six business segments: Deposits, Global Card Services, Home Loans & Insurance, Global Banking, Global Markets and Global Wealth & Investment Management (GWIM).

At March 31, 2009, the Corporation had \$2.3 trillion in assets and approximately 285,000 full-time equivalent employees. Notes to the Consolidated Financial Statements referred to in the MD&A are incorporated by reference into the MD&A. Certain prior period amounts have been reclassified to conform to current period presentation.

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### First Quarter 2009 Economic Environment

During the first quarter of 2009, credit quality deteriorated further as the economy continued to weaken. Consumers experienced high levels of stress from higher unemployment and underemployment as well as further declines in home prices. These factors combined with further reductions in spending by consumers and businesses and continued turmoil in the financial markets negatively impacted the commercial portfolio. These conditions drove increases in consumer and commercial net charge-offs, and nonperforming assets as well as higher commercial criticized utilized exposure and reserve increases across most portfolios during the three months ended March 31, 2009. For more information on credit quality, see the Credit Risk Management discussion beginning on page 130.

Capital market conditions showed some signs of improvement during the first quarter of 2009 and Global Markets took advantage of the favorable trading environment. Market dislocations that occurred throughout 2008 continued to impact our results in the first quarter of 2009 but to a lesser extent as we incurred reduced losses on CDOs and other Global Markets exposures (e.g., leveraged finance and CMBS) when compared to the same period in the prior year. We have also reduced certain asset levels in Global Markets for balance sheet efficiencies. For more information on Global Markets' results and their related exposures, see the discussion beginning on page 103.

Market conditions also continue to impact the ratings of certain monolines. We have direct and indirect exposure to monolines and, in certain situations, recognized losses related to some of these exposures during the first quarter of 2009 which included losses related to a monoline counterparty that restructured its business and subsequently had its credit rating downgraded. For more information related to our monoline exposure, see the Industry Concentrations discussion on page 151.

The above conditions, together with deterioration in the overall economy, will continue to affect many of the markets in which we do business and may adversely impact our results for the remainder of 2009. The degree of the impact is dependent upon the duration and severity of such conditions.

### Regulatory Initiatives

On February 10, 2009, pursuant to the Emergency Economic Stabilization Act of 2008 (EESA), the U.S. Treasury announced the creation of the Financial Stability Plan. This plan outlined a series of key initiatives; a new Capital Assistance Program (CAP) to help ensure that banking institutions have sufficient capital; the creation of a new Public-Private Investment Program (PPIP) as discussed below; the expansion of the Term Asset-Backed Securities Loan Facility (TALF); the extension of the FDIC's Temporary Liquidity Guarantee Program (TLGP) to October 31, 2009; the small business lending initiative; a broad program to stabilize the housing market by encouraging lower mortgage rates and making it easier for homeowners to refinance and avoid foreclosure; and a new framework of governance and oversight related to the use of funds received as a result of the Financial Stability Plan.

As part of the CAP, we as well as several other large financial institutions are subject to stress testing conducted by the [biz.yahoo.com/e/090507/bac10-q.html](http://biz.yahoo.com/e/090507/bac10-q.html)

federal regulators. The objective of stress testing is to assess losses that could occur under certain economic scenarios, including economic conditions more severe than we currently anticipate. As of the time of this filing final results have not been publicly released. We intend to file a Current Report on Form 8-K discussing our stress test results shortly after the federal regulators announcement.

On March 23, 2009, the U.S. Treasury, FDIC and Federal Reserve announced further details related to the PPIP as part of efforts to improve balance sheets throughout the financial system and stimulate lending. This program will utilize \$75 billion to \$100 billion in Troubled Asset Relief Program (TARP) capital as well as capital from private investors and is expected to generate \$500 billion in purchasing power to buy certain illiquid assets from financial institutions. This program may expand to \$1 trillion over time. The PPIP seeks to maximize the impact of taxpayer dollars, share risks and profits with private sector participants, and allow private sector participation in the setting of competitive prices of the assets. The PPIP has established separate guidelines for the way in which the program addresses legacy loans and securities. We are currently evaluating the terms of this program.

