

Bank of America



Uniform Bank Performance Report

MGMT 473 - Commercial Banking

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Introduction

Bank of America is one of the largest financial organizations in the world, offering services to individual consumers, small businesses and commercial businesses. These services include, but are not limited to, traditional consumer and business banking services, credit cards, mortgage loans, investing, asset management, and financial and risk management products. The firm caters to nearly 59 million customers and businesses in over 150 countries including 32 states within the United States. Within the U.S. there are approximately 6,100 banking branches, 18,500 ATM's, and an online banking service which currently has about 25 million registered consumers. Bank of America prides itself on serving the needs of its customers by delivering high-quality financial services and by being a trusted advisor for financial solutions.

Global Reach

Besides offering services within the United States, Bank of America also extends its services to several areas worldwide, including Asia, Europe, the Middle East, Africa, Latin America, and Canada. Through its offices in over 20 countries, Bank of America serves local businesses, government agencies, financial institutions, and multinational corporations. Bank of America understands the benefits of working in the global economy and seeks to take advantage of them by offering its variety of clients access to services at the multinational level.



In Asia, Bank of America employs more than 2200 people who offer a diverse range of products and services. It has more than sixty years of experience in the region and works with U.S. and European multinational corporations who do business in Asia in addition to several high ranking Asian corporations, financial institutions and institutional investors. Bank of America is able to offer corporate investment banking, treasury management, global markets, investment management, and leasing in the Asian region, which includes Bank of America offices in the cities listed on the graph above.



Bank of America holds fewer offices in the region that comprises Europe, the Middle East and Africa than it does in Asia, however, it has approximately 2600 employees in Belgium, France,

Germany, Greece, Ireland, Spain, Switzerland, Italy, the Netherlands, and the United Kingdom with offices located in cities where the graph indicates. It has been involved in the region since 1922 and provides such services in the region as global corporate and investment banking, global markets products, and global treasury services.



In addition to these two areas, Bank of America also operates in Latin America, and most specifically in Mexico. It offers treasury management and trade services throughout the region to assist corporations and financial institutions, however, in Mexico particularly, Bank of America works to provide corporate finance, foreign exchange services, capital raising, derivatives, and international cash management and trade services. This is accomplished primarily through Bank of America's subsidiary called Bank of America Mexico S.A. The areas of North America served by Bank of America include Canada and of course the United States of America. Regional offices in Canada include offices in Vancouver, Calgary, Toronto, and Montreal. In the United States, offices are located in San Francisco, Chicago, New York, and Charlotte.

History – Pre Financial Crisis (1904-2005)



Original Bank of Italy Headquarters in San Francisco

Bank of America's history began with Amadeo Gianni founding the Bank of Italy in 1904 in San Francisco, California. Giannini went on to form a bank holding company in 1928, called Transamerica Corporation, to help manage his banks. In 1930, Bank of Italy and Bank of America of Los Angeles merged maintaining the Bank of America name. Bank of America continued to expand throughout the state of California, and in 1983 it acquired Seafirst Corporation of Seattle, WA. The company continued to grow throughout the United States. By the end of 1990, Bank of America had operations in seven states due to eight acquisitions. In 1992, Bank of America acquired Security Pacific Corporation, its California rival and most significant competition. In 1998, NationsBank acquired Bank of America and decided to use Bank of America's name. This was a very significant acquisition as it was the largest one in history and expanded Bank of America into 22 U.S. states. In 2001, CEO Hugh McColl stepped down and appointed Ken Lewis as the new CEO of Bank of America. Once Ken Lewis became CEO, he managed a series of acquisitions. In 2004, he purchased FleetBoston Financial Bank, which was the seventh largest bank in the U.S. at the time. FleetBoston Bank was known for small business lending and added close to 20 million new consumers to Bank of America.

History –Financial Crisis (2006-Present)



On January 1, 2006 Bank of America finalized its purchase of Maryland Bank, National Association (MBNA), a very large credit card company. Once the acquisition was complete, the wholly owned subsidiary was renamed FIA Card Services. This purchase made Bank of America one of the top credit card issuing companies in the U.S. and abroad. Once again, this increased Bank of America's consumer base substantially by adding more than 40 million credit card accounts. The next year, on July 1, 2007, Bank of America purchased the United States Trust Company from the Charles Swab Corporation. This made the company one of the largest Private Wealth Management companies adding approximately \$100 billion in investment accounts. LaSalle Bank of the Netherlands was acquired October 1, 2007. This acquisition allowed Bank of America to increase its presence in more states and again acquire more customers.

Also in 2007, Bank of America began taking actions that would lead to the acquisition of Countrywide Financial, which was finalized on July 1, 2008. This purchase made Bank of America the country's leading mortgage company and loan servicer. This appears to be an esteemed label demonstrating that Bank of America was expanding greatly, but Countrywide had been known for issuing many sub-prime and Alt-A loans, which were the root cause of many concerns resulting in the current financial crisis. All of Bank of America's acquisitions up to this point had expanded its financial

product and services, but the purchase of Countrywide unknowingly made Bank of America a very high risk company.

The most recent merger placed Bank of America into the position of the largest financial services provider in the world. The merger closed on January 1, 2009 when Bank of America acquired Merrill Lynch, an investment firm. The acquisition was announced on September 15, 2008, only one month before Bank of America received its first \$25 billion bailout from the government's Troubled Asset Relief Program (TARP). Merrill Lynch was close to bankruptcy and the only thing that saved it was Bank of America's purchase. On January 16, 2009, Bank of America revealed huge losses for Merrill Lynch in the 4th quarter of the previous year resulting in another payment from the TARP fund to Bank of America in the amount of \$20 billion. After facilitating numerous large acquisitions and being the recipient of numerous government bail-outs, CEO Ken Lewis announced his retirement in September 2009.

 **Bank of America History Timeline**

Pre-Financial Crisis (1904-2005)

1904	Amadeo Giannini founded the Bank of Italy in San Francisco, CA
1929	Bank of Italy merged with Bank of America
1945	Bank of America passed Chase Manhattan to become the largest bank in the United States
1953	Securities and Exchange Commission resulted in Transamerica's divestiture of all Bank of America stock
1958	Bank of America introduced the BankAmericard, later called VISA
1970	Bank of America became the largest international lenders based in the United States
1983	Bank of America expanded outside of California by acquiring Seafirst Corp of Seattle, WA
1990	Bank of America acquired 8 more banks, expanding its operations from 3 states to 7 states
1992	Bank of America acquired Security Pacific Corp., one of their most significant competitors
1998	Bank of America is acquired by NationsBank
2001	Ken Lewis becomes CEO
2004	Bank of America purchases FleetBoston Financial

Financial Crisis

2006	Bank of America acquires MBNA
2007	Bank of America purchases The United States Trust Company Bank of America purchases LaSalle Bank
2008	Countrywide Financial is acquired 1 st TARP bailout for \$25 billion
2009	Bank of America acquires Merrill Lynch 2 nd TARP bailout received for \$20 billion Ken Lewis announces his retirement

Major Recent Acquisitions

Maryland Bank National Association (MBNA)



From the beginning of the credit crisis that has intensified since 2006, several acquisitions to the Bank of America firm have occurred. In January of 2006, Bank of America became the nation's leading credit-card issuer when it completed a \$34.2 billion purchase of the MBNA Corporation. At the time of the merger with Bank of America, MBNA owned or managed more than \$122.5 billion in outstanding consumer credit loans. After approval from regulators and shareholders, the MBNA Corporation renamed itself FIA Card Services. The company remained in Delaware and continued to issue credit cards in its own name until it was completely re-branded into Bank of America at the end of the year. Within the tax-free agreement, holders of MBNA received 0.5009 shares of Bank of America and \$4.125 in cash for every share of MBNA they held. As dictated by the MBNA Merger Agreement, approximately 1,260 million shares of MBNA common stock was exchanged for approximately 631 million shares of Bank of America's common stock. Bank of America expected to save approximately \$850 million in expenses, but also anticipated a restructuring charge of \$1.3 billion. Cost reductions were expected to come from a range of sources including: elimination of overlapping technology, vendor leverage, marketing expenses, and the elimination of 6,000 employees by the end of 2007.

Countrywide



In July of 2008, Bank of America officially purchased Countrywide Financial for approximately \$4 billion or \$7.16 a share in stock. Under the terms of the agreement, shareholders of Countrywide received 0.1822 shares of Bank of America for each share of Countrywide. The acquisition gave Bank of America a substantial market share of the mortgage business controlling between 20 to 25 percent of the home loan market and access to Countrywide's expertise, technology, and employees for servicing mortgages. In 2007, Countrywide made \$408 billion in mortgage originations and had a servicing portfolio of about \$1.5 trillion with 9 million loans. Many financial executives favored the merger considering Bank of America acquired Countrywide at a very attractive price with a valuation far below book value while simultaneously gaining access to the mortgage capabilities as well as distribution networks established by Countrywide. The current argument against the deal for Bank of America is the fact that there may still be more unpredictable losses to come that could potentially limit Bank of America's future success.

Merrill Lynch



On September 15, 2008, Bank of America agreed to acquire Merrill Lynch & Co. through a \$50 billion all stock transaction. Merrill Lynch was, at the time, in severe financial trouble, and the

acquisition effectively saved Merrill Lynch from bankruptcy. The bank's earnings release in January of this year revealed enormous losses at Merrill Lynch in the fourth quarter of 2008 which necessitated emergency action in order for the company to remain solvent. Merrill recorded an operating loss of \$15 billion in the fourth quarter (mainly in its sales and trading operations.) Significant portions of these losses were caused by the drop in value of its large mortgage portfolio in the form of Collateralized Debt Obligations. Merrill Lynch was ultimately sold when its trading partners lost confidence in the company's solvency and ability to refinance short-term debt.

Merrill Lynch was one of the world's strongest wealth management, capital markets and advisory firms with vast territories and total client assets of approximately \$1.6 trillion. As an investment bank, it was a leading global trader and underwriter of securities and derivatives across a broad range of asset classes and served as a strategic advisor to corporations, governments, institutions and individuals worldwide.

Shareholders of both companies approved the acquisition on December 5, 2008, and the deal closed January 1, 2009. Under the terms of the transaction, Bank of America would exchange .8595 shares of Bank of America common stock for each Merrill Lynch common share. The price totaled approximately \$50 billion or \$29 per share. This price amounted to a 70% premium over the September 2008 closing price but a 61% discount from its September 2007 price. This represented a 38% premium over Merrill Lynch's stated book value at the time of \$21 per share. The package included an additional \$20 billion in Preferred Stockholder's Equity investment from the Troubled Asset Relief Program. Bank of America expects to achieve and fully realize \$7 billion in pre-tax expense savings by 2012.

The agreement also allowed three directors of Merrill Lynch to join the Bank of America Board of Directors. The combined companies will now have leadership positions in retail brokerage and wealth management. By adding Merrill Lynch's more than 16,000 financial advisers, Bank of America

has the largest brokerage company in the world with more than 20,000 advisers and \$2.5 trillion in client assets.


The acquisition, however, was not an entirely smooth process. In January of 2009, former CEO of Merrill Lynch, John Thain, resigned after receiving heavy pressure from Bank of America to do so. According to reports, Thain had given out billions of dollars in bonuses to Merrill Lynch employees in his final days as CEO while the brokerage was suffering huge losses during 2008. The bonuses were paid just before Bank of America's acquisition of Merrill became final in January. Meanwhile, Bank of America was privately informing the government that Merrill was losing so much money that the deal might fall through unless it could obtain more federal bailout funds. At the time, Ken Lewis, CEO of Bank of America, was extremely hesitant to accept the deal, becoming more and more concerned with Merrill Lynch's future losses. Bank of America, shortly after closing the deal with Merrill Lynch, received an additional \$20 billion from the TARP fund, in part to offset these losses.

