

NATIONAL PRESS CLUB LUNCHEON WITH BRIAN T. MOYNIHAN

SUBJECT: OBSERVATIONS ON U.S. AND GLOBAL FINANCIAL MARKETS AND ECONOMIC GROWTH

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ALAN BJERGA: (Sounds gavel.) Good afternoon, and welcome to the National Press Club. My name is Alan Bjerga. I'm a reporter for Bloomberg News, and President of the National Press Club. We're the world's leading professional organization for journalists and are committed to our profession's future through our programming and by fostering a free press worldwide. For more information about the Press Club, please visit our website at www.press.org. To donate to our programs, please visit www.press.org/library.

On behalf of our members worldwide, I'd like to welcome our speaker and attendees to today's event, which includes guests of our speaker as well as working journalists. I'd also like to welcome our C-SPAN and Public Radio audiences. After the speech concludes, I will ask as many audience questions as time permits. I'd now like to introduce our head table guests.

From your right Vic Seested, Senior Vice President and Professional Alliance Group Director for Morgan Stanley. Lorraine Woellert, a reporter for Bloomberg News. Stephanie Dhue, correspondent for Nightly Business Report, Karen Mracek, associate editor for Kiplinger Washington Editors. Steve Beckner, Senior Federal Reserve Correspondent for Market news International, William Cooper, Mid-Atlantic President and CSR Regional Executive for Bank of America, and a guest of our speaker, Andrew Schneider, Associate Editor for Kiplinger Washington Editors and Chair of the National Press Club Speakers Committee. Skipping our speaker just for the moment, Mark Seibel, Managing Editor for Online for the McClatchy Newspapers Washington Bureau, Donna

Borak, Fed Reporter for the Washington Bureau of American Banker, Itaru Oishi, Washington Bureau Chief for the Nikkei Newspaper, Reuben Miller, Regulatory and Legislative Correspondent for dealReporter of the Financial Times. And finally David Holthaus, a freelance writer, reporter and editor of Business and Financial News.
[applause]

Two years ago the U.S. financial industry stood on the brink of collapse. The Sub-Prime mortgage crisis had just brought down Lehman Brothers in the largest bankruptcy(?) in history. A record held for all of eleven days before Washington Mutual surpassed it.

President George W. Bush signed legislation to create the Troubled Asset Relief Program, better known as TARP, which allowed the federal government to take stakes in the financial sector, with the aim of stabilizing it. Such government intervention, even on arguably generous terms, was regarded as heralding quote “The end of Wall Street as we know it,” by no less an authority than the Wall Street Journal. But in many ways, the banking sector and Wall Street are continuing along today. Bank of America provides a case in point.

Despite all the turmoil’s of the past two years, it has a balance sheet of \$2.4 trillion dollars. Even with plans to shed \$150 billion dollars in assets, that still leads it larger than the United Kingdom. On October 1st it became the third major lender in two weeks to freeze foreclosure cases, which remains as a reminder that the mortgage crisis continued to exact a painful toll on many individuals.

Our speaker today took the helm of Bank of America in January, after previously serving as Head of its Corporate Investment Bank as Chief Counsel, and as head of its consumer bank. He is here today to discuss the outlook for the U.S. and global financial markets, recent regulatory reforms in U.S. and abroad, and the role of financial services firms in promoting economic recovery.

Please welcome to the National Press Club the Chief Executive Officer and President of Bank of America, Mr. Brian Moynihan. [applause]

BRIAN MOYNIHAN: Thank you for the introduction. Welcome everyone. It’s great to be here in Washington. I welcome the opportunity to spend a few minutes today talking to you, and those of you as journalists especially, about Bank of America and the financial services industry, and where we stand and where we think it goes. Before I do that I want to recognize Bill Cooper and some of my other teammates here from Bank of America who support the many millions of clients we have in the mid-Atlantic area, and Washington, DC in particular.

We are, in our industry, at the tail end of a very volatile time, the worst time we had since the Great Depression in our country. Setting a path for stability for our industry, for our country, in fact the world continues to occupy the energies of the private sector, banks like us, policymakers and regulators. And as you know, many of them are

gathered here in Washington for the IMF and the various meetings this week. But we've made a great deal of progress in the last couple of years. And being in this setting reminds me of that.

Two years ago I was here in Washington for the IMF, and was here in 2008. And that also was a long weekend, as all of you know. The environment was very different. At these meetings I'd meet with many foreign financial institutions who have come for the meetings. As I sat in meetings in the field of foreign financial institutions, myself and with RCO at the time, we would be getting interrupted from time to time by people pulled out of the meetings, which is a very unusual case for a CO meet. And they're being called by the policymakers and central bankers in the country trying to deal with the issues that industry faced.

And on Monday of that week, of that long week two years ago, they talked about investments made in large banks. I'd gone home, and I remember that, because unlike this year the Red Sox were in the playoffs. And I was at a playoff game, and our board meeting occurred during that.

We continued to seek ways to help keep the financial system going forward. We were seeking ways at that time to help keep the financial system going forward. We were seeking ways to stop the worldwide run on liquidity and to provide a solid footing to the economy that in the fall of 2008 was in a crisis.

But the good news today is that crisis is mostly behind us. The broader economy has also recovered from its recent depths. But there's more important work ahead of it if we're going to create conditions that will support long-term stability and reasonable growth. Today I'm going to talk about a number of topics, including the economic climate we face as a country, the financial regulatory reform that was just passed a few short weeks ago, the important role of financial institutions playing in the United States and in a global economy.

Let me start by providing a quick overview of the conditions in our industry as well as the U.S. economy. During the recession that occurred technically from the fall of 2007 to June of 2009, our economy in the United States lost 7.3 million jobs. That's a staggering amount. It experienced a 4.1% decline in economic output. The net worth of U.S. households dropped by 21%, in part due to the housing decline. It was along this period of recession since the Great Depression.

Given the intensity of that recession, there is good news to report today. First, our experts, like Dick McCormick who's with us here today, who studied economies in our country and around the world, believes that we remain in recovery. And that recovery will continue as we move through 2010 and 2011. For 2010 worldwide growth is expected to top 4.6%. In the U.S. in the second half of the year, our experts would say we're going to grow about 1.5%.

