# Remarks to NC Chamber and NC Bankers Association Economic Forecast Forum

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*…introduction given by Skip Brown, chairman of the North Carolina Bankers Association and president, Triad Region, First Community Bank…*

Thank you, Skip. It's great to be here. Actually, it's just great to be in the year 2010. Actually, it is great to be anywhere other than where we were as a company a year ago.

I'd like to start by thanking the North Carolina Chamber… and the North Carolina Bankers Association… for bringing us together for this eighth annual Economic Forecast Forum. It is important – especially in challenging times like these – for business leaders to come together and talk about our shared goals, and how we intend to reach them. I'm pleased to see you all here… and I look forward to working with all of you to build on North Carolina's economic strengths.

I know I'm not who you were expecting as your keynote speaker today. Ken Lewis, my former boss, officially retired as Bank of America CEO as of last Thursday. I'd like to take this opportunity to express my gratitude for his 40 years of service to our company… his outstanding leadership of our team… and his long-standing commitment to the state of North Carolina.

I want all of you to know this is a commitment that I share. Our bank has thrived for 135 years as a North Carolina company… and it will continue to do so.

Today, I'd like to talk about two subjects. First, as this is a session about economic forecasts, I will share with you what our Bank of America forecasters predict about the economy in 2010… what our customers and clients are telling us about their view of the economy… and what our company is doing to help the economy along. Second, I will discuss the changes that are being discussed regarding our industry.

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First… the economy.

For almost six months now, almost all of our major economic indicators have been improving at the national and global levels – or getting worse more slowly. All the publicly reported numbers are telling us that, at the very least, we've reached the bottom of the cycle. That's good news.

Our economic team is currently forecasting global growth in 2010 above 4%, led by emerging markets… and growth in U.S. gross domestic product above 3%. But at the same time, we believe the U.S. civilian unemployment rate will remain stubbornly high for 2010 – creating an ongoing drag on consumer spending and growth, and that will create ongoing misery for far too many of our friends and neighbors.

Imbedded in that aggregate view are our views on four economic indicators we believe are highly correlated to future economic performance. They are improving …but we still have a way to go before we can pop the cork.

- First, the labor market –– After losing seven million jobs in the recession, companies will begin to re-hire in 2010. We believe we can anticipate positive job growth early this year. I hope we're right, but even with that said, the pool of the unemployed will remain very large for quite some time.

- Second, the housing market –– Following a massive correction in the housing market, home prices in the 20 largest markets have posted five back-to-back monthly price increases. Although a new round of foreclosure supply presents some downside risk, the recent turn in demand has taken inventories down to 6.5 months of supply, just above the level consistent with an upturn in prices. So the housing market continues to stabilize, but activity levels are still way below where they used to be.

- Third, household net worth –– The recovery in the equity market and stabilization in home prices has led to a recovery of roughly a third of the total wealth destruction of the past couple of years. Consumer balance sheets are still under stress, but are moving in the right direction. I'm cautious on this point, though, as much of the improvement comes from a reduction in debt through charge-offs by banks like us.

- Fourth, manufacturing –– There is an ongoing recovery in U.S. manufacturing that is benefitting from a firming global economy. The ISM, a widely watched survey, has been showing an expansion since August and recent production data from the Fed has confirmed this trend.

I also pay close attention to what our customers and business clients are telling us. With a retail customer base of more than 50 million households… and a commercial client base that includes over 300,000 small businesses, 30 thousand middle market companies, 99% of the Fortune 500 and 80% of the Fortune Global 500, I think of our customers as a good proxy for the broader economy. The news from this group is mixed.

On the consumer side, credit delinquencies remain at historic highs, though losses do appear to be stabilizing. Customers, even the mass affluent, are shifting their spending from credit cards to debit cards, showing a reluctance to incur more debt and a desire to clean up their personal balance sheets. Wealthy customers are only beginning to feel good enough to put more money to work.

Our consumer spending numbers for the fourth quarter of 2009 show a continued improvement, but the levels are still below the peak, understandably so.

So consumers are hanging in there with the less affluent struggling the most.