Thain argued, in his defense, that the bonuses were not given out in light of the company's performance, but instead were viewed as fees for orchestrating the acquisition. Mr. Thain in particular felt he deserved a hefty payout for his deal-making heroics which is represented in his \$40 million bonus.

Merrill Lynch directors complained that John Thain never informed them of steep losses before the government intervention. Taxpayers are also furious that Bank of America called to the government for a second round of bailout funds in order to close the Merrill Lynch deal bringing its tab to a total of \$45 billion and potentially exposing taxpayers to further losses. Importantly, the decision to go forward with the merger rightly remained in the hands of Bank of America's board and management, and they were obligated to make the choice they believed was in the best interest of their shareholders and company.

Business Segments

Bank of America’s business segments are divided into three parts: Global Consumer & Small Business Banking, Global Corporate & Investment Banking, and Global Wealth & Investment Management. The chart below lists the specific services offered within each segment.

 Bank of America Business Segments	
Global Consumer and Small Business Banking Segment	
Savings Accounts	Money Market Savings Accounts
Certificate of Deposits	Individual Retirement Accounts
U.S. Consumer and Business Cards	Unsecured Lending
International Cards	Consumer Real Estate Products
Insurance Services	
Global Corporate and Investment Banking Segment	
Commercial and Corporate Bank Loans	Indirect Consumer Loans
Real Estate Lending	Leasing and Asset-based Lending
Advisory Services, Financing, and Related Products (For institutional investor clients in support of their investing and trading activities)	(For banking clients, middle market commercial clients, multinational corporate clients, public and private developers, homebuilders, and commercial real estate firms)
Debt and Equity Underwriting	Merger-Related Advisory Services
Risk Management Solutions	Treasury Management
Trade Finance	Foreign Exchange
Short-Term Credit Facilities	Short-Term Investing Options (For correspondent banks, commercial real estate firms, and governments)
Global Wealth and Investment Management Segment (For institutional clients and high-net-worth individuals)	
Investment and Brokerage	Estate Management
Financial Planning	Fiduciary management
Credit and Banking Expertise	Diversified Asset Management

Global Consumer and Small Business Banking

Bank of America's Global Consumer and Small Business Banking (GCSBB) Segment's main goal is to "attract, retain, and deepen our customer relationships" (Annual Report 34). GCSBB stretches across 32 states and the District of Columbia. Also, credit card products are offered to customers located in Canada, Ireland, Spain, and the United Kingdom. It serves approximately 59 million customers through its network of 6,139 banking centers. GCSBB is divided into three segments: Deposits and Student Lending, Card Services, and Mortgage Home Equity and Insurance Services (MHEIS). Net Income for GCSBB decreased \$5.1 billion, or 55 percent, to \$4.2 billion compared to 2007 as credit losses and non-interest expenses increased.

Deposits and Student Lending

Bank of America offers a variety of deposit products which include: traditional savings accounts, money market savings accounts, certificate of deposits (CD's), individual retirement accounts (IRA's), and non-interest and interest bearing checking accounts. Net interest is earned from the difference of interest received on loan assets minus the interest that must be paid out to depositors' accounts, which are considered a liability on the bank's balance sheet. Deposits also gain income through account service fees, non-sufficient fund fees, overdraft charges and ATM fees. Also, debit cards produce income through merchant interchange fees based on purchase volume. Net income for Deposits and Student Lending increased by \$497 million in 2008 primarily propelled by non-interest income and net interest income.

Card Services

Card services include Business Cards, Unsecured Lending, and International Cards. A variety of affinity and co-branded credit card products are offered throughout the United States and Europe. Bank of America reports its Card Services on a managed basis. This means that management assumes that

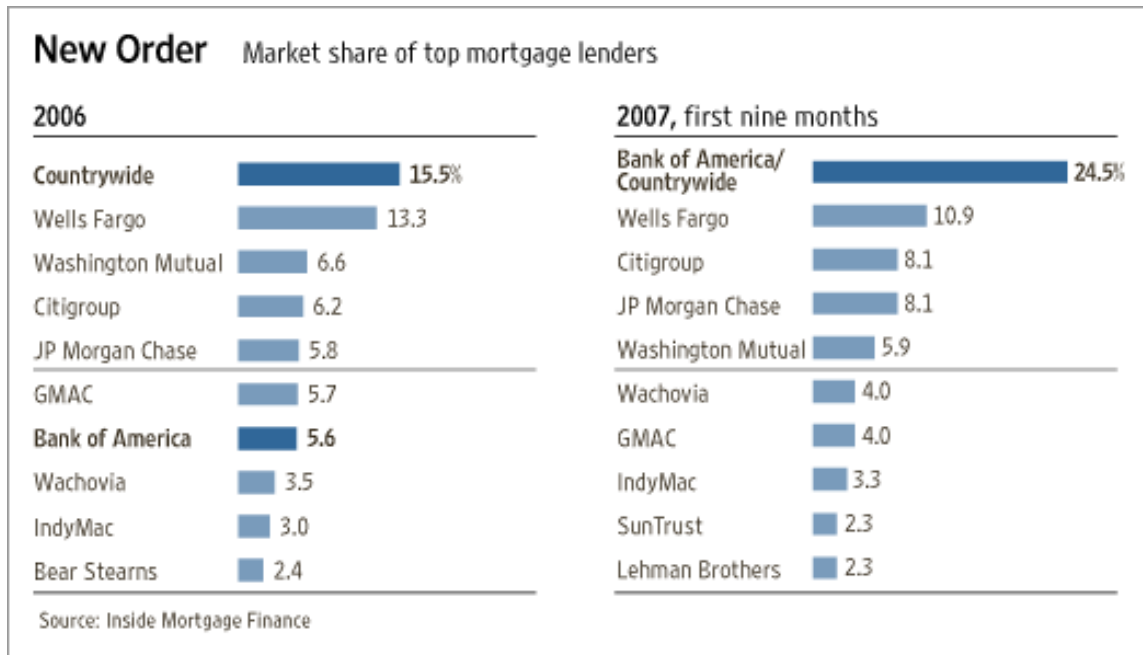
securitized loans were not sold, and present earnings on these loans were not sold. Securitized loans continue to be serviced by Bank of America and are subject to the same ongoing standards as loans held on the balance sheet.

The majority of card services business came from the acquisition of MBNA in 2005. Prior to the acquisition, MNBA, now FIA Card Services, was the largest independent card issuer in the world. Its annual net income from Card Services decreased by \$3.1 billion, 85 percent, to \$521 million in 2008 compared to 2007.

Mortgage, Home Equity, and Insurance Services

MHEIS products include fixed and adjustable rate first-lien mortgage loans for home purchase and refinancing needs, reverse mortgages, home equity lines of credit and home equity loans. Mortgage products are either sold into the secondary market, while retaining the mortgage servicing rights, or they are held on the balance sheet for Asset Liability Management purposes. MHEIS also offers property, casualty, life, disability, and credit insurance. As of July 1, 2008, Countrywide's operating results are consolidated with the financial statements of Bank of America.

MHEIS's net income decreased \$2.6 billion to an annual net loss of \$2.5 billion in 2008 compared to 2007. The acquisition of Countrywide dramatically changed Bank of America's share of the Mortgage Lending market. Countrywide was number one in the mortgage market in 2006, but was closely followed by Wells Fargo holding 15.5% and 13.3% respectively. Once Bank of America began repurchasing shares of Countrywide in 2007, the two companies' combined shares topped the mortgage market at 24.5% more than doubling Wells Fargo's mere 10.9% share of the market.



Global Corporate and Investment Banking

Global Corporate and Investment Banking (GCIB) provides a variety of services for banking clients, large international corporations, and institutional investor clients. Revenues are generated through value-added financial products, transactions, and advisory services. GCIB is divided into three primary business segments: Business Lending, Capital Markets and Advisory Services, and Treasury Services. With the acquisition of Merrill Lynch in January of 2009, Bank of America greatly strengthened itself in wealth management and investment banking along with various international capabilities. Annual net income for this segment decreased by \$524 million, which resulted in a net loss of \$14 million in 2008. The losses were primarily provoked by Collateralized Debt Obligations and other trading exposures.

Business Lending

Business Lending provides banking clients, middle-market commercial clients, and large multi-national corporate clients with various types of loans. Also, various types of leases and asset based lending products are issued to developers (both public and private), homebuilders, and commercial real estate firms. In addition, financing is provided to automotive, marine, motorcycle, and recreational vehicle dealerships throughout the United States. Annual net income for Business Lending decreased \$278 million (14 percent), to \$1.7 billion in 2008.

Capital Markets and Advisory Services

Capital Markets and Advisory Services (CMAS) provide various advisory services, financing, and products to institutional clients. CMAS provides various debt and equity underwriting as well as merger-related advisory services. This segment also offers various risk management tools such as interest rate, equity, and currency derivatives. Bank of America takes positions in some of these products and acts as a market maker handling asset backed securities, corporate debt securities, government securities, equity securities, commercial paper, and mortgage-backed securities. A Bank of America subsidiary, Banc of America Securities, LLC, executes most market research and debt/equity underwriting.

Treasury Services

Treasury Services are offered to governments, commercial real estate firms, correspondent banks, multi-nationals, and middle market companies. Products and services include treasury management, trade finance, and foreign exchange. Annual net income increased \$596 million, or 28 percent, in 2008.

Global Wealth and Investment Management

Global Wealth and Investment Management offers a wide range of services through three primary businesses: U.S. Trust, Bank of America Private Wealth Management (U.S. Trust,) Columbia Management, and Premiere Banking and Investments. With the acquisition of Merrill Lynch, Bank of America added thousands of financial advisors as well as a 50 percent stake in BlackRock Inc., a public investment management company. Annual net income decreased by \$544 million, or 28 percent, to \$1.4 billion in 2008.