For 2011 the worldwide economy will grow at almost 4%. And while that growth will not be so smoothly as those of us in the United States, or those of us in Europe may like, with faster growth in Asia and slower growth in those countries, the key message is this. We still continue to grow.

There are continuing signs of life in the U.S. economy every day. Jobless claims seem to stabilize and numbers today back that up. Manufacturing continues to expand. The final demand for manufacturers and companies that we service remains relatively weak. We see spending by our consumers continue to grow. The money they spend on the plastic, whether it's a debit or credit card this year is up 7% from last year. Our client companies, the companies of our clients, continue remaining profitable and very efficient. They've weathered the storm well, and have built cash to almost un-preceded levels.

However as we look forward, we continue to face headwinds to drive this economy here in the United States and around the world forward. First, in the U.S. we have a high unemployment rate. It's stubbornly hovering around 9.6% it was announced today. And that unemployment continues to hold back the growth in the economy, from consumer spending to the robustness of the housing market.

As I visit our clients around the country, I asked them what's their prospects? What do they think is going to happen next year? Are they going to hire people? All the things you'd expect a CEO to ask them. What their opportunities are, as person who serves as clients we did know them. And they keep talking about one issue that holds them back. And that's the issue of uncertainty. They're not confident in the landscape ahead. They're not confident in the economy. They're not confident in the regulatory environment that they face in their industry. And importantly they're not confident in demand for the products. So that's holding them back. So an unemployment rate will be stubborn.

The second thing that we face as a headwind is the de-leveraging that went on for both consumers and companies. Consumers who have made it through the last couple of years are continuing to de-leverage, which is not a bad thing. Companies likewise earned tremendous amounts of cash and stored it and paid down debt. And our middle market companies are borrowing rates are all time lows and lines of credit that they use to support their business. They continue to hold it there because they're uncertain of the future. And while they have plenty of cash they don't see the opportunity to put it to work. And we need to push that forward.

Another challenge or headwind is the homeownership issue. We have modified 700,000 mortgages at Bank of America in the last couple of years. We're working through many more troubled mortgage loans. And this is a very, very difficult process for the consumers who are going through. We're handling it to the best of our ability. We built 25,000 people who work with consumers in this area to help them through the process, up from 5,000 two years ago. It's difficult for the homeowner, it's difficult for we as a servicer and our colleagues in the industry to handle this and handle it well. It's un-preceded in its scope in our country's history.

The next headwind is the government debt. U.S. government debt held by the public has increased from 40% of GDP to 60%. A rapid rise reflecting the recent recession and the financial crisis reaching levels not seen since World War II. What this does is it constrains our flexibility going forward in how we can approach the economy through spending with other tax cuts, and constrains our option.

On the household side, even as debt services and percent of income has declined, it's about 12.5% from a high of 14%, it's still only halfway back to levels that would have been more robust economic cycles in the 80's or 90's. Now one thing I got [11:30] does the United States need a higher savings rate? We need Americans long term to save the way that people do in other countries, for example Japan or other countries around the world. The point is, we just don't need it right now. And that's one of the difficulties in the economy. We need people to keep spending to keep the economy going, but we need them to keep saving for the long term good. And that's the challenge we face.

So summarize on the economy, it's growing in the U.S. and around the world, and that's great news. Businesses have recovered quickly, taking advantage of areas of growth around the world and growth in the U.S. has recurred. Consumers continue to move ahead making it through a difficult time for many of them. But in the end, it's going to be a long, slow recovery, but it is going on and continues to go forward.

So with that on the economy let's switch to talk a little bit about financial reform and what is the past and our view on that and how we'll stop the things from occurring in the future. It's without a doubt that the U.S. financial services system needs to change. And the process has been underway. Institutions like our institutions and other private sector institutions have changed how they've operated tremendously in the last couple of years. And policymakers here and around the world have been working on the reforms to help push that change forward. The Dodd-Frank Act contains a number of provisions that address some of the causes of financial crises.

We're in a period of un-preceded rulemaking in our history. And the implementation of that will take a matter of days, weeks, months and even years. There's much work ahead to get that right. And it's a lot of hard work going on by the regulatory agencies that are responsible for it. And those reforms, once implemented, should contribute to future stability in the financial services industry.

The one thing I will tell you, though, is there's no substitute for good management. It's our responsibility to run our companies well for our customers and our shareholders. And we will never give up that responsibility to any regulatory reform. But the regulatory reform can help push us forward to the right place.

In addition to Dodd-Frank the Basel:iii Rules, which most of us in banking were familiar with, and many of you outside banking might not be familiar with, have been the subject of great discussion, and will be the subject of great discussion here in Washington this weekend. The standards that have been agreed to in principle by the Worldwide

Regulatory Framework, and will be approved at the G-20 in November in Seoul, have been set. The principle change for you to think about, if you're not in the industry, is that the tier one—or the common equity level required in industry has gone from 4.5% plus a buffer of 2.5% to a total of 7%. Now without getting into all the ways you have to calculate that, the simple thing is institutions will have twice as much capital as they did a couple of years ago when this rule was fully implemented.

The good news for the American financial institutions like Bank of America is that most of us have raised substantial capital over the last couple of years. And we can comply with the rules by managing our balance sheets and earnings carefully over the next couple of years. Given the experience I had working for an institution that entered the financial crisis and has stretched its capital to acquire some companies, and was dependent upon the economy staying in place to restore that capital, we are a strong, strong supporter of robust capital standards. I believe the 7% level that came out from the Basel framework is a reasonable balance to foster the stability we need in our industry and the confidence. At the same time not to stifle growth in the near term.

Other areas of reform should help avoid the occurrence of some of the core issues in the economic crisis. For example, the new Consumer Bureau ought to prevent the resurgence of sub-prime lending, if it's done right. The Systemic Risk Oversight Counsel of all the regulators meeting together, ought to help translate risk throughout the financial system where they see you in one place and translate it to other places to help us avoid repeating mistakes of our peer companies.

The provisions regarding to derivatives, and exchanges for derivatives, ought to help provide great transparency, lower counter-party risk, and preserve the ability for us to help our clients at the same time. But there's a lot of work ahead of us to make sure we get this right. So we had the economy, we have regulatory form. And the last point I'd like to talk about is large financial institutions. We needed regulatory form. But the question I often get asked is do we need to rethink the kinds of financial institutions we want to have, or have in our system.