Our business clients generally tell us the same thing, whether larger or smaller – they have taken their costs down to levels to meet the current run rates, they can hang on if the world continues to get slightly better and they are simply fighting to make sure they see the other side. Product demand is growing modestly, but uncertainty about sustainability is leading companies to be cautious in rehiring or investing in manufacturing capability.

As the world has improved, larger companies stand ready to access new equity or debt capital when growth opportunities present themselves. Capital markets are largely open. Our deal pipeline coming into 2010 is much stronger than it was this time last year. We expect mergers and acquisitions and leveraged buyout financings to pick up in 2010…and we also expect more initial public offerings, especially in the healthcare and technology industries.

As I look at all this information, the question is what are we most worried about? We continue to be worried about the fragility of the economy with this level of unemployment. This leads us to forecast a long, slow recovery.

The economic hole we're climbing out of is very deep, with greater household leverage, and more aggressive speculation, than we'd seen in decades. Getting out will not be easy – and it will take time.

And that leads to the question, are we as an industry and we as a company doing our part?

My company has been working to help build the North Carolina economy for close to 136 years. Bank of America's North Carolina-based predecessor, Commercial National Bank, was founded in Charlotte in 1874. A strong banking system is important to the national economy and to the regional and local economies. However, in the last decade the industry just grew too fast. It outgrew the fundamentals, leading to a two year contraction.

Even as our industry contracts, we all have to work to help drive the economic recovery. I'm sure you have all read or heard from critics of the industry that "banks aren't lending." I am sure if you are a banker, it makes you as upset as it makes me. It is true that lending is down from the peak several years ago. But there are good reasons for this.

First, those lending levels came in the midst of an economic boom, when loan demand was at a peak, and when we know that many banks had ventured too far out on the risk curve.

Second, commercial bank balance sheets were not the only source of credit in the economy several years ago. Non-bank lending sources, like mortgage companies, sub-prime lenders, hedge funds, structured investment vehicles (like CDOs and CLOs) and others provided huge amounts of credit. Most of this is gone, or at least far more limited. This has drawn tremendous liquidity from the system.

At Bank of America, we are out in the marketplace every day, making every good loan we can. It is how we build relationships…it is how we make money… it's the most important thing we can do to help boost the economy. And, it is simply how we serve our customers. Overall, over the past four reported quarters, we have extended three quarters of a trillion dollars in credit.

One of the areas where people are most concerned is small business. It is an area where we have seen significant chargeoffs. Even after our changes in underwriting and a lot of chargeoffs, we still have outstanding balances that are equal to 2007, a time when the economy was pretty strong.

To help more, just last month, we announced that we will increase our lending nationwide to small and medium-size businesses by $5 billion. We are going to do that by taking some more risk as the economy continues to stabilize. Some of that capital will flow to businesses right here in North Carolina.

On the consumer side, the key issue is mortgage modifications. We've worked hard to modify mortgages for customers who are struggling. In 2009, we helped more than 400,000 customers with completed or trial mortgage loan modifications. This is a complex issue, with lots of competing interests and the most emotionally charged issue in finance, the potential loss of a person's home, as the central element. We will continue to improve in this area, but the impact here has to be gauged against the issues of unemployment and the complexity involved. But, simply put, we will do more.

So we are doing our part at Bank of America, and I know all of you are too. There's much more to do…and we're ready to get back to work with all of you in the new year.

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The other point I would like to discuss today is the changes that are being contemplated in our industry.

Over many decades, the financial services industry – from commercial banks to investment banks, hedge funds, structured investment vehicles, mortgage banking, credit card and brokerage companies – has delivered a broad range of innovative products.

We believed then – and we continue to believe now – that this growth was a positive for the economy… that expanding financial services and banking capabilities make the economy more efficient, and give consumers and businesses more effective tools to manage their financial lives. For example, consumers now have many alternative means to access and manage their money, from traditional branches to the telephone and the Internet. And businesses have access to capital markets in ways they didn't before, and an ability to hedge their risks through derivatives.

That said, the surge of growth in the financial services industry over the past decade obviously went way too far. The broad industry over-lent, and consumers and companies over-borrowed, and we all overleveraged as we believed the risks of the new products could be managed effectively. This led to our recent economic crisis.