Columbia Management

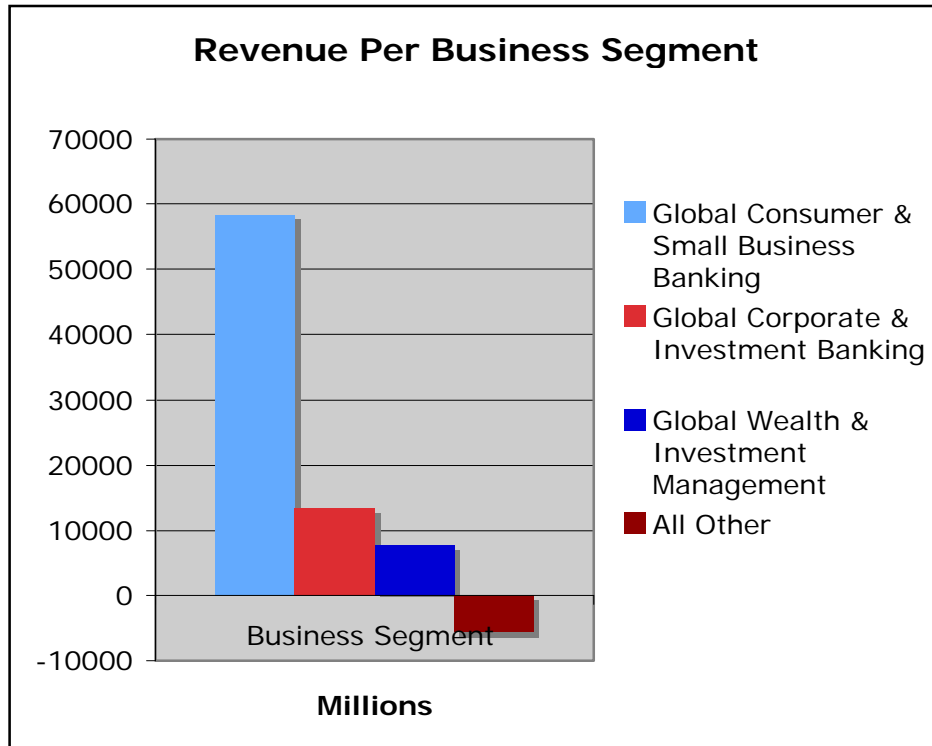
Columbia is an asset management business segment aiding both individual and institutional customers. Columbia provides services in asset management products such as mutual funds. These mutual funds offer positions in equities, fixed-come, and money market funds that are both taxable and nontaxable. Columbia issues its products to customers and institutions through U.S. Trust, PB&I, and GCIB.

U.S. Trust, Bank of America Wealth Management

In July of 2007, Bank of America acquired U.S. Trust Corporation, which was combined with Private Bank. U.S. Trust provides a large variety of services including wealth structuring, investment management, trust and banking, and specialty asset management services which are available to the wealth and ultra-wealthy.

Premier Banking and Investments

Premier Banking and Investments (PB&I) includes Banc of America Investments, a full-service retail brokerage business, as well as Premier Banking. PB&I offers approximately 5,500 easily accessible brokers to individuals with at least \$100,000 of investable assets.

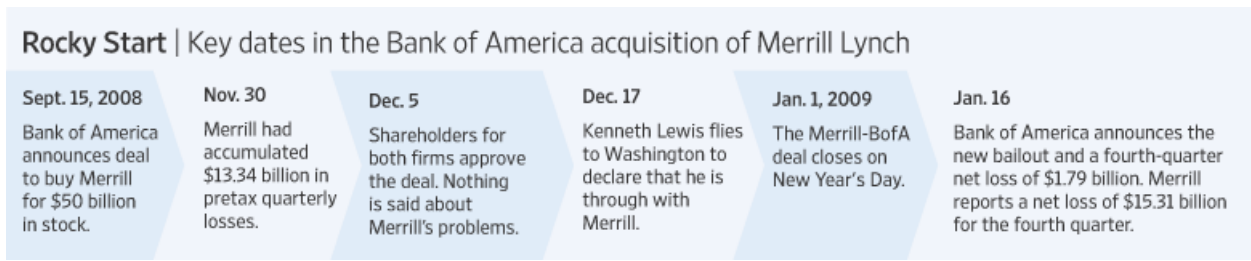


Legal Issues

Ken Lewis & the Merrill Lynch Acquisition

After the retirement of Hugh McColl from the position of Chief Executive Officer in 2001, Ken Lewis replaced him as the CEO, President and Chairman of Bank of America. During his time at Bank of America, Lewis worked to acquire FleetBoston Financial in 2004 for \$48 billion, MBNA in 2006 for \$35 billion, and LaSalle Bank in 2007 for \$21 billion. In 2008, he also pushed the deal to acquire Countrywide, the nation’s largest home lender. He made the deal to acquire Merrill Lynch & Company, and the deal was sealed on January 1, 2009. Shortly afterwards, it was announced that Merrill Lynch had \$15 billion in fourth-quarter losses and Bank of America had agreed to pay billions of dollars in bonuses to Merrill Lynch employees.

Instead of being viewed as a strong leader who made wise decisions for the company, Lewis faltered in different aspects. His decision to engineer the takeover of Merrill Lynch for \$50 billion reflected poorly on him as it was discovered shortly afterwards that it was an imprudent decision to acquire a company that held so many toxic assets. Shareholders criticized him for not practicing due diligence in looking over Merrill Lynch’s finances. Lewis defended his position by stating that the acquisition of both Countrywide and Merrill Lynch are the reasons why Bank of America became the most profitable financial services company in the United States so far this year. On December 17, 2008, Lewis tried to pull out of the deal to acquire Merrill Lynch, but was unsuccessful. According to Lewis’s testimony to the New York attorney general, he was pressured by Federal Reserve Chairman, Ben Bernanke, and Treasury Department Chief, Henry Paulson, that he was at risk of being removed from the board if he chose to pull out of the deal. He was also allegedly told by the government to keep quiet about Merrill Lynch’s problems before the acquisition was finalized in order to prevent panic that would cause systematic risk and push the economy into further turmoil. Still, many stockholders were angered by the lack of disclosure made by Lewis about Merrill Lynch’s performance. Many felt that Lewis’s primary obligation was to stockholders and potential investors rather than to the regulators. Losses at Merrill Lynch turned out to be much higher than originally expected, and Bank of America was one of the largest recipients of government bailout money, receiving \$45 billion in government aid as part of the Troubled Asset Relief Program (TARP).



Shareholders noted their disapproval of Lewis's decision to acquire Merrill Lynch by voting on April 29, 2009 to separate the positions of CEO and Chairman of the Board, which effectively removed Lewis from his position of Chairman. This allowed for the CEO to become accountable to a board chaired by an independent director rather than assuming a conflict of interest like that which existed when Lewis held both positions.

Part of the discontent about the Merrill Lynch deal stemmed from the amount of bonuses that were given to executives of Merrill Lynch during the acquisition. The public felt that giving out bonuses to members of upper management did not make sense, given the fact that Merrill Lynch was failing to run its company properly and needed Bank of America to acquire it so that it did not declare bankruptcy. In September of 2009, a federal judge rejected a \$33 million settlement regarding the accusations that Bank of America failed to adequately disclose these bonuses. This settlement was originally held between the Securities and Exchange Commission and Bank of America. Executives at Bank of America were aware of the fact that Merrill paid its employees \$3.6 billion in bonuses right before the acquisition took place on January 1, 2009, but did nothing to advise shareholders and the public of this fact.

Many people were also dissatisfied by the amount of money Lewis received in the form of salary, bonuses, and stocks and options during his position as CEO at Bank of America. The amount he received in compensation angered those who felt that the poor performance of the bank did not reconcile with the high wages Lewis received. In 2007, Lewis earned a base salary of \$1.5 million. In addition to this base salary, he received a cash bonus of \$4.25 million and stocks and options totaling over \$14 million. In full, this amounted to \$20,404,009. By 2008, Lewis earned just over \$9 million, a 56% drop from the previous year. On September 30, 2009, Lewis announced his intent to retire from Bank of

America by the end of the year. It is estimated that he will receive pension benefits of \$53 million, which some critics disapprove of as an example of inflated and unnecessary executive compensation. Still, in an effort to approve his personal image, Lewis announced that he would forgo any salary or bonus for 2009. Overall, the impact of the Merrill Lynch acquisition was significant because shareholders lost any trust in the ability of Bank of America to make wise business decisions. New York Attorney General, Andrew Cuomo, is expected to file civil charges against executives within Bank of America for failing to alert shareholders about the bonus payments given to Merrill Lynch's management and the knowledge of the losses that Merrill held on its books before the acquisition. Not only did Lewis prevent the disclosure of information that severely affected shareholders, he also allowed himself to be pushed into a deal over fear of losing his job. Ironically, the same result occurred, and Lewis will no longer hold his position at Bank of America.

Troubled Asset Relief Program

The Troubled Asset Relief Program (TARP) was established to address the sub-prime mortgage crisis and give the United States government the ability to purchase assets and equity from those financial institutions who are struggling with liquidity. One main goal of TARP includes allowing the Treasury to purchase illiquid and difficult to value assets in order to improve their liquidity and ultimately allow them to increase in value which would result in gains to the banks and financial institutions that participate in the program along with gains to the Treasury itself. Another major goal of TARP is to fix the problem associated with decreased lending by banks. Banks have been largely unwilling to lend out funds because of the unforeseeable possibility that other losses may come about and further restrict banks' liquidity. This puts pressure on the economy because it causes stagnation in lending activity, and thus economic growth. The banks and financial institutions that are allowed to

participate in TARP are only those that are established and regulated by U.S. laws and with significant operations in the United States.

Billions for banks
 Nearly a quarter of the government's \$700B bailout has gone towards propping up top banks.

COMPANY	AMOUNT
Bank of America*	\$45 billion
Citigroup	\$45 billion
JPMorgan Chase	\$25 billion
Wells Fargo	\$25 billion
Goldman Sachs	\$10 billion
Morgan Stanley	\$10 billion
Bank of New York Mellon	\$3 billion
State Street	\$2 billion
TOTAL	\$165 billion

SOURCE: TREASURY DEPARTMENT
 *INCLUDES \$10 BILLION IN CAPITAL INVESTED IN MERRILL LYNCH, BEFORE IT WAS ACQUIRED BY BOFA

The government's use of CAMELS ratings, discussed later in this paper, allowed it to decide which banks can be extended help. One criticism of the government's choice in who to help with TARP funds is that it appears to be biased in allotting more help to those banks that are considered "too big to fail" and would cause systematic risk. This pertains to the consideration of the government's granting of the enormous \$45 billion amount to Bank of America. It suggests that perhaps the government is unwilling to allow Bank of America to fail, and at the same time has allowed and even pushed it into acquisitions that make it a larger and larger financial institution. Its push for Bank of America not to back out of the deal with Merrill Lynch imposed a greater potential for systemic risk as the firm grew to an insurmountable degree. Thus, in the future, if Bank of America is at risk for failure, it will rely even more heavily on the government for a bailout which will effectively put more control into the hands of the government regarding involvement in private institutions.

Some banks to repay bailout

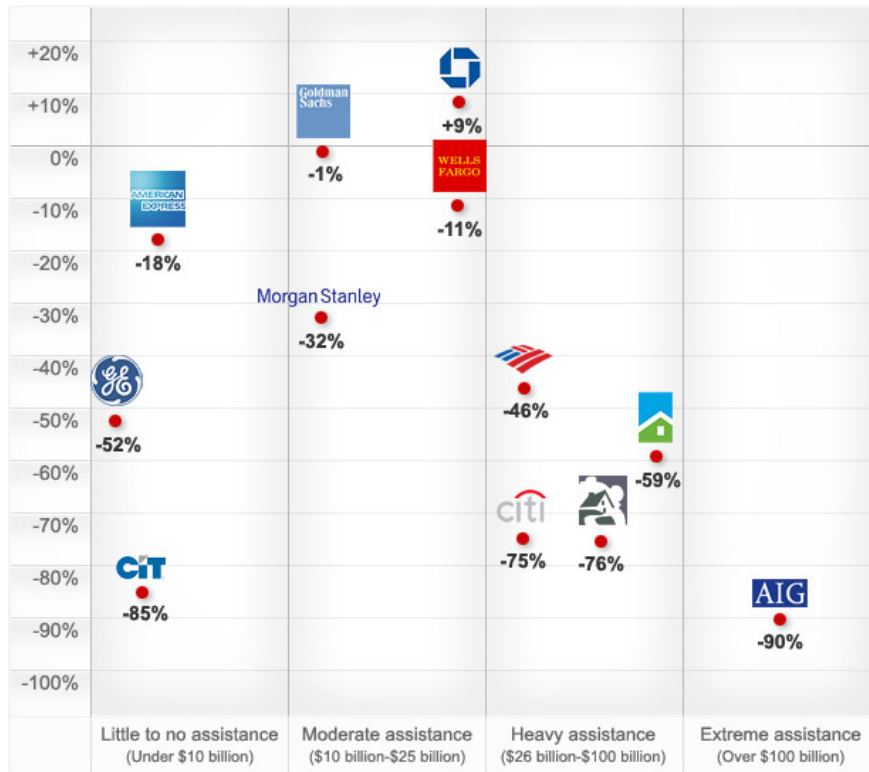
The Treasury Department allowed nine* big bank holding companies that underwent stress tests to repay \$68 billion in government bailouts (TARP).