There's a lot of commentary aimed at the question of whether large universal banks are good for the economy? Our answer to that is obviously, yes. And we'll talk about that. There was a move afoot for awhile to put back the [16:09] standards of Glass Steagall and other laws to try to break up inter-connected financial institutions. But there's great reasons why we have banks at our size to support an economy of our size. We first have to support companies with large international reaches. Those are companies in the United States that do business around the world. They need our global reach to help them do that.

Take iconic names like a Coca-Cola does 75% of their business outside of the United States. Or, the CEO of one of the major technology firms I talked to the other day, does 70% of their business outside of the United States. GM, Chrysler, John Deere, International Harvester, you name the company, all companies of that size are global

today. They get significant business overseas, and it helps support our economy in the U.S. as they do that business.

Large banks like ourselves can help finance those companies around the world where the capital markets aren't as mature as ours in the United States to provide the capital they need to grow and prosper. This helps them achieve their growth goals and provides advantages to the U.S. economy. It helps develop capital markets around those countries. It helps support growth in those countries for them to consumer our products also.

Now what's different as economies change dramatically is those large companies everybody would say yes, we agree they're global. But middle market companies across the world are now global. I'm talking about companies with tens or hundreds or thousands of employees that have \$500 million or \$200 million or a billion dollars in revenue, the core companies we serve 30,000 of in our franchise. They sell under the global economy into the supply chain. They source the resources they need to produce goods from the global economy. And they're just as demanding as a brand name companies for us to service them around the world.

In addition, our U.S. and worldwide markets require that large pools of capital be available to help those companies, all these companies expand. Remember, one of the core roles we play is an intermediary, bringing together pools of capital from our investor clients to those from our issuer clients. Small institutions could support a \$20 billion dollar equity off like we did for ourselves in the fall of 2009 to raise capital. And in fact, couldn't support ten simultaneous \$2 billion dollar equity offerings that we have in the pipeline as we speak right now.

To help keep the economy growing in the United States and around the world, we need to be there for our client companies with large pools of capital. And large pools of capital are held by large institutions. If you want to think what it would be like not to have the large financial institutions in this country, go look at the countries that don't have them, and see what they say. And it's oddly enough, as I circle the world I always am sitting with central bankers saying, "Help us develop capital markets like yours in the United States. We don't have the pools of capital. Help us figure how to do it."

The third point I'd like to make about large financial institutions is we're a primary source of credit to consumers and small businesses. We know from considerable experience in having over the last 30 years that our ability to provide credit through the economies of scale has brought great pricing and greater advantages to our customers. It allows us to continue to lend in tough markets. This year we'll do 10% more for a small, medium sized enterprise than we did last year, \$90 billion dollars plus through the month of September.

The large institutions, for the fourth point, also drive innovations to spark greater convenience across financial system. These include online banking or bill pay, where one and two payments made through online banking is made through our institution today.

The four million level banking customers we support. The fact that you can deposit your check at 18,000 ATM's or soon may be able to take a picture of it with your phone. Linked accounts to provide free overdraft protection to help avoid the fees. Fraud protection to make sure that if you purchase goods, you're secure, that you won't have to pay for those goods if you don't get them. Automatic savings to help you save day to day. And that's just on the consumer side.

Innovation got a very bad name in this crisis, thanks to the proliferation of complex financial products that created uncertainty in volatile markets. But responsible customer-centric innovation, whether it's on a consumer side or a commercial side, undertaken firms by resources, firms, resources, the people and the money to do it right, can unleash important deficiencies and effectiveness and flexibility for people.

Fourth, large financial institutions maintain, and continuously improve the infrastructure is the backbone of the system. The infrastructure that runs our financial pipes every day is really something to marvel at. It enables the capital flow and the capital markets. It enables you to cash a check down the street and everything in between. Given the size and complexity of this infrastructure, large financial institutions are uniquely qualified to not only maintain it, but also improve it. So what's a simple example of that infrastructure?

Everyone of you has a piece of plastic in your pocket. That piece of plastic is ubiquitous. You can go anywhere and spend with it. That takes a lot of infrastructure behind it. As a by-product of that piece of plastic, you don't have to carry as much cash, you can be safer. We have great transparency to how money moves, tax collections and all those things. And those things are supported by large financial institutions. Because it's in our interest, quite frankly, to drive down the cost of people carrying cash.

Sixth, large financial institutions play a role in maintaining America's global leadership. Our industry is the most competitive in the world. It has long term success. It's been efficient at allocating capital. It's helped fuel economic growth in this country for many, many decades. And it continues to be a world leader as received around the world as I spoke about earlier.

While I understand people sometimes question the value of large institutions, in my view it seems misplaced. Companies across our industry and my own company included did make poor business judgments at time that cost this country and our customers money, and the companies where we work, economic growth. However, U.S. global financial services companies remain vital to the success of our customers. In fact, to be success in the countries we operate including especially the United States.

What we do as a company is very straightforward. We help people live their lives. Whether it's an individual to open their first bank account, an entrepreneur building a business, or large company expanding and raising capital around the world. We help people realize the opportunity life presents for them. And we do it very well.

There will always be a place for banks of all sizes, small community banks to large banks like ours. And we also believe that no institution shouldn't be too big to fail. I'm proud that large financial service providers help people seize the opportunities they see in life. Seeking to dramatically shrink the size of banks would not reflect the realities of the economies we face in the U.S. And for those who advocate that, I would state the old adage, "Be careful what you wish for."

As a far more astute financial commentator than myself observed, "The desire to bring back the boring, small banking industry of the 1950's, is understandable. Unfortunately, the only way to do that would be to bring back an economy of the 50's too." The defining future of the economy, and the financial system in recent years, has been change. That change has been awfully unsettling to institutions and consumers and companies alike. Its an evolved deep volatility which we have to manage out in the future. Today when markets have stabilized the change continues. Financial service provides continue to look at how we operate. In response to new regulations, in response to customer demand.

We've been a big part of the change on the consumer side. We emerged from the crisis a different company we went in. We're fortunate to hold leading positions in every financial sector in our industry. We're a global company operating across all major economies.