On March 16, 2009, the U.S. Treasury announced that it will provide \$15 billion to help increase small business owners' access to credit. As part of the lending initiative, the U.S. Treasury intends to begin making direct purchases of certain securities backed by Small Business Administration (SBA) loans to improve liquidity in the credit markets and it will stand ready to purchase new securities to ensure that financial institutions feel confident in extending new loans to local businesses. The program will also temporarily raise guarantees to up to 90 percent in the SBA's loan program and temporarily eliminate certain SBA loan fees. The Corporation continues to lend to credit-worthy small business customers through small business credit cards, loans and line of credit products.

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On March 4, 2009, the U.S. Treasury provided details of the \$75 billion Homeowner Affordability and Stability Plan (HASP). The HASP is focused on reducing the number of foreclosures and making it easier for customers to refinance loans. The HASP consists of two separate programs, the Home Affordable Modification program which provides guidelines on loan modifications and the Home Affordable Refinance program which provides guidelines for loan refinancing. The Home Affordable Modification program intends to help up to three to four million at-risk homeowners avoid foreclosure by reducing monthly mortgage payments. This program will provide incentives to lenders to modify all eligible loans that fall under the guidelines of this program. The Home Affordable Refinance program is available to approximately four to five million homeowners who have a proven payment history on an existing mortgage owned by Fannie Mae or Freddie Mac. The HASP will help eligible homeowners refinance their mortgage loans to take advantage of current lower mortgage rates or to refinance adjustable-rate mortgages into more stable fixed-rate mortgages. We will continue to help our customers address financial challenges through these government programs and the continuation of our own home retention programs as discussed in more detail on page 131.

On February 27, 2009, the FDIC passed an interim rule that allows it to charge banks a special assessment of 20 basis points (bps) on deposits to replenish the deposit insurance fund. This special assessment will be collected in the third quarter of 2009. The special assessment is currently under review by the FDIC and proposals are being considered to reduce the special assessment to 10 bps if certain other conditions are met. Additionally, beginning April 1, 2009, the FDIC will increase fees on deposits based on a revised risk-weighted methodology which will increase the base assessment rates potentially up to five bps.

In addition to the programs discussed above, we continue to utilize other programs including the Term Auction Facility and the TLGP. Further, we continue to evaluate the terms of the TALF. For additional information related to these and other programs, please refer to the detailed discussion provided in Regulatory Initiatives beginning on page 14 of the MD&A of the Corporation's 2008 Annual Report on Form 10-K.

### Recent Events

On April 29, 2009, the Board of Directors (the Board) declared a regular quarterly cash dividend on common stock of \$0.01 per share, payable on June 26, 2009 to common stockholders of record on June 5, 2009. On January 16, 2009, the Board declared a regular quarterly cash dividend on common stock of \$0.01 per share, which was paid on March 27, 2009 to common stockholders of record on March 6, 2009. In addition, in April 2009, the Board declared aggregate dividends on preferred stock of \$1.1 billion including \$713 million in dividend payments to the U.S. government on the preferred stock issued pursuant to the TARP. In the first quarter of 2009 we recorded aggregate dividends on preferred stock of \$1.0 billion including \$402 million to the U.S. government. For further discussion on our liquidity and capital, see Liquidity Risk and Capital Management beginning on page 131.

On January 1, 2009, we acquired Merrill Lynch & Co., Inc. (Merrill Lynch) through its merger with a subsidiary of the Corporation in exchange for common and preferred stock totaling \$29.1 billion, creating a financial services franchise with significantly enhanced wealth management, investment banking and international capabilities. For more information related

to the Merrill Lynch acquisition, see Note 2 - Merger and Restructuring Activity to the Consolidated Financial Statements.