Can repay		Not there yet	
	TARP funds, in billions		TARP funds, in billions
American Express	\$3.4	Bank of America	\$45.0
Bank of N.Y. Mellon	3.0	Citigroup	45.0
BB&T	3.1	Fifth Third Bancorp	3.4
Capital One Financial	3.6	GMAC	5.0
Goldman Sachs	10.0	KeyCorp	2.5
JP Morgan Chase	25.0	PNC Financial	7.6
Morgan Stanley	10.0	Regions Financial	3.5
Northern Trust*	1.6	SunTrust	4.9
State Street	2.0	Wells Fargo	25.0
US Bancorp	6.6		

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 Source: McClatchy Washington Bureau
 Graphic: Judy Treible

NOTE: MetLife was subjected to federal stress tests but did not take TARP money
 *Northern Trust was not subjected to federal stress tests but took TARP money

In terms of performance, many banks have been able to repay the bailout money given to them by the government. Still, there are several institutions, Bank of America included, that are unable as of yet to repay TARP funds. Important to note, however, is the fact that Bank of America is an institution that holds one of the largest amounts of TARP funds without the ability to repay those funds. The stock performance of Bank of America has indicated that, although Bank of America has been considered as receiving “heavy assistance” from the government in terms of bailout money, it has still performed poorly in terms of stock price.



The graph above indicates the percent change in stock price versus the amount of government aid received by various financial institutions. The large majority of companies who received government funds have had a negative change in stock price relative to the amount of aid received. On the other hand, Bank of America in particular seems worse off than many of the other companies shown with a decrease of 46% in stock price compared to the amount of TARP funding it received from the government. The only institutions it seems to be doing better than in terms of stock performance in comparison with the amount of government funds received are Freddie Mac, Fannie Mae, Citigroup, and AIG. It received the same amount of TARP funds as Citigroup, but Citigroup’s stock has fallen 75%, which is a difference of 29% between Bank of America and Citigroup. On the other hand, AIG has received over \$116 billion in help from the government and is still at a 90% decrease in stock price showing how severely it was impacted by the market crisis. As expected, Fannie Mae and Freddie Mac

are both doing poorly, as they held a large interest in the housing market and received over \$100 billion in government funds combined.

Bank Holding Company vs. Financial Holding Company

A bank holding company is an entity which controls one or more commercial banks and is controlled by the Federal Reserve Board. Bank holding companies that own at least 25% of the voting stock in the bank must submit periodic financial statements with the Federal Reserve Board.

Acquisitions and nationwide branch banking are standardized through the Bank Holding Company Act. Under Federal Reserve Bank Regulations, Regulation Y establishes the procedures for forming bank holding companies and the ways in which bank holding companies may acquire voting shares in non-bank and bank companies. This regulation also provides information regarding closely related non-banking activities that are applicable under bank holding companies.

In 1999, the Gramm-Leach-Bliley Act allowed bank holding companies to expand their range of services and gave well capitalized bank holding companies the opportunity to become a financial holding company. Financial holding companies offer a range of services that include insurance underwriting, securities dealing and underwriting, merchant banking, financial and investment advisory services, and securitized interests in bank-eligible assets. Financial Holding companies are also allowed to engage in several nonbanking activities as per the Bank Holding Company Act. The Glass-Steagall Act of 1933 previously prohibited banks from involvement in most securities activities and prohibited securities firms from engaging in banking activities. The Financial Services Modernization Act of 1999 eliminated these restrictions so that bank holding companies that are well capitalized and well managed can qualify as financial holding companies. The existing bank holding company must first file a certification with the Federal Reserve Board in order to declare its desire to become a financial holding

company. Then, the subsidiary insured depository institutions of the potential financial holding company must hold a strong rating by the 1977 Community Reinvestment Act which stipulates the necessity for banks to lend in communities from which they obtain their deposits. Companies must first qualify as bank holding companies under the Bank Holding Company Act before they can qualify as financial holding companies. The Federal Reserve Board has listed Bank of America as a financial holding company for all intents and purposes under this act, and it is also considered a bank holding company. One of the criticisms made about financial holding companies is that they are not necessarily subject to follow the same regulations as bank holding companies. Thus, it is argued that many financial holding companies form in order to circumnavigate increased regulation that they would otherwise be required to follow. Bank of America, as both a bank holding company and financial holding company, may at times have taken advantage of this system with that regard.

Performance Analysis

CAMELS

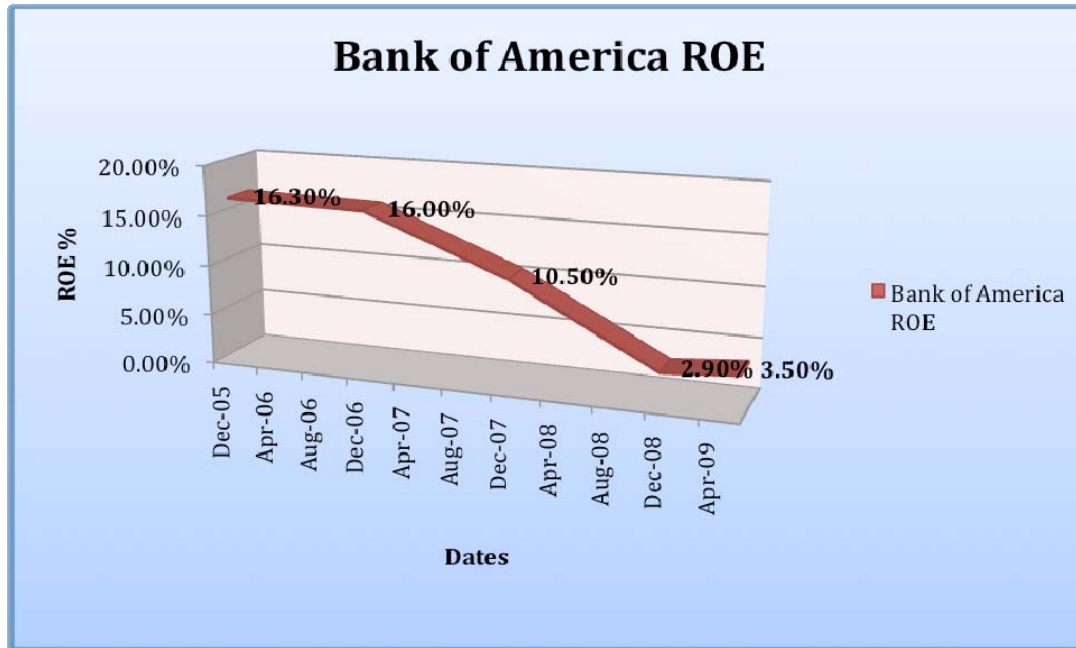
Large banks who maintain a good financial position are evaluated every 18 months to assess their financial health. Examiners from the Federal Deposit Insurance Corporation (FDIC) rate the bank using 6 categories referred to as CAMELS. The acronym CAMELS is simplified as: capital adequacy, asset quality, management quality, earnings, liquidity and sensitivity to market risk. A CAMELS rating falls between a 1 and 5, with 1 being the best rating and 5 being the worst or near failing. Normally not released to the public, it was disclosed in June 2009 that Bank of America was given a CAMELS rating of 2 by the FDIC. A CAMELS rating of a 2 for a bank the size of Bank of America is completely unacceptable. It is a possibility that Bank of America's recent bailout of \$45 billion could have greatly

impacted its rating. Nonetheless, Bank of America, like other banks as well, has been greatly impacted by this terrible recession, and its rating is not the only aspect of the bank that is suffering.

Capital Adequacy

Capital adequacy refers to a bank's ability to preserve capital with many different types of risk and to control these risks. Regulators have always been concerned with the liquidity of banks, and thus have imposed equity capital requirements as a fraction of aggregate bank assets. This is meant to reduce the chance that banks will choose to expand beyond their capability to properly manage their assets and will in turn reduce risk. The preference of banks is to operate with less capital because when a bank has a smaller equity base, it has greater financial leverage and equity multiplier. High leverage converts what is considered to be a normal return on assets to a high return on equity. The amount of risk a bank assumes will influence whether or not the amount of capital a bank has is adequate. High risk firms that carry low-quality assets or low levels of liquid funds theoretically ought to have more capital to offset this high risk.

A major indicator of capital adequacy is Return on Equity (ROE). ROE is calculated by dividing net income by shareholder's equity. ROE shows how efficient management has been at using the money shareholders have invested to generate income. The higher the ratio percentage is the better it demonstrates that the bank is earning more money with less equity.



Bank of America’s ROE has dramatically decreased over the last 5 years. In the last quarter of 2005, just before the official start of the financial crisis, it was at 16.3%. This was also just before Bank of America finalized its large acquisition of MBNA. Since the beginning of 2006, the ROE has been consistently falling. During the last quarter of 2008, it hit a record low of 2.9% and, by mid year 2009, the ROE had only slightly increased to 3.5%. The severe decreases during 2008 followed the next major acquisition of Countrywide and Bank of America’s first TARP bailout. Referencing Bank of America’s quarterly financial statements, its preferred stock equity had increased from \$24 billion in the third quarter of 2008 to \$73 billion in the first quarter of 2009. This large increase can be attributed to the two TARP bailouts equaling \$45 billion that were given in the form of preferred stock purchases. The first bailout of \$25 billion took place in October 2008 after the acquisition of Country Wide earlier that year, and the second bailout of \$20 billion took place immediately after the acquisition of Merrill Lynch in January of 2009. Prior to the first bailout during the second quarter of 2008, Bank of America’s net income was \$1.1 billion. After reporting a loss of \$1.7 billion in the fourth quarter of 2008, which also