We also believe that there's a new customer value proposition emerging. What we hear from our customers is they want clarity, they want transparency, they want simplicity, and they want help. And that's what we try to provide for them. We began to adapt new practices in our company beginning in 2009 with a clarity commitment in the mortgage area. We moved that through all our other products in deposits, cards and otherwise. Customers have shown that they appreciate that approach. And we believe will be willing to bring us more of the business of future, because it helps them keep their affairs in order.

Our business model emanates from the idea that clarity and transparency will generate more value, more products, more services, more loyalty from all those customers, and in return generate more value for our shareholders. To that end we are focused on becoming more straightforward and responsible [24:28] of growth and risk as we move forward. I hope that that will continue to restore what I believe is a sense of service and humility and sustained profitability to our industry, things which we need to remind people of and live up to.

I'm excited about the opportunities ahead of us. The opportunities for Bank of America, the opportunities for our financial services industry, the opportunities for our country. Our industry and our company can help create opportunity and financial prosperity for all our customers. And also generate returns for our shareholders. Our job is to help push this economy forward and keep this growth continuing. And we will do that. Thank you. [applause]

ALAN BJERGA: Thank you very much for your time, Mr. Moynihan. We're now going to begin the Q&A portion of the day. And the first question here, just jumping into current events right away. With interest rates already very low, and with firms reluctant to hire, as you say, would it do any good for the Fed to push rates any lower through quantitative easing?

BRIAN MOYNIHAN: That's a policy decision. And my job is to react to policy, not make it. And also not make news on policy. [laughter] I think the interest rate structure is the lowest it's ever been. I had someone check this the other day. They looked at the ten year bond across the last 50 years or something like that. And there's been 10% a time it's been below 4%. And this is half of it. And there's been 5% of the times it's been below 3%. The rate structure is very low, and very supportive of people making commitments.

I would say that, as I observe from what companies tell me, it's not the availability of money, it's not the cost of money. We've had the most robust debt capital markets environment that we've had in history in the last six, eight, twelve weeks. So there's not an availability of money and availability of cash out there. It's the reality that they've got to see the opportunity and have the willingness to invest. And that comes down to the uncertainty question.

Will I get the demand for my products? Is regulation going to be understandable enough that I can make the investments? And am I certain enough that I can take the risk from my shareholders? And I think that is as important as getting the interest rate environment was very low and very supportive of growth at this point.

ALAN BJERGA: Banks are being asked to stop hoarding money and increase lending. But at the same time they're being asked to increase capital and submit to a variety of new regulations. How do you square that circle?

BRIAN MOYNIHAN: We have tremendous capacity in our balance sheet to fund loans. So the idea that capital requirements will not, if they are adopted as they've been proposed now impact our ability to lend. If they raise them again substantially, the industry would have to start shrinking, I think. And that would not be good. So I think the policymakers ended up with a good balance there.

As I said earlier, on the commercial side, small business side, we get asked about a lot obviously, the reality is for companies that have a track record, you know one of our loans of \$100,000-\$200,000 and up, the approval rates are higher at our institutions and other institutions higher than they've ever been. And the simple way to think about this is that the toughest part of the loan environment right now is for small companies engaged in something like a restaurant or real estate development. That's tough. And there's good reason for that. Those markets are still in pretty tough disarray.

But the real way to think about it is if you think about what I said earlier where commercial customers are borrowing at the lowest levels ever on their lines of credit.

They don't have to do anything but send us a notice to borrow that money. And so it's not a question of making credit available to them; it goes back to the question of what are they going to do with it.

ALAN BJERGA: On your announcement to freeze foreclosures nationwide, first, why? How many mortgages and foreclosures would this affect? And how long will this take to clear up?

BRIAN MOYNIHAN: When you think about the foreclosure environment, I think you have to start from a higher level and think about what's going on. Starting as delinquencies rose about really three to four years ago, housing prices quit going up in 2006 in the third quarter. And so delinquency started moving in '07. And those of you who remember the sub-prime lenders went bankrupt in early '07. So this has been around a long time. We're deep into the process. So delinquency started going up.

In 2008 we bought a company called Country Wide. And we've been working to make sure that company works for its customers. And it's been a tough hall to do that. And so we're cleaning up what was left out of that. And so we saw a delinquency start to rise. And now we're in the process of working those delinquencies through the system. So first they started to rise. We hired a lot of people. We went through modifications. We did 700,000 modifications. This is a fair number of people we've gone through. We have 15 million customers we serve as a mortgage business. So as a percentage it's still relatively small, but it's a lot more than ever was done.

We went from 5,000 people to 25,000 people to work on this. And so we have done everything we can to help these homeowners through this process. It is a very difficult process, these homeowners. When you read the letters and cards that I get, and the emails I get—my email is in the public domain and I get them—It's always a situation where the person has lost their job, had a difficulty in a marriage, gotten sick. These are very difficult situations. And our associates that work on that try to handle it in the best humanly possible way they can.

What we've gotten into with this last thing on the foreclosures is that we have to clear the air. We haven't found any problems in foreclosure process. And what we're trying to do is clear the air and say we'll go back and check our work one more time. But we haven't found any errors, and there's technical issues. We're checking our homework again, and we're making sure we get it right after it's been checked multiple times. And as soon as we do we'll continue the process. But the reality is that isn't reflective of the real human dislocation that we, as a country, need to keep working on, which is how to get people good places to live who are in very difficult times and may not have the financial wherewithal to carry their mortgage loan. And we are working hard to do that. And I think that's where the focus in my mind should really be.

ALAN BJERGA: What kind of impact on the housing market do you expect the Bank of America foreclosure [30:48] to have. Does this mean homeowners who haven't been paying will stay in their homes while this is being sorted?

BRIAN MOYNIHAN: The amount of work required is a matter of a few weeks. So I don't think this will have a substantial impact on that as anything we see. Because in a few weeks we'll be through the process of double checking the pieces of paper we need to double check. But the broader issue as you back up, you hear about the over-hang in the housing market of the so-called shadow inventory, and there's a number of homes which are going through this process. But that's the issue in terms of impact as opposed to this--

ALAN BJERGA: What happens if courts throw into question the issue of who owns mortgages?