Also, as part of the initial \$125 billion of TARP funds provided by the U.S. Treasury to participants and in connection with the Merrill Lynch acquisition, in January 2009 we issued to the U.S. Treasury 400 thousand shares of Bank of America Corporation Fixed Rate Cumulative Perpetual Preferred Stock, Series Q (Series Q Preferred Stock) with a par value of \$0.01 per share for \$10.0 billion. The Series Q Preferred Stock initially pays quarterly dividends at a five percent annual rate, increases to nine percent after five years and has a call feature after three years. In connection with this issuance, we also issued to the U.S. Treasury 10-year warrants to purchase approximately 48.7 million shares of Bank of America Corporation common stock at an exercise price of \$30.79 per share.

On January 16, 2009 due to larger than expected fourth quarter losses at Merrill Lynch, the U.S. government and the Corporation entered into an agreement in principle in which the U.S. government would provide protection against the possibility of unusually large losses on a pool of the Corporation's financial instruments. As of the time of filing this document, we have not entered into a binding agreement with the U.S. government.

Further, the U.S. Treasury invested an additional \$20.0 billion in the Corporation under the TARP. As a result, in January 2009, we issued to the U.S. Treasury 800 thousand shares of Bank of America Corporation Fixed Rate Cumulative Perpetual Preferred Stock, Series R (Series R Preferred Stock) with a par value of \$0.01 per share for \$20.0 billion. The Series R Preferred Stock pays dividends at an eight percent annual rate. In connection with this investment, the Corporation also issued to the U.S. Treasury 10-year warrants to purchase approximately 150.4 million shares of Bank of America Corporation common stock at an exercise price of \$13.30 per share.

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During 2008, we initiated loan modification programs projected to offer modifications for up to 630,000 borrowers, representing \$100 billion in mortgage financings. During the first quarter of 2009, to help borrowers avoid foreclosure, Bank of America had completed nearly 119,000 modifications, compared to 230,000 for all of 2008.

In addition to being committed to the loan modification programs, we extended approximately \$183.1 billion of credit during the first quarter, which was comprised of \$85.2 billion in mortgages; \$70.9 billion in commercial non-real estate; \$11.2 billion in commercial real estate; \$5.5 billion in domestic retail and small business credit card; \$4.0 billion in home equity products; and approximately \$6.3 billion in other consumer credit products. Commercial credit extensions of \$82.1 billion included commercial renewals of \$44.3 billion.

### Performance Overview

Net income increased to \$4.2 billion, or \$0.44 per diluted common share for the three months ended March 31, 2009, as compared to \$1.2 billion, or \$0.23 per diluted common share, for the three months ended March 31, 2008.

Table 1

Business Segment Total Revenue and Net Income

(Dollars in millions)	Three Months Ended March 31			
	Total Revenue (1)		Net Income (Loss)	
	2009	2008	2009	2008
Deposits	\$ 3,464	\$ 4,150	\$ 493	\$ 1,060
Global Card Services (2)	7,457	7,868	(1,769 )	867
Home Loans & Insurance	5,224	1,372	(498 )	(732 )
Global Banking	4,641	3,856	175	1,000
Global Markets	6,791	(848 )	2,365	(991 )
Global Wealth & Investment Management	4,361	1,942	510	242
All Other (2)	4,142	(969 )	2,971	(236 )
Total FTE basis	36,080	17,371	4,247	1,210
FTE adjustment	(322 )	(300 )	-	-
Total Consolidated	\$ 35,758	\$ 17,071	\$ 4,247	\$ 1,210

(1) Total revenue is net of interest expense, and is on a FTE basis for the business segments and All Other. For more information on a FTE basis, see Supplemental Financial Data beginning on page 87.

(2) Global Card Services is presented on a managed basis with a corresponding offset recorded in All Other.

The table above presents total revenue and net income for the business segments; the following discussion presents a summary of the related results. For more information on these results, see Business Segment Operations beginning on page 93.

□ Deposits' net income decreased due to lower revenue and higher noninterest expense. Total revenue declined due to a lower residual net interest income allocation from ALM activities and spread compression on money market deposits and certificates of deposit. In addition, noninterest income decreased due to lower service charge income resulting from changes in consumer spending behavior attributable to current economic conditions. Net income was also impacted by higher noninterest expense related to increased FDIC premiums. For more information on Deposits, see page 93.