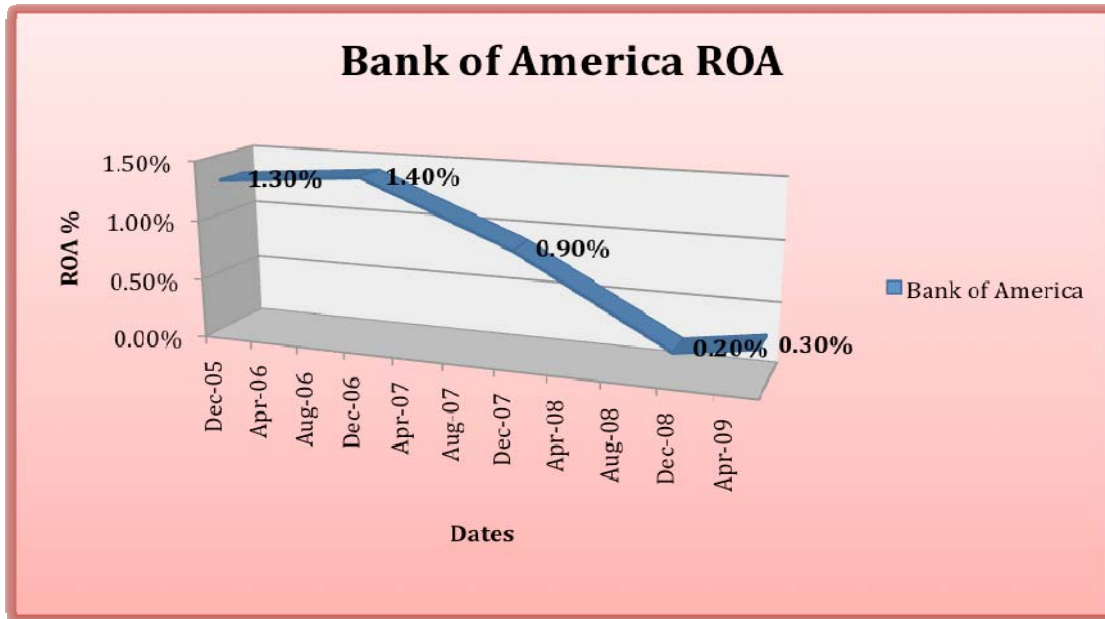
demonstrated the necessity of the second bailout, it returned back to earning net profits in the first quarter of 2009 and ended with a quarterly net income of \$3.2 billion in the second quarter of 2009. Because the TARP bailouts in the form of preferred stock purchases resulted in such a large increase of total stockholder's equity with very little increase in net income, it resulted in the decrease of Bank of America's ROE. An increase in shareholder's equity with little to no increase in net income results in a lower percent ratio. The intent of the TARP injection of capital was to assist Bank of America in being able to generate a healthier profitability. Thus far, it has failed to generate positive results in this area. Bank of America has now increased equity in the form of what could be considered a liability, as they are expected to pay that equity back to the government at a future date, and they have shown very little increase in net income utilizing that equity.

In addition to the capital that was injected from the TARP stock purchases, the Federal Reserve also required that Bank of America generate additional capital in response to a "stress test" that was administered in early 2009. The stress test was given to 19 banks and was intended to predict how the banks would respond if the economic conditions were worse than experts predicted over the next two years. Although Bank of America's results showed that it was considered capable of withstanding the recession, the required percentage of common equity fell short of the standard. The results of the stress test that were reported in May 2009 showed that Bank of America would need to generate an additional \$33.9 billion of equity in the form of common stock. Bank of America stated it planned to achieve this goal by either converting privately held preferred shares or issuing common shares. The statement also said Bank of America was considering selling some of its previous acquisitions such as First Republic Bank and Columbia Management. Whatever strategy Bank of America decided to implement had to be put into action by November 9, 2009 to meet the Federal Reserve's deadline.

Asset Quality

Asset quality refers to the level of credit risk that is connected to the bank's loan due from customers, investment portfolios, and the off-balance sheet behavior. The perceived risk and value of banks' loan portfolios have been a major topic in light of the recent financial crisis which is being blamed in large part due to high-risk and unethical lending practices. Many large banks are being accused of underwriting large amounts of high-risk loans for borrowers who should not have qualified, because the banks knew they could bundle the bad loans into securities and sell them to speculative investors. The securitization of these loans resulted in a false representation of the bank's financial statements, as it held them off the balance sheet as Collateralized Debt Obligations (CDO). The overall result of this careless lending has been a decrease in the quality of loans.

Return on Assets (ROA) is a major component of asset quality and how the assets affect the company's income. ROA is calculated by dividing net income by total assets. ROA shows how efficient management is using its assets to generate income. A higher ROA is the better because it means the bank is earning more money with a fewer amount of assets.



Bank of America’s ROA has decreased just as dramatically as its ROE. Over the past five-year period, its ROA has decreased from 1.3% in 2005 to .30% in 2009. Bank of America’s ROA was .90% in 2007, and the transactions that took place during 2008 and early 2009 caused it to drop to .30%. The two TARP bailouts used to purchase preferred stock also increased Bank of America’s cash account on its balance sheet. In the third quarter of 2008, “cash and due from banks” was \$39 billion, and after the \$45 billion paid from the total of both bailouts, it increased to \$173 billion in the third quarter of 2009. This negatively affected Bank of America’s ROA for the same reason as the decrease in ROE. The increase in the cash account resulted in a higher balance of total assets, but net income had remained the same or decreased. An increase in assets with little to no increase in net income results in a lower percent ratio.

Many assets on a bank’s balance sheet carry a certain amount of risk. For example, net loans make up 42.56% of Bank of America’s balance sheet assets. It must assess the loans to determine the probability that the borrower might not pay back the loan. This is called default risk. One can see that Bank of America is considering more of its loans to have a greater default risk, because it is deducting a

higher percentage of the total loans for allowance for loan losses. Since 2005, the percentage of total loans that is set aside to cover expected defaults has been steadily increasing. During the last quarter of 2005, Bank of America only deducted 1.4% of its loans for the allowance account compared to the 3.4% that was withheld during the second quarter of 2009. This large increase represents the bank's analysis that more than two times as many loans are expected to default in the coming year coming to the year before the crisis began.

Another classification of assets that is necessary to assess is off balance sheet items. All results from Global Consumer and Small Business Banking are presented on a managed basis. This means that it is assumed that securitized loans were not sold, and present earnings on these were retained. Loan securitization removes loans from the Consolidated Balance Sheet via the sale of loans to an off-balance sheet Qualified Special Purpose Entity (QSPE). A QSPE is a special purpose entity whose activities are strictly limited to holding and servicing financial assets.

As of 2008, Bank of America has approximately \$13 billion in exposures to Home equity securitizations which are held in a QSPE. In addition, Bank of America has approximately \$12 billion in CDO exposure via variable interest entities (VIE). A VIE only varies slightly from a QSPE. Neither entity is required to be consolidated onto the balance sheet.

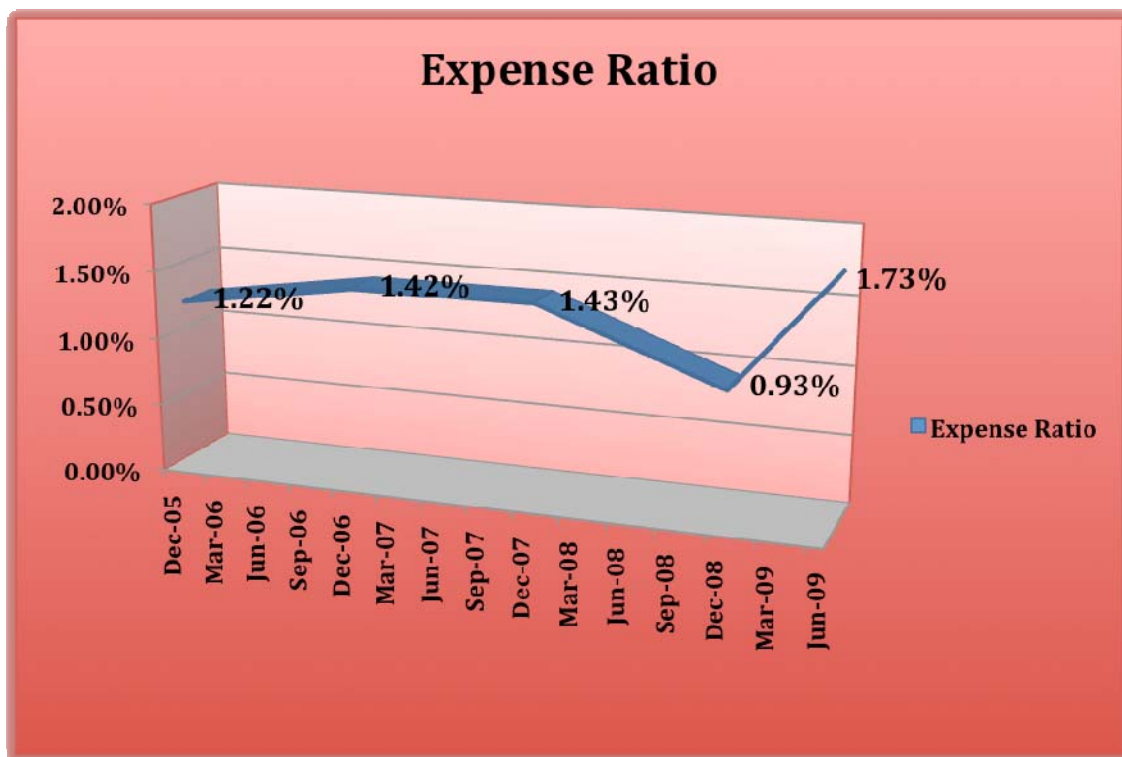
Because these assets are not listed on the balance sheet, their totals are not included in the ROA calculation. If all off balance sheet securitized loans were included, the percentage would be even lower. This number is even further skewed by the fact that bank's were recently required, in October 2008, to revalue all their assets based on marked-to-market. Since most of the off balance sheet loans were very low quality to begin with, this gave banks the opportunity to decrease their book value. If these loans were being represented at their actual value, they may be higher resulting in an ROA of practically zero. This would actually be a more accurate representation of Bank of America's asset quality. The ability to

hold these high-risk loans off the balance sheet has masked the fact that they hold way too many assets in comparison to the returns they are receiving in net income.

Management Quality

Management quality describes the efficiency of the board of directors and other management to control and manage risks. Many factors of a bank’s performance reflect directly on the upper management of the bank including policies that are approved by the board of directors and implemented by management to aid in complying with regulations. Other factors may include the ability to generate a sufficient amount of income from non-interest sources, balance interest rate fluctuations between loans and deposits, and manage expenses.

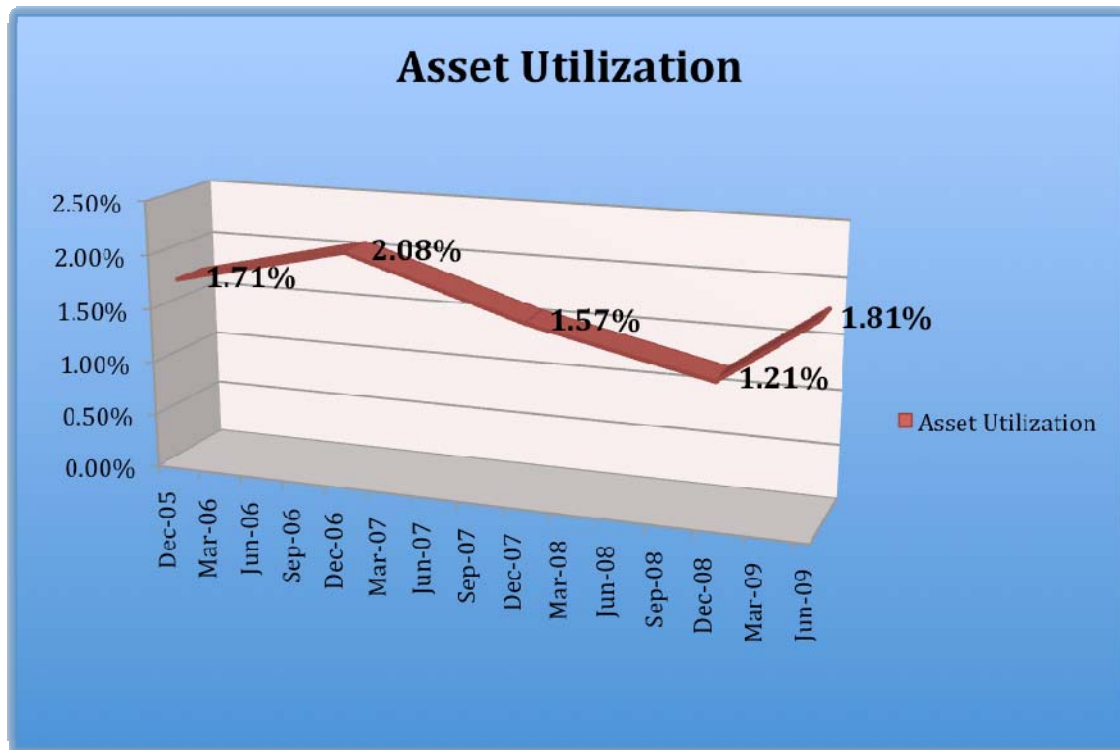
The expense ratio is used to help interpret management quality. The expense ratio is calculated by dividing total expenses by total assets. The lower the expense ratio, the more efficient a bank will be in controlling their expenses.