BRIAN MOYNIHAN: I was a lawyer once, and I quit being it. That one I'm not as familiar with and I'd have to get the experts from a mortgage company talk about. It's not something that—What's come up in our company is a question of signing these affidavits and notices. But I haven't heard that come up.

ALAN BJERGA: You talked a little bit earlier about the need for consumption to get through the economic recovery, but at the same time need for ultimately for saving rates to increase among Americans. What incentives are there to save when interest rates paid to individuals are so low? And following from that, is the bond market, including U.S. Treasuries already showing signs of a new bubble?

BRIAN MOYNIHAN: Well, the policymaker's decision is to lower interest rates to force us as consumers to have this discussion with ourselves, which is why aren't I putting this money somewhere else than in my bank account earning 40 bases points or something like that. And so I think it's having the intended effect if people are starting to question of why am I doing this? Because that's what it's supposed to do. So I think, as I look at it, the rate structure is such that people looking at it—they first have looked to replace the yield they lost as rates fell. And that's why the debt markets have been so active, people looking to replace the yield.

And the quality of the companies that are going to market, they've made it through a crisis of high order that's never been seen before, and come out with a very strong balance sheet, solid earnings prospects, very big efficiency—of course the debt in those companies is well received by the market. So I think as you look at it, I think the interest rate environment is posing the right question which is, why are Americans not taking their money out of low rate savings account and putting to work to do something else? Buy a home, buy a car, or more importantly invest in the market as a way for the future health. And issues are still uncertain. As that uncertainty heals, I think you'll see them start to move the money. That's what happens in cycles. When you have the depths of the excesses that we had, it's going to take awhile for people to get back on their feet. We see that.

One of our colleagues is from a competitor, financial services firm, in the financial advisor business. And some of my colleagues are here. Customers are getting

more active. Once they got back from holiday, and once they got the uncertainty of the flash crash and some other things behind them. So I expect this will grind through. It's just going to take time, would be my point to focus on. I'm not going to get into the bubble aspects. I'll let the policymakers debate that.

ALAN BJERGA: The Financial Services Roundtable launched a major campaign recently to encourage Americans to save, noting that more than half of American families have less savings than they need to meet a minor financial emergency. Given that, to what segment of the American people are you speaking when you say that now is not the right time to save?

BRIAN MOYNIHAN: I'm speaking to people who have more discretionary income, obviously. But if you look at the American public in terms of households that say earn \$75,000 dollars and under and \$75,000 and above, or \$30,000 dollars and under it would be—I think that the attributes of the people who earn \$75,000-\$100,000 and above in terms of carrying their day to day living costs, they have more money. And they save it, and they're saving. We need everybody to save more in this country long term. But short term the people who have discretionary income, I'm being a little tongue and cheek when I'm saying that. I want them to save, but the reality is, if they cut back their consumption too much, it really hurts the economy, because they drive the economic activity in this country. The big bubble population that earns \$75,000 dollars and up, they drive a lot the purchasing going on. So I wouldn't discourage anybody from saving. I wouldn't discourage anybody from investing with Merrill Lynch as they save.

But I'd say to them, the reality is, if you sum that all up, and all the individual decisions you make, and the mass of Americans that earn good wages and earn good wages above their cost of living, take all that money and stick it all in the bank at low interest rate, go back to the other question, which is if they invest in the market and stuff, they'll make companies take more active work in terms of expand their capital and expand their business and things like that.

ALAN BJERGA: From saving to spending, how can Bank of America motivate Fortune 500 companies to start spending so that small businesses can grow their business?

BRIAN MOYNIHAN: Well, I think one of the things that I sort of call for is a truce of the arguments between big and small. And the reason why I call for that is we depend on small business, our customers. They're a major part of our company, obviously. Small, medium sized companies drive a part of our customer growth.

And so what we decided to do is we looked at our purchasing decisions, and we said let's take 10% more over the next few years and dedicate it to smaller businesses. We'd already had an industry leading women minority owned providers of services were ranked as high as anybody. But we said, you know what, in addition to that we'll do another 10% for small. That doesn't sound like a lot—It's a billion and a half dollars I think, if I've got the exact number right. So it's a big number.

I think large companies want to do this, are willing to do this, when I talk to my colleagues at the Business Roundtable, know they're doing it. But I think that what you're bringing up there is exact issue I think that gets lost sometime. The huge interconnectivity between the purchase and supply chain of larger companies is actually what fuels most small companies.

For a company with ten employees to be completely independent of any large company or any medium size company for its operations, it may be a stand alone restaurant, it may be a couple of other things I could think about, but generally it's going to be somehow involved in the economic flows. So we need to get out of whether it's small or big. We need to get the economy growing. And I think this debate doesn't help.

So our job, when we looked at this issue was make more loans. We said we'd do \$5 billion more. We've already done \$9 billion more this year than last year. And then secondly, let's create revenue for the companies, because that's what they're telling us they need, and that's where we swung around 10% of our purchase. If you work for a large company I think if we could do that, that would help some of these small companies grow faster and help hire some people.

ALAN BJERGA: Many small businesses continue to cite difficulty in obtaining credit as one of the most serious problems they face in their efforts to survive the current economic climate. Why does this remain a problem? And is it likely to change anytime soon?

BRIAN MOYNIHAN: As I said earlier, I think the problem with small business credit has become much more localized. Not in terms of local region, but local geographic reasons, but local industries, localized certain industries. So industries which have always had tough prospects to get credit are going to be tough. We charged off in the third quarter of 2009 at the peak an annualized rate of I think 17-18% of our small business loans. So we didn't make good credit under [38:08] decisions, even in good times.

And so a lot of us pulled back. And if you look at where those losses were coming from, it was coming from \$50,000, \$100,000 smaller loans in areas which get hit hardest by recession. Small residents of construction companies, small restaurants and things like that, those areas I think it can be difficult to get restarted until we figure out how to responsibly get housing restarted and some things like that. When you move away from that into all the other types of industries, small manufacturing concerns, law firms, accounting firms, architecture firms and things like that, credit I think—we're approving rates we've never approved before. Not because we're out trying to just do it. It's because the credits are strong, and the company is in good shape. Again, having survived a very difficult time.