□ Global Card Services recorded a net loss due to higher credit costs and lower managed net revenue. Managed net revenue declined due to a decrease in card income and the absence of a one-time IPO gain recorded during the same period in the prior year, partially offset by the beneficial impact of lower short-term interest rates on our funding costs. Provision for credit losses increased as economic conditions led to deterioration in the consumer card, consumer lending and small business portfolios, including a higher level of bankruptcies. Also contributing to the provision were reserve additions related to maturing securitizations. For more information on Global Card Services, see page 95.

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□ Home Loans & Insurance's net loss narrowed as an increase in total revenue was mostly offset by higher provision for credit losses and an increase in noninterest expense. Total revenue increased due to the acquisition of Countrywide and higher mortgage banking income as lower interest rates drove an increase in mortgage activity. Higher provision for credit losses was driven by economic and housing market weakness particularly in geographic areas experiencing higher unemployment and falling home prices. Noninterest expense increased primarily due to the addition of Countrywide. For more information on Home Loans & Insurance, see page 97.

□ Global Banking's net income declined as the increase in revenue was more than offset by increased provision for credit losses and higher noninterest expense. Total revenue rose due to the acquisition of Merrill Lynch and organic growth in average loans and deposits, partially offset by the absence of Global Banking's allocation of a one-time IPO gain recorded during the same period in the prior year. The increase in provision for credit losses was primarily driven by deterioration in the commercial real estate and domestic portfolios. Noninterest expense increased due to the acquisition of Merrill Lynch. For more information on Global Banking, see page 100.

□ Global Markets' net income rose due to higher revenue partially offset by increased noninterest expense. The increase in total revenue was driven by strong trading results as well as the addition of the rates and currencies, equity and commodity platforms from the Merrill Lynch acquisition. In addition, Global Markets incurred reduced losses on certain retained positions that resulted from the market disruptions over the past year and a half. Partially offsetting the favorable results was an increase in noninterest expense due to the acquisition of Merrill Lynch and an increase in performance-related incentive compensation expense. For more information on Global Markets, see page 103.

□ GWIM's net income rose due to increases in net interest income and investment and brokerage services income partially offset by higher noninterest expense driven by the acquisition of Merrill Lynch. In addition, revenue also benefited from lower support provided to certain cash funds. For more information on GWIM, see page 110.

□ All Other's net income increased due to positive fair value adjustments related to certain Merrill Lynch structured notes, increased gains on sales of debt securities and higher equity investment income related to the gain on the sale of China Construction Bank (CCB) shares. All Other's results were adversely impacted by an increase to provision for credit losses due to deterioration in the residential mortgage portfolio and higher noninterest expense due to the Merrill Lynch acquisition which increased merger and restructuring charges. For more information on All Other, see page 114.

### Financial Highlights

#### Net Interest Income

Net interest income on a FTE basis increased \$2.5 billion to \$12.8 billion for the three months ended March 31, 2009 compared to the same period in 2008. The increase was driven by the improved interest rate environment partially offset by the spread dislocation between the Federal Funds rate and LIBOR. In addition, net interest income increased due to the acquisitions of Merrill Lynch and Countrywide. These increases were partially offset by a decrease in interest income on available-for-sale securities due to the deleveraging of the asset and liability management (ALM) portfolio and higher funding costs due to an increase in long-term debt. The net interest yield on a FTE basis decreased three bps to 2.70 percent for the

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Summary of BANK OF AMERICA CORP...

three months ended March 31, 2009 compared to the same period in 2008, as the improvement in market-based yield was more than offset by the addition of lower yielding assets from the Merrill Lynch and Countrywide acquisitions.

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Noninterest Income

Table 2

Noninterest Income

(Dollars in millions)	Three Months Ended March 31	
	2009	2008
Card income	\$ 2,865	\$ 3,639
Service charges	2,533	2,397
Investment and brokerage services	2,963	1,340

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