Bank of America's expense ratio over the past five years has greatly fluctuated. According to the most recent ratio of 1.73%, Bank of America has become less efficient at controlling their expenses. As discussed in previous sections, total assets had increased over the past year due to the bailouts which would have actually decreased the expense ratio if it was not for the large spike in non-interest expenses. Quarterly non-interest expenses have more than doubled in 2009 compared to the totals in 2008. This reflects poorly on management considering they have received a large amount of government assistance and perceivably are being careless with the portion of their expenses they have more control over.

Earnings

The earnings category analyzes the amount, quality and sustainability of the bank's revenues. Asset utilization helps determine the bank's ability to generate revenue in relation to its total assets. Asset utilization is calculated by dividing total non-interest and interest income by total assets. The lower the percentage of asset utilization the less effective management is at utilizing assets to generate income.



Bank of America's asset utilization has also fluctuated and was most recently at 1.81% in the second quarter of 2009. Generally the large increase in assets would have caused this ratio to decrease as well which would have reflected poorly on Bank of America's position as it has with other ratios. Surprisingly, it managed to increase its asset utilization due to a large increase in non-interest income. Non-interest income took a huge leap from \$370 million at the end of 2008 to \$23 billion during the first quarter of 2009. This is good for Bank of America, because not only does it show its ability to utilize the additional assets it was given, but income from non-interest sources is favorable. When interest comes from interest payments the bank is subject to interest rate risk in which a decrease in loan rates could put the bank in a very bad position of not having enough to pay out other expenses.

Liquidity

Liquidity defines the company's ability to pay back short term debts and other liabilities with cash or cash equivalents. The liquidity ratio is calculated by dividing cash and cash equivalents by total

deposits and short-term debt. Under Regulation D, the Federal Reserve requires that banks hold at least 10% of the value of its deposit accounts in cash reserves. Ideally, the bank's cash reserve or liquidity ratio should exceed that 10%. Bank of America's liquidity ratio as of June 2009 was 13.16%. This means if Bank of America was in the position where it had to pay out all of its short term liabilities, it would only have enough to pay 13% of them. Although Bank of America's liquidity ratio satisfies the reserve requirement, it still leaves the bank open to a large amount of liquidity risk. This risk is further heightened if obligations that are held off the balance sheet are taken into account. When CDO's default without an allowance for losses to back them up, Bank of America must make up for the failed investment from a very limited cash reserve.

Sensitivity to Market Risk

Sensitivity to market risk shows how earnings are adversely affected by changes in interest rates, foreign rates, and equity and commodity prices. It is important for a bank to properly balance its interest income and liabilities, so an increase or decrease in interest rates will not result in a loss. Many ratios help determine how well a bank has prepared itself to handle market risk.

The spread calculation is the difference between interest earned on loan assets minus interest paid out on interest bearing deposit accounts. If rates change so will the interest income and expenses, and variations in the results over the years will show whether the bank has positioned itself to handle the changes. The bank's burden is its non-interest expenses that are not covered by fees, securities gains and other non-interest income. The bank must position its assets and liabilities in such a way that the spread on interest income and expenses will always cover the burden from non-interest expenses. If a fluctuation in interest causes a negative spread in which the bank paid out more in interest expenses than it received in interest income then it will not have enough to cover the non-interest expense burden resulting in a loss. This is why it is important for management to either ensure they are controlling their

non-interest expenses or find a way to generate additional non-interest income from fees.

Either calculation can also be turned into a ration by dividing either the spread or the burden by the assets or liabilities generating the income. The burden ratio is calculated by subtracting non-interest expenses from non-interest income and dividing it by total assets. Overall a lower ratio is better. Bank of America’s burden ratio as of June 2009 was 0.16%. Luckily, their spread was sufficient to cover the burden resulting in \$3.224 billion net income for the second quarter of 2009.

The efficiency ratio shows how much the bank pays in non-interest expense for every \$1 of income. It is calculated by adding net interest income and non-interest income and dividing it from non-interest expense. The smaller the number efficiency ratio is, the more profitable the bank is. Bank of America’s most recent efficiency ratio is 43.82% which is fairly low. This means they are only paying \$0.43 in non-interest expenses for every \$1 of total revenues earned.

Stock Prices

Bank of America Historical Stock Prices



As demonstrated in the graph of Bank of America’s historical stock prices above, certain trends in the value of stock depended on outside factors such as the acquisitions Bank of America made of both Countrywide and Merrill Lynch. Before the economic crisis, Bank of America demonstrated seemingly

steady stock prices. The company's stock reveals a noticeably large decrease in value following the formal acquisition of Countrywide in July of 2008. Later, two factors had a dramatic impact on the stock price: Bank of America's acquisition of Merrill Lynch on January 1, 2009 and the two large TARP bailouts. After these events, stock prices dropped to an all time low trading at \$3.14 per share in March of 2009. Stock prices are largely dependent on speculation and how strong a company is perceived to be. The fact that the capital injection from the TARP fund was in the form of preferred stock purchased further decreased the value. Not only were speculators viewing Bank of America as a company that was failing, but additional stock was issued which causes an additional devaluation. Therefore, the drop in stock value displays Bank of America's inability to demonstrate its strength and viability in the market.

Competitive Analysis

Stock Prices

In the light of the recent financial crisis that has developed over the past few years, it is not surprising to deduce that Bank of America's financial position had deteriorated along with the rest of the economy. In order to fully understand its performance, it is necessary to take the analysis a step further and compare Bank of America's figures to those of the entire industry and its closest competitor. This will help to determine if Bank of America was just another victim of the recession or if it has other underlying factors that have caused it to fall below the average. For comparison purposes, Bank of America's financial figures will be compared to Wells Fargo's figures. Wells Fargo is another financial holding company that is commonly classified as one of the top three competitors to Bank of America due to its similar size, products and services. Bank of America will also be compared to the financial industry's average ratios and to the Dow Jones Industrial Average, as they are included in the collection of companies that make up the stock market average.

Historical Stock Prices Comparison



- Bank of America (BAC) - Wells Fargo (WFC) - Dow Jones Industrial Average

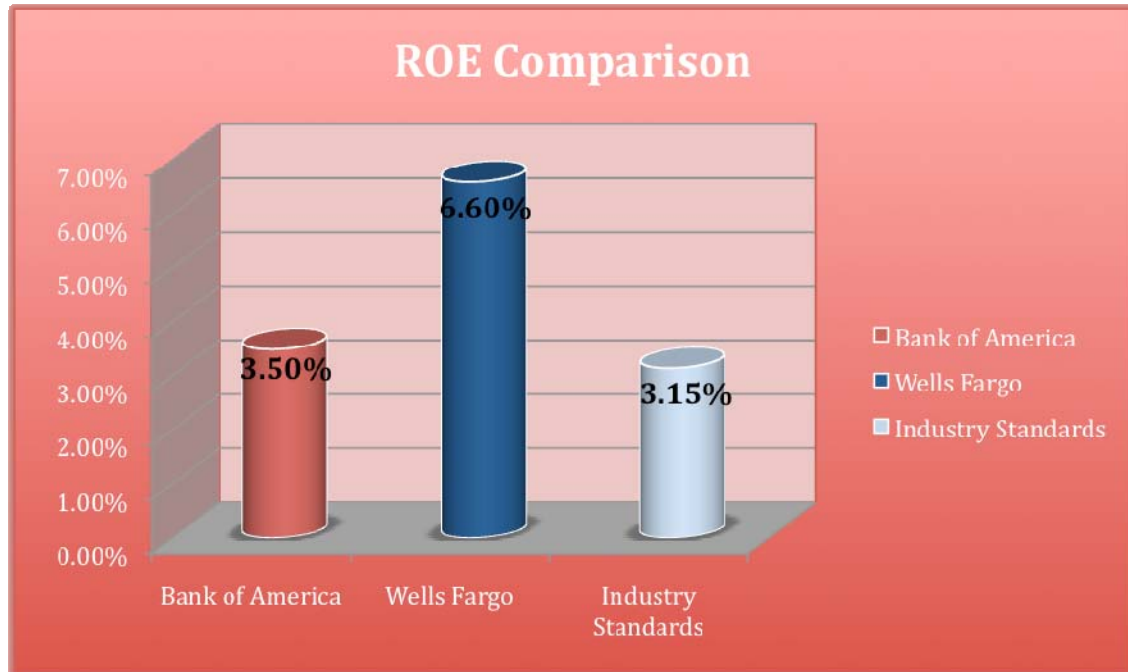
<http://finance.yahoo.com/echarts?s=%5EGSPC#chart2;symbol=%5Egspc;range=5y;compare=bac;indicator=volume;charttype=line;crosshair=on;ohlvalues=0;logscale=on;source=undefined>

Fluctuations in stock prices are easy to analyze as there are many basic calculations that can quickly show the relationships between figures. Beta shows a stock’s sensitivity to an increase or decline in the stock market. Bank of America’s Beta is 2.66, which means that its stock is expected to decrease more than two times that which the entire market decreases during the recession. As you can see by the graph above, this prediction held true in the beginning of 2009 when stock prices plummeted down close to 40% for the Dow Jones and 90% for Bank of America. Bank of America’s stock hit a low of \$3.14 on March 6, 2009, shortly after its controversial acquisition of Merrill Lynch and large bail out from the TARP fund. Its competitor, Wells Fargo, only has a Beta of 1.46, so Wells Fargo’s stock fell as well, but only by about half as much as that of Bank of America.