But I think the impact on small, medium sized businesses of the construction economy both on the residential and the commercial construction industry and things like

that is more heavily suited. Because a small business, by most definition, is under 500 employees. And so every engineering firm I've ever met, every architecture firm I've ever met, most law firms I've ever met that were involved in those types of processes were all small business. And they got hurt harder because they were tied into that chain including truck sales and all the other stuff. So I think that construction issue is going to take awhile to work through, that excess of construction.

So it's localized by industry. We're doing everything we can. We've done 10% more this year, or more than 10% more this year than we said we'd do. And we'll continue to look at ways to support the purchase power. But as you hear this I'd ask you to think through the question of whether people are asking for equity or debt. And if you're asking for equity, that's not the business we're in. And that's why the administration has started to push out some more things in the SBA and other areas to help people get their capital grown.

ALAN BJERGA: According to statistics from the Bureau of Economic Analysis, real corporate profits in the financial sector, on the eve of financial crisis, were in roughly three times those of the non-financial sector. During the crisis financial sector profits dropped below those of non-financials. But they've since risen to near their earlier ratio, about three to one, although the absolute values are lower.

What best explains this gap that you see between financial and non-financial sector profits? And is it justified?

BRIAN MOYNIHAN: I may need to call a friend on this one in terms of—I think financial services got to be, from a broad context I think—17-18% of the economy at the peak was it, something like that, maybe up to 20? And I think that was probably more. I think we were engineering profits. And I think we learned our lesson. Right now our company earns about half of what we should earn, or less. So we've got a lot of room to grow. And it's core hard work. We're earning money the hard way right now. And coming out of a tail recession. So I'd expect us and our industry peers to earn more money. So I think this difference will continue.

But we reflect the economy. You might say that we earn in the aggregate a lot of money; it's a reflection of 50 million customers in our case, and consumers, hundreds and thousands of small businesses, 30,000 market companies, many large businesses. And so it reflects the economy. So I wouldn't root against financial services profits honestly because we reflect the profits that are going on in America. And so I think whether we'll stay in that ratio, I'll let an expert decide. But the principle is our industry will probably earn more money, has snapped back very fast, honestly, because of its capability to do so. But yet it's still not where it should be. But I don't think I'd root against that, because that means the economy is not doing as well as it should.

ALAN BJERGA: How has the financial crisis affected views within the financial community about what level or forms of government regulation are necessary for the industrial to function properly?

BRIAN MOYNIHAN: I think one of the principles that I hope we don't lose sight of—I mean, there's been a lot of things done, and I've touched on some of them earlier. And those of you who don't engage in financial services, I think we could spend the rest of the afternoon and perhaps bore you to tears talking about the in's and out's of all the different pieces of regulation.

But I think you should take comfort in the broader context of two or three things. More capital, less leverage. Everybody is under the tent. And this is the one we've got to keep track of, meaning everybody is under a tent. You won't have a non-bank institution be able to do what a bank does or a financial service company does. That was the cause of a lot of things. If you go look at who blew up, they actually went under the tent. And in a much better understanding of the interconnectivity between those under the tent and not under the tent.

And so I think if you look at systemic definitions, with the Consumer Bureau and how it will relate to everybody who does an—A mortgage loan is a mortgage loan. I don't care whether it's done by this entity, that entity, or that entity. It has to be fully regulated if you don't expect to have what happened, which is a myriad of products come out that got people into trouble. And so this is not the first time that's happened. This is the third time in my business career that's happened.

So if we have a principle that says everybody is under the tent, national banks didn't engage in sub-prime lending, any of those regulated with national banking systems—So if we can get the principles that this is a good mortgage loan, you have to have a down payment, it has to look like this, it has to look like that, and get everybody to have to live by it, I don't think we'll have the issue that we have in mortgage lending again. Now we may think of some other way to create some problems, but it won't be as severe if you actually have to have a down payment to buy a house and you can't over-borrow and those types of things. And can't have adjustable rates that people can't figure out.

So I think the principles of less leverage, more capital, everybody's under the tent, are really the key principles. And if we can do that right, I think that the transparent and everything will help, and the systematic definition will help. But the reality is if we keep the leverage down and keep everybody involved, then I think we'll do a better job through the next crisis. We may not be able to predict exactly what happens, but it will be less volatile hopefully.

ALAN BJERGA: Have credit ratings agencies been sufficiently regulated?

BRIAN MOYNIHAN: I think that goes to everybody under the tent. I mean, I think everybody needs to look back and say, did we think about people who are given a special role in a process, whether it's credit agencies and other types of entities. And did we think about how to think about them in the forms that they got into in terms of public companies and things like that. But the key is to keep everybody under the tent, and

everybody working for the same goals. I don't want to reflect on the credit agencies versus exchanges [44:35] everybody else. The idea is they all have to be regulated, and regulated well. And regulated with a purpose, that is to provide for a stable, long term growth in the economy. And I think the provisions of the regulation will allow that to happen. We've got to be careful what we wish for, because as you know, they change the rules about credit rating agency dependency on some things, and that makes the world more difficult from a whole host of things, which may not be a great idea. And they're trying to rethink how they can pull it back and stuff.

I wouldn't want to blame anyone, participant, or anyone thing. I think the holistic thing is to get everybody in the tent and get it regulated right.

ALAN BJERGA: Some countries, notably Canada, avoided a real estate meltdown. What lessons should we draw from their experience?

BRIAN MOYNIHAN: The structure of the mortgage market in Canada had attributes which were different than the U.S. Fixed rate durations, in other words you couldn't get a 30 year fixed rate mortgage as easily at all. The government guaranteed different types of portions of it. Honestly, they had more modest growth, so therefore they didn't have quite the excess in housing, which is fueled by the mortgage market, but also not fueled by it in terms of economic growth and activity. So I think we've got a lot to learn about our mortgage market.

Secretary Geitner plans to have the outlines of the GSE reform I think early next year, as he said publicly. I think all of us have thoughts about how we could do this better in hindsight.

But I think, again, I'd be careful-- This is a case, be careful what you wish for. All of you-- Many of you probably own a home. Many of you may have a 30-year mortgage. Remember, if we go to floating rate mortgages, it works, except your mortgage could be more costly to you. And so, if we say it's fair to have everybody have to pay more cost to avoid this issue, then everybody's got to be willing to make that transition.