As we work to re-shape our institutions and our industry to respond to new market realities, we know that policy leaders also have an important role to play in crafting laws and regulations that protect consumers and creating guardrails that won't let this happen again. We have been and continue to want to be positive partners in this process, to work toward industry rules that will accomplish important public goals, while at the same time preserving the ability of the industry to meet the needs of all our customers. We as an industry cannot avoid the simple fact that we caused a lot of damage, and we have to help make sure it doesn't happen again.

We will see changes in three primary areas: Consumer issues, including pricing and access to credit… capital markets… and the structure of the industry, including the idea of companies that are "too big to fail."

First as it relates to the consumer, during the last few years many consumers borrowed more than they should have, and we helped them do it. We helped through looser underwriting standards, through lower down payments, higher debt-to-income ratios, etc. In addition, we increased penalty oriented fees to make up for the massive amount of free products we delivered to our customers. These fees hit a small group of customers particularly hard as the economy hit the skids. We all hear this from these customers, as do our regulators, congressman and policy makers. They are responding with rules and regulations to ease the pain of their constituents.

I'm very pleased that our company, Bank of America, has not waited for new rules and regulations to make important changes that are benefitting our customers and clients. It became clear to us very early in this economic crisis that customers across all our markets and in all sectors and income groups were frustrated with their banking experience. They let us know that they wanted clarity, consistency, transparency and simplicity in their financial products and services.

We've responded across all our lines of business…with Clarity Commitments in our mortgage, credit card and deposits businesses… with reduced and simplified fee structures… and through many other changes that are making it easier for our customers to better understand and manage their finances.

It is the emotional context and severe dislocation that leads the move for reform, and we as an industry have to recognize it and move forward rather than fight it. It is our customers who are telling us what they need and value and we have to listen. We don't need to wait for laws to be passed.

The second area of reform involves the capital markets…including derivatives trading reform, securitization reform, rating agency reform and compensation reform. The vehicles and practices that got us here, and have cost our industry billions of dollars in capital through losses, have to be reformed. We are working, as all of you are, to help make sure the reforms here balance safety and soundness with innovation, and allow us to deliver the products to help you run your businesses.

The third area of reform is the structure of the industry. The issues here are the idea of "too big to fail," leverage and capital requirements, proprietary trading and related activities and taxpayer support.

In early December, we paid back 100% of the government's investment in our company with nearly $3 billion in interest for U.S. taxpayers. On that subject, I would just like to say that we sincerely appreciate taxpayers making these funds available at a time of crisis in our country… we believe both the prior and current administrations deserve great credit for pursuing an unpopular, but necessary, solution…and, we believe, it worked.

But the key lesson here is "never again." We can never again get our company or our industry in this position. This will require more capital and more liquidity for all participants, which we support.

We are more concerned with the view that somehow the integration of capital markets and commercial banking is a flawed structure for companies in our industry. It is not. It represents what our customers need from us as an industry.

The business success we're having with our new partners at Merrill Lynch proves the point. The ability to combine a commercial banking business with global investment banking and capital markets capabilities is important to us for one specific reason: It's important to our clients. The more capital raising options we bring to the table for clients, the better solutions we can provide to help them grow.

So to summarize the reform efforts, we as an industry have to recognize the damage caused by our industry to the economy and recognize that further regulation is coming. We are moving forward and making some of the changes that are being proposed ahead of time. We urge constructive dialogue to make sure that we are able to meet the demands of our clients, while at the same time protecting the future of our industry.

So, in closing, I want to thank you for the opportunity to speak to you today, so early in my new role. I am honored to serve this company and its three hundred thousand associates. My predecessors have built one of the best franchises in financial services history, with the ability to serve customers and clients of all types. I plan to build on the heritage that got us here, from humble roots in North Carolina almost 140 years ago, to one of the biggest institutions in the world.

We are optimistic at Bank of America. The economy is improving, we have learned some tough lessons, and we are ready to move forward… serving our customers and clients… and working with all of you to build a stronger economy for North Carolina, for the United States of America, and for the world.

Thank you.