Return on Equity

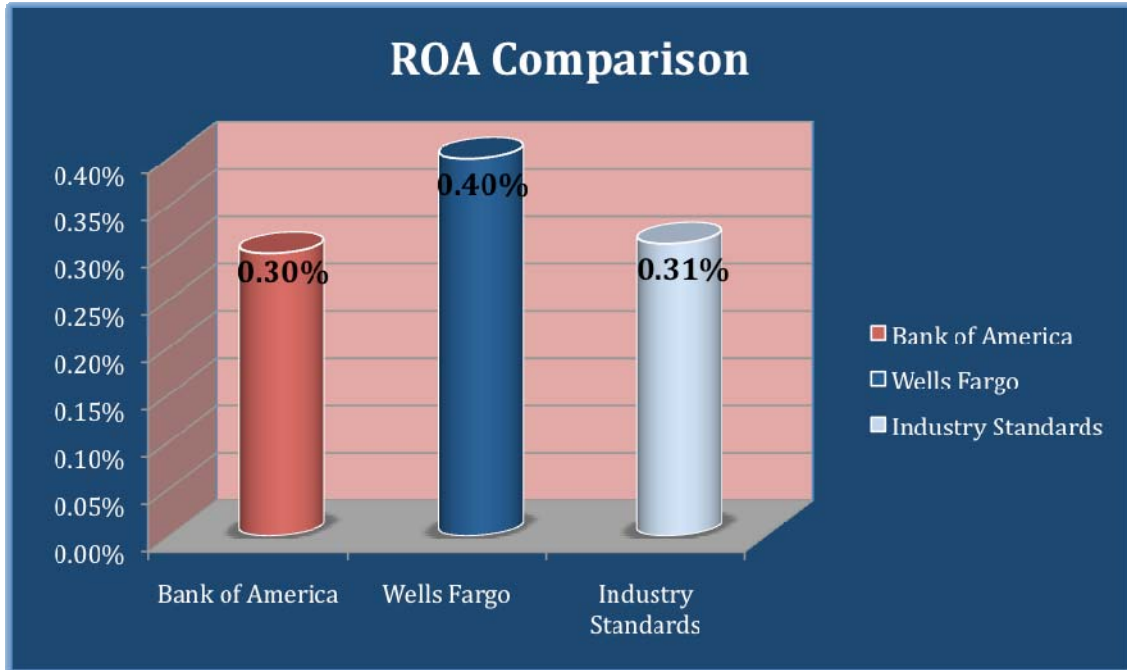
Although it is apparent that Bank of America’s stock prices did fluctuate consistently with the rest of the market and Wells Fargo, it is necessary to look further into the bank’s financial situation to see why it was at such a greater rate. As seen from the previous section on Bank of America’s

performance based on past and current financial statements, its Return on Equity fell dramatically over the past couple of years. Although this ratio is very low in comparison to Bank of America's previous years, it is extremely close to the most current industry averages. Return on Equity is very close with Bank of America at 3.5% and the industry standard at 3.15%. Given that a higher Return on Equity Ratio is better, we can conclude that Bank of America is doing fractionally better than the average of the financial industry at utilizing its equity to generate profits. However, when looking at the Return on Equity for Wells Fargo, Bank of America once again lags in comparison. Wells Fargo seems to have suffered during the same time period with its downfall beginning in 2007. Its Return on Equity is at 6.6%, reasonably better than Bank of America. If you look at Wells Fargo's history of returns, its ratios have been just above Bank of America's for the past five years. Although recent events cannot account for the gap in prior years, the TARP bailouts can contribute some explanation to the two banks' different ratios. Because Bank of America received more stockholder's equity in TARP bailouts without an adequate increase in income, its ROE would naturally be lower than Wells Fargo, who did not have as substantial of an increase in stockholder's equity.



Return on Assets

When comparing Bank of America's ROA against Wells Fargo and the industry standards, Bank of America once again comes in extremely close to the standard. As of June 2009, Bank of America had an ROA of 0.30%, while the industry standard was 0.31%. Wells Fargo, however historically had a higher ROA than Bank of America. Wells Fargo saw a decrease in its ROA in comparison to previous just parallel with the industry as a whole. The difference between Wells Fargo and Bank of America lies in the difference between net income and assets used to calculate ROA. While both banks received TARP funds increasing their stockholders equity and cash accounts, Wells Fargo only received the first bailout of \$25 billion and was able to pay it back. Bank of America received a second bailout bringing their total to \$45 billion and has not been able to pay it back and is therefore is still holding the additional assets on its balance sheet. The additional assets with no additional net income result in Bank of America having an inferior ROA.



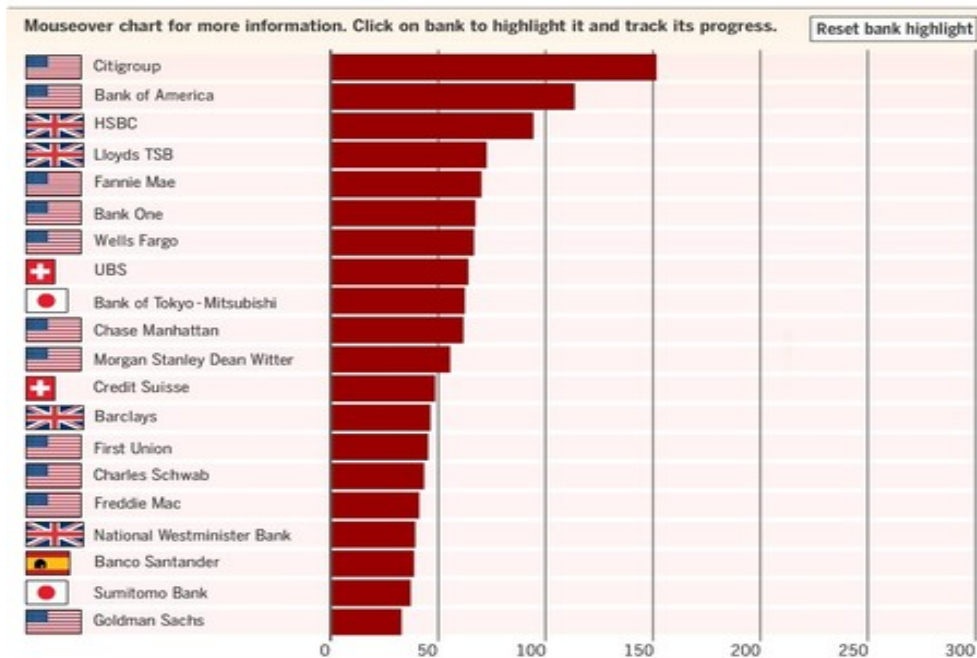
Market Capitalization

Market Capitalization measures the total dollar market value of all a company's outstanding shares. It is important to acknowledge that a company could have a low share price but a high market capitalization due to a large number of shares outstanding. Market capitalization is calculated by multiplying shares outstanding by the market price per share.

Currently JP Morgan and Chase Co. has the largest market capitalization of any United States bank at \$174.65 billion. Bank of America is second with \$142.13 billion, and Wells Fargo & Company is third at \$134.93 billion. Prior to the passage of the TARP, there was a dramatic sell off in financials. Banks saw their market capitalization drop dramatically. However, once the TARP was passed, the United States government bought stock in all of the top bank holding companies in the United States. This means that the current market capitalization data is open to interpretation due to the intervention.

Once again, a distinction can be made on individual bank's performance based on the assistance it received from the TARP fund. Because Bank of America had multiple bailouts resulting in an increased number of preferred stock shares outstanding, it naturally increased its market capitalization above that of Wells Fargo who only received the first bailout and repaid it.

Top 20 financial institutions by market capitalisation, \$bn, 1999-2009



Conclusion

Although many banks are facing a severe downturn in financial performance measured by a variety of means because of the current state of the economy, Bank of America stands out amongst them. The solvency of Bank of America is debatable for a variety of reasons. First, it is difficult to gauge how accurate the information available is regarding Bank of America's financial statements. Since there is a large quantity of data kept as off balance sheet items, it is a complex issue to assess the ability of Bank of America to remain liquid. At the very least, Bank of America has issues with its liquidity. It carries too many long-term assets that are not easily convertible to liquid cash in the short term. Many of these long term assets include off balance sheet items such as mortgage backed securities. These types

of mortgage backed securities are not only hard to convert to liquid capital, but are even harder to properly value at the current moment. Bank of America also holds an excessive amount of collateralized debt obligations (CDOs) which hold long maturities and are difficult to assess in terms of quality and whether or not they will contribute to a return.

Whether or not Bank of America is insolvent, the government has a strong interest in ensuring its survival, as the government holds a large majority of its accounts with Bank of America. With the government's pressure for Bank of America to acquire Merrill Lynch in order to prevent Merrill Lynch's eminent failure, Bank of America became an even larger entity. Consequently the idea of "too big to fail" has become an even larger issue. The apparent attempt by the government at partial nationalization of the banking sector has many investors and stockholders skeptical of the reported performance of banks. If mark to market is used to assess the fair value of accounts, then many banks would be considered insolvent by these standards. Still, there is a positive outlook that the economy will improve sooner than expected, credit losses will prove to be lower than expected, and the current approach in dealing with toxic assets will work in due time. If each of these points is accomplished, it is possible that the banking sector will improve. The issue at hand, however, is when and how Bank of America will be able to pay back the TARP funds given to it by the government. Although many competitors have been able to pay back these funds, Bank of America has not only been unable to pay back anything, but it is also one of the largest recipients of TARP funding.

Bank of America's poor choice of acquisitions over the past few years under the control of CEO Ken Lewis has caused repercussions that will reverberate through the bank's performance for many years to come. Only the future will tell whether or not Bank of America will be able to overcome its financial

problems and begin to pay back TARP funds in order to remove itself from the overwhelming clutches of the government's control.

INDICATORS					
Quarter End Date	2009/09	2009/12	2009/03	2009/06	2009/09
Date Preliminary Data Loaded	2009/10/01	2009/02/22	2009/05/01	2009/07/22	0000/00/00
Earnings Period Indicator	N	F	Q	S	N
Quarterly Indicator	3	4	1	2	3
Basic Earnings Indicator	Y	Y	Y	Y	Y
Formal Indicator	F	F	F	F	F
Preliminary Full Context Indicator	N	N	N	N	N
Projected Fiscal Year End Date	0000-00-00	0000-00-00	0000-00-00	0000-00-00	0000-00-00
Number Of Months Since Last Reporting Period	3	3	3	3	3