And, what I find often the case like this is, I'm not going to cause your problem. I want the 30-year low fixed rate. But make those other people get it. And we can't have that attitude. This is a societal question. And so, I think what candidates have made a set of decisions about portability and all these different things that were geared towards discouraging debt, we had a set of policies that were geared towards encouraging home ownership. If we want to change them, we can change them. But we got to change them across the board.

And that will be difficult for American consumers if some of the ideas here that get thrown out take hold. This would change, dramatically, the benefits that we've all gotten from a very robust, very efficient, and very able to borrow long term at fixed rate mortgage market, which is very difficult to manage from a financial services company.

It's one of the things we spend-- We have a bank of computers as big as this room to manage the volatility around the interest rate and the mortgages we service.

I mean, because you all have an option, every day, to decide whether you want to keep that mortgage outstanding, we have to guess whether you're going to exercise it or not. And so, I think be careful what you wish for here. And we've got to have a level-headed discussion about it. But I think we can learn about safety and soundness and discipline about down payments and things like that, that I think would help us in the future.

ALAN BJERGA: What changes to federal programs, such as elimination of home buyer tax credits or the interest loan tax credit possibly be helpful?

BRIAN MOYNIHAN: There are those that advocate that would be helpful. You know, I don't. I'm not sure I feel that strongly either way about it. In the sense that, I think that's sort of trying to solve the problem with a narrow question which is, if you fundamentally believe the volatility around mortgages is mostly created by the valuation, the country could make the decision on whether it wants to provide you a tax credit for your mortgage interest deduction or not. That's a set of decisions about how we want to incent housing through the tax code. Put that over here.

But, if it's valuation, I think responsible down payment requirements that stick with you, no matter what, no matter whether house prices are rising or not, I think is a key. Because that means the car that is ultimately going to be built has the engine in it, and that there's value there. And that the volatility around it.

Today, when you hear about underwater mortgages, only 22% are under water, totally, despite a huge falloff in real estate values in our country. And, by the way, if you start to look at those, they're very localized in certain areas. And so, only 14% outside the four states you could guess that are underwater, or something like that. Actually, it's less than that, I think.

So, if you kind of think about the issues, the hard asset, having a down payment and stuff, I think is much more valuable to talk about and have a discussion about. It will slow down ability for our children to buy a home. And so, we have to think about that. But that's a better discussion, I think, than to debate the interest rate and the mortgage deduction. That's for different purposes. People want to do that in a tax code, I think that's a different question. That car has to have an engine. And that means it probably has to have a down payment attached to it that's significant and stays with us, even in good times.

ALAN BJERGA: So, have Americans been too hung up on home ownership? Is renting okay? Has this been a societal goal that's led to a misallocation of resources?

BRIAN MOYNIHAN: Andrew and I were having this discussion earlier. I asked him if he owned a home, and he said no. And I said, "You know, it hasn't been all

it's cracked up to be for everybody." So I think people need great places to live. And I think people ought to decide whether they want to put the capital in a home or not. And so, and they all first have to make a decision whether they want to own a home.

And that's going to come down to how you want your family and yourself to live. And then secondly, do you want to borrow or not? That's going to come down to the decision of whether you want to have volatility potentially around what could happen in difficult times. But I think those are individual decisions.

I think, as a country, we benefit tremendously by the home ownership construction era from World War Two on. One of our clients here is a real estate broker, and would have probably, in her experience, made a lot of money from it. And she should have. And so, the issue is, we've got to be careful about the concept of whether home ownership, as the population has matured, as our population grows, it's probably more narrow, what does that all mean?

And also, the localities of home ownership. In other words, as the population moves around the United States, we'll end up with excess of housing in some places and shortages emerging again in other places, shortages of multi-family housing near cities. And so, I think the housing policy of pure home ownership, we all look back and say, "Gee, maybe we shouldn't have done as much there." And I think that'll change. But the question is, don't confuse that, necessarily, with a series of individual decisions every individual should have the right to make. And we encourage them to make them.

And then secondly, people need good places to live. And we can't, as a society, I think not-- you know, as a private industry, not build towards that outcome. And this whole foreclosure thing actually is an issue about making sure people have good places to live and don't have to move in tough things, and schooling, and working through all that.

ALAN BJERGA: This person writes, Bank of America holds about \$500 billion dollars in mortgage debt. How much of that is nonperforming?

BRIAN MOYNIHAN: It's a small portion. We'll release our earnings next week, the 19th, and you'll see it. But let me give it the other way around. I don't know the number off the top of my head, honestly, because I try not to store every fact that I see on a given day.

But, what I will tell you, is we're seeing the delinquencies in all our consumer products have been going down and continue to go down, quarter after quarter, month after month. And that's good news, because that means the American consumer is healing. But it's a small portion. My guess, you know, we've got to remember that 95%-plus of our mortgages pay us every day. So this is a problem which is a severe problem for a small group of people, and not as much of a problem for bigger group of people.

ALAN BJERGA: Another person writes, Brian. Why would Bank of America pay their financial advisors millions of dollars in retention packages to simply sit still at

their desks and perform their jobs? Over 7 million Americans are simply looking for jobs. Why can't we help them?

BRIAN MOYNIHAN: We as an employer employ 280,000 people. We're in the market, employing people every day. When we bought Merrill to give the advisors a chance to understand what it would be like to be with a powerful company that can give them better products and services than they ever had in their quiver, \$230 billion dollars of capital, worldwide presence.

We said, "We need to make sure you give us a chance to explain to you what all that means." And that was in the worst context, the context of the worst environment for financial service in history. So we made a decision to do what we did.

So, we're doing our best to employ the people we have. We try to maintain relatively stable employment as we shift people around to do certain tasks and other tasks. But I think, as you look at that, I think it's our jobs to make sure we're employing the right amount of people, for both society, but also for our shareholders. And we try to run that balance every day.

ALAN BJERGA: You mentioned earlier in your speech that, if the United States wanted to go back to a 1950s banking system with smaller banks, they should expect a 1950s economy. But, looking at the 1950s, there are surely some things that people don't want to go back to, Civil Rights in gender relations, chrome, certain types of hair styles, which has come to mind. [laughter]

But, at the same time, in the 1950s, the United States had a strong manufacturing economy, pretty stable unemployment rate, I think one minor recession, and certainly not a major financial crisis based on exotic banking instruments. So, what's so bad about the 1950s? Or, are those positive parts of the vision simply something that is unrealistic to ever think we'll have again?