INCOME STATEMENT					
Loans	14,281.0	14,220.0	13,348.0	12,329.0	11,620.0
Investment Securities	3,021.0	3,051.0	3,030.0	3,263.0	2,975.0
Lease Financing Income	0.0	0.0	0.0	0.0	0.0
Other Interest Income	1,058.0	1,018.0	1,394.0	1,338.0	1,363.0
Federal Funds Sold (Purchased)	912.0	283.0	1,155.0	690.0	722.0
Interest Bearing Deposits	0.0	0.0	0.0	0.0	0.0
Loans Held For Resale	0.0	0.0	0.0	0.0	0.0
Trading Account Securities	2,344.0	2,120.0	2,428.0	1,942.0	1,843.0
Time Deposits Placed	0.0	0.0	0.0	0.0	0.0
Other Money Market Investments	0.0	0.0	0.0	0.0	0.0
Total Money Market Investments	3,298.0	2,513.0	3,583.0	2,642.0	2,565.0
Total Interest Income	22,196.0	21,602.0	22,156.0	19,992.0	18,523.0
Deposits	3,848.0	3,298.0	2,543.0	2,082.0	1,710.0
Short-term Deposits	3,223.0	1,910.0	2,221.0	1,396.0	1,237.0
Long-term Deposits	2,824.0	2,706.0	4,316.0	4,034.0	2,690.0
Federal Funds Purchased (Securities Sold)	0.0	0.0	0.0	0.0	0.0
Capitalized Lease Obligations	0.0	0.0	0.0	0.0	0.0
Other Interest Expense	991.0	524.0	579.0	450.0	455.0
Total Interest Expense	16,554.0	8,496.0	9,650.0	7,862.0	7,160.0
Net Interest Income (Expense)	11,642.0	13,106.0	12,487.0	11,630.0	11,423.0
Provision For Loan Loss	6,450.0	6,535.0	13,350.0	13,375.0	11,705.0
Trust Fees By Commissions	0.0	0.0	0.0	0.0	0.0
Service Charge On Deposit Accounts	0.0	0.0	2,533.0	2,720.0	3,020.0
Other Service Charges	7,082.0	6,733.0	2,065.0	2,149.0	1,557.0
Security Transactions	10.0	1,301.0	1,488.0	632.0	1,554.0
Premiums Earned	678.0	741.0	0.0	0.0	0.0
Net Realized Capital Gains	0.0	0.0	0.0	0.0	0.0
Investment Banking Profit	474.0	618.0	7,332.0	7,167.0	5,500.0
Other Non-interest Income	-285.0	-9,023.0	9,033.0	8,467.0	3,778.0
Total Non-interest Income	7,879.0	370.0	23,261.0	21,144.0	16,469.0
Salaries And Employee Benefits	5,190.0	4,027.0	15,041.0	12,797.0	12,333.0
Net Occupancy Expense	1,368.0	1,450.0	1,763.0	1,835.0	1,837.0
Promotions And Advertising	605.0	555.0	521.0	499.0	470.0
Property Liability Insurance Claims	0.0	0.0	0.0	0.0	0.0
Policy Acquisition Costs	0.0	0.0	0.0	0.0	0.0
Amortization Deferred Policy Acquisition Cost	0.0	0.0	0.0	0.0	0.0
Current And Future Benefits	0.0	0.0	0.0	0.0	0.0
Other Non-interest Expense	4,244.0	2,405.0	2,455.0	2,718.0	2,200.0
Total Non-interest Expense	11,413.0	8,437.0	17,957.0	17,849.0	16,906.0
Premium Tax Credit	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Income Taxes	324.0	-2,013.0	1,129.0	-645.0	-975.0
Income, Acquired In Process R&D	0.0	0.0	0.0	0.0	0.0
Income Restructuring And M&A	-247.0	-306.0	-785.0	-520.0	-594.0
Other Special Charges	0.0	0.0	1,530.0	1,658.0	391.0
Special Income (Charges)	-247.0	-306.0	765.0	829.0	-203.0
Net Income From Continuing Operations	1,177.0	-1,789.0	4,247.0	3,224.0	-1,061.0
Net Income From Discontinued Operations	0.0	0.0	0.0	0.0	0.0
Net Income From Total Operations	1,177.0	-1,789.0	4,247.0	3,224.0	-1,061.0
Extraordinary Income Losses	0.0	0.0	0.0	0.0	0.0
Income From Cumulative Effect Of Accounting Change	0.0	0.0	0.0	0.0	0.0
Income From Tax Loss Carryforward	0.0	0.0	0.0	0.0	0.0
Other Gains (Losses)	0.0	0.0	0.0	0.0	0.0
Total Net Income	1,177.0	-1,789.0	4,247.0	3,224.0	-1,061.0
Normalized Income	1,424.0	-1,483.0	5,482.0	3,365.0	-798.0
Net Income Available For Common	704.0	-2,392.0	2,814.0	2,419.0	-2,241.0
Retained Dividends	473.0	603.0	1,433.0	606.0	1,240.0
Basic EPS (Continuing)	0.15	-0.55	0.44	0.33	-0.20
Basic EPS (Discontinued)	0.00	0.00	0.00	0.00	0.00
Basic EPS From Total Operations	0.15	-0.55	0.44	0.33	-0.26
Basic EPS (Extraordinary)	0.00	0.00	0.00	0.00	0.00
Basic EPS (Cum. Effect Of Acc. Change)	0.00	0.00	0.00	0.00	0.00
Basic EPS (Tax Loss Carry Forward)	0.00	0.00	0.00	0.00	0.00
Basic EPS (Other Gains/Losses)	0.00	0.00	0.00	0.00	0.00
Basic EPS - Total	0.15	-0.55	0.44	0.33	-0.26
Basic EPS - Normalized	0.18	-0.46	0.36	0.26	-0.21
Dividends Paid Per Share	0.64	0.32	0.01	0.01	0.01

INCOME STATEMENT (YEAR-TO-DATE)					
Revenues (YTD)	91,134.0	113,106.0	45,417.0	88,183.0	121,482.0
Net Income From Total Operations (YTD)	5,797.0	4,005.0	4,247.0	7,471.0	0,470.0
Diluted EPS From Total Operations (YTD)	1.11	0.55	0.44	0.75	0.39

BALANCE SHEET

ASSETS					
Cash And Due From Banks	39,341.0	32,857.0	173,480.0	140,366.0	152,412.0
Restricted Cash	0.0	0.0	0.0	0.0	0.0
Federal Funds Sold (Securities Purchased)	87,038.0	82,478.0	153,230.0	184,685.0	187,761.0
Interest Bearing Deposits At Other Banks	0.0	0.0	0.0	0.0	0.0
Investment Securities, Net	258,677.0	277,599.0	262,638.0	267,238.0	266,745.0
Loans	970,200.0	962,900.0	1,017,222.0	993,242.0	954,390.0
Unearned Premiums	0.0	0.0	0.0	0.0	0.0
Allowance For Loan Losses	20,348.0	23,071.0	29,040.0	33,785.0	35,832.0
Net Loans	949,744.0	939,829.0	988,174.0	959,457.0	918,558.0
Premises & Equipment	13,000.0	13,161.0	15,549.0	15,667.0	15,273.0
Due From Customers Acceptance	0.0	0.0	0.0	0.0	0.0
Trading Account Securities	174,859.0	159,522.0	203,131.0	199,471.0	204,836.0
Other Receivables	0.0	0.0	0.0	0.0	0.0
Accrued Interest	0.0	0.0	0.0	0.0	0.0
Deferred Acquisition Cost	0.0	0.0	0.0	0.0	0.0
Accrued Investment Income	0.0	0.0	0.0	0.0	0.0
Separate Account Business	0.0	0.0	0.0	0.0	0.0
Time Deposits Placed	11,709.0	9,570.0	23,947.0	25,710.0	22,992.0
Intangible Assets	112,054.0	103,525.0	115,038.0	116,348.0	116,574.0
Other Assets	184,755.0	199,412.0	386,796.0	343,452.0	375,790.0
Total Assets	1,831,177.0	1,817,943.0	2,321,963.0	2,254,394.0	2,251,043.0

EQUITY & LIABILITIES					
Non-Interest Bearing Deposits	204,549.0	217,968.0	238,035.0	253,317.0	251,618.0
Interest Bearing Deposits	669,502.0	664,999.0	715,473.0	717,425.0	723,281.0
Short-term Debt	146,812.0	158,056.0	165,816.0	166,256.0	162,300.0
Other Liabilities	186,836.0	124,948.0	256,005.0	221,438.0	250,315.0
Bankers Acceptance Outstanding	0.0	0.0	0.0	0.0	0.0
Federal Funds Purchased (Securities Sold)	225,729.0	208,588.0	246,734.0	263,639.0	248,578.0
Accrued Taxes	0.0	0.0	0.0	0.0	0.0
Accrued Interest Payables	0.0	0.0	0.0	0.0	0.0
Other Payables	0.0	0.0	0.0	0.0	0.0
Capital Lease Obligations	0.0	0.0	0.0	0.0	0.0
Claims And Claim Expense	0.0	0.0	0.0	0.0	0.0
Future Policy Benefits	0.0	0.0	0.0	0.0	0.0
Unearned Premiums	0.0	0.0	0.0	0.0	0.0
Policy Holder Funds	0.0	0.0	0.0	0.0	0.0
Participating Policy Holder Equity	0.0	0.0	0.0	0.0	0.0
Separate Accounts Business	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long-term Debt	267,710.0	268,292.0	440,751.0	447,187.0	446,288.0
Preferred Stock Equity	24,151.0	37,701.0	73,277.0	58,660.0	58,640.0
Common Stock Equity	136,000.0	139,351.0	166,272.0	196,492.0	190,843.0
Common Par	65,361.0	76,766.0	100,864.0	128,717.0	128,823.0
Additional Paid In Capital	0.0	0.0	0.0	0.0	0.0
Cumulative Translation Adjustment	0.0	0.0	0.0	0.0	0.0
Retained Earnings	77,695.0	73,023.0	76,877.0	79,210.0	76,081.0
Treasury Stock	0.0	0.0	0.0	0.0	0.0
Other Equity Adjustments	-6,222.0	-5,513.0	-11,489.0	-11,435.0	-6,861.0
Foreign Currency Adjustments	54.0	-704.0	0.0	0.0	0.0
Net Unrealized Loss (Gain) On Investments	0.0	-2,021.0	0.0	0.0	0.0
Net Unrealized Loss (Gain) On Foreign Currency	0.0	0.0	0.0	0.0	0.0
Net Other Unearned Losses (Gains)	0.0	0.0	0.0	0.0	0.0
Total Equity	161,039.0	177,052.0	239,549.0	255,152.0	257,683.0
Total Liabilities	1,670,138.0	1,640,891.0	2,082,414.0	1,999,242.0	1,993,360.0

Shares Outstanding Common Class Only	4,562.1	5,017.4	6,401.0	6,651.6	6,650.3
Preferred Shares	7.6	8.2	9.8	5.8	5.8
Total Ordinary Shares	0.0	0.0	0.0	0.0	8,650.3
Total Common Shares Outstanding	4,562.1	5,017.4	6,401.0	6,651.6	6,650.3
Treasury Shares	0.0	0.0	0.0	0.0	0.0
Basic Weighted Shares Outstanding	4,544.0	4,921.1	6,370.0	7,241.5	6,833.8
Diluted Weighted Shares Outstanding	4,563.5	4,612.5	6,431.0	7,269.5	6,833.8
Number Of Employees	0	0	0	0	0
Number Of Part-time Employees	0	0	0	0	0

CASH FLOW STATEMENT

OPERATING ACTIVITIES					
Net Income Earnings	5,797.0	4,008.0	4,247.0	7,471.0	6,470.0
Provision For Loan Losses	10,290.0	26,825.0	13,200.0	26,755.0	36,460.0
Depreciation And Amortization	2,431.0	3,319.0	1,088.0	2,208.0	3,301.0
Deferred Income Taxes	-1,429.0	-5,801.0	486.0	247.0	3,560.0
Change In Assets - Receivables	-7,193.0	-17,800.0	55,423.0	41,190.0	64,797.0
Change In Liabilities - Payables	13,639.0	-14,449.0	-10,870.0	-18,829.0	-20,945.0
Investment Securities Gain	-362.0	-1,124.0	-1,490.0	-2,130.0	-3,684.0
Net Policy Acquisition Costs	0.0	0.0	0.0	0.0	0.0
Realized Investment Gains	0.0	0.0	0.0	0.0	0.0
Net Premiums Receivables	0.0	0.0	0.0	0.0	0.0
Change In Income Taxes	0.0	0.0	0.0	0.0	0.0
Other Non-cash Items	103.0	8,956.0	-7,469.0	8,502.0	5,718.0
Net Cash From Operating Activities	31,276.0	4,034.0	64,797.0	65,611.0	97,877.0

INVESTING ACTIVITIES					
Proceeds From Sale - Material Investment	86,283.0	149,984.0	86,796.0	127,670.0	192,116.0
Purchase Of Investment Securities	-110,059.0	-185,072.0	-6,584.0	-45,489.0	-85,054.0
Net Increase Federal Funds Sold	49,163.0	53,723.0	68,072.0	36,617.0	33,541.0
Purchase Of Property & Equipment	-1,526.0	-2,096.0			

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