BRIAN MOYNIHAN: Let me ask a question. What was the size of the economy in the '50s? Anybody know that? I mean, it's \$15 trillion now. My guess is it was a third of that, maybe, if that. Probably much smaller. So the question to this is, if you don't have the financial system-- Remember, the banking system holds about-- Financial services you think about hold about \$14 trillion dollars in assets. There's about \$40 trillion in financial assets out there. So, a lot of it's actually held by mutual funds and other people. So, this is a big integrated system. It supports a \$15 trillion dollar annual GDP.

I would measure to say, to shrink that to whatever it was in those time frames, I think would be a pretty scary proposition. So, I think that that's the context that statement was made.

ALAN BJERGA: Looking at the foreclosure crisis, and having a chance to reflect on it, is the real lesson here that there were people getting mortgages, who simply

didn't have mortgages? And that some folks who currently are facing foreclosure, now, simply need to be cycled out of the mortgage market?

BRIAN MOYNIHAN: I have said, on many occasions, I think that the industry - and we're cleaning up the Countrywide makes you reflect on that every day. The industry over-lent and borrowers over-borrowed. And I don't think we can hold either party harmless as we think about this, going forward. And that gets back to the housing debate and structure of financing at the consumer level. You know, do I have to have a down payment? How much of my income can I use to support my house?

So I think, as I look at that, I'd say that I think I would put, reflecting over the last couple years in thinking about what I've seen, is I think there's equal responsibility. The difference is, I think, our industry has to lead to the right place, because it's hard to organize the 60 million mortgage holders to get their situation done right. So we have to be a leader and figure out what to do, and then build our products and services.

But we also have to make sure that people don't try to over-borrow. I mean, there's always a way that you can borrow money, whether you borrow it from us or someone outside our industry. And we just got to, hopefully, teach responsibility. And interestingly enough, as we studied demographics for our global diversity group, which is very active in our company, we've been on studying generational issues in diversity, which, because it's the first time in America's history, we have four different distinct generations of workforce.

And the generation that my son and stuff are evidencing a much more conservative attitude than my generation. They're more like our parents' generation. And so, I think even with the amount they've lived, sort of lived in life so far, has been lived in the times that may shape their views about borrowing more similar to the people who lived through the Depression, like my parents did, than us.

And so, I think there's a good soberness there. I think it's good. I think it'll work out. But I think there's equal parts and responsibility here. I think, just as a practical matter, we as an industry have to lead the responsibility movement forward because it's hard to organize all the other people.

But there's no question, people over-borrowed, and the companies over-lent.

ALAN BJERGA: Given all the challenges facing global banking, speaking of that diversity, does Bank of America plan to consolidate or expand its global footprint? If it plans to expand, to which markets?

BRIAN MOYNIHAN: We look at our business as serving consumers, companies and institutional investors, asset managers, and people like that. We look at them in the U.S. we do everything. Outside the U.S., we serve a high net worth market companies and investors. And we continue to expand that.

So, just to give you a way we think about that, we have been repositioning resources as the U.S. economy has stayed slower in the grand scheme of things, to serve capital markets and companies outside the U.S. So, we'll do that. We are not-- We have credit card business in the U.K. and Canada. But, outside of that, we are in those three businesses, we'll continue to expand them to get the opportunities for growth there. But importantly, as I said earlier, to serve the U.S. clients that are doing business there.

So, you know, our clients come to us and say we need to open up in country A, B or C, largely due to the fact that the run cash management forum, because they built a plant, and employing people, and they need us to consolidate their cash and make sure the worldwide treasury can see it. And that's what we work on.

So, we're continuing to expand outside the United States. And we're continuing to expand inside the United States. Merrill Lynch teammates(?) have more financial advisors now than they've had in their history. And we continue to grow that, because affluent America needs good financial advice. And we're committed to grow that. So our commercial banking teams are expanding bankers in the United States to serve middle market companies.

And we're putting wealth management bankers to serve with Merrill Lynch FAs behind them, to help them bring the bank products in from those customers to provide a better experience. So we're expanding both. But, outside the United States, we're much more narrow company. You won't see the bank branch down the street of Bank of America outside this country.

ALAN BJERGA: We are almost out of time. But a couple of important matters to take care of. First, to remind our members and guests of future speakers. On October 12th, General Norton Schwartz, the Chief of Staff of the U.S. Air Force will be discussing the Services' ongoing efforts to organize, train and equip itself amid two wars in Iraq and Afghanistan.

On Friday, October 15th, we have Condoleezza Rice, the former Secretary of State. And on October 25th, Ayaan Hirsi Ali, the author, is going to be discussing, is Islam a religion of tolerance?

Second, we're going to present you with the traditional National Press Club Mug. [applause] The final question is, in your address, you talked about the new consumer financial bureau, making a positive contribution if done right. And you talked about derivatives legislation, being positive if done right. How do you define "done right" in financial regulation?

BRIAN MOYNIHAN: I think it's clear that we need to balance the short- and long-term in all this, and balance the zeal that we may have to curtail activities which are critical to markets. So, let me give you two specific examples. We could, in the zeal to push forward mortgage regulation to a consumer bureau, say, "Let's not deal with the people who are not regulated financial institutions." And that would be a huge mistake,

because the mortgages will migrate back out like they did to regulate financial institutions.

And so, “done right” is everybody is on the tent, as I said, for that example. When we think about derivatives, you could have said, “Everybody has to-- Everything has to be exchange traded.” Well, we have lots of clients who we do-- often hedge up an input of oil into their production process, or an input of some other precious metal. The last thing they want to do is put that valuable information out in the market, that other people can see the prices or are willing to buy or sell our inputs.

And so, they have gone and said, “Don’t make this apply to us because it’s what we call bilateral contracts, between us and you.” It says if we took your financial affairs and said, “We have to post them in a public domain for transparency,” of which there is no transparency, because it’s a one-off trade.

So, those are examples where you could push this thing to a point where it’d actually start to impact commerce, as opposed to, look, interest rates derivatives are interest rate derivatives, are interest rate derivatives. Let’s put them all out there so that everybody can see them and see the counterparty risk and stuff.

So that’s how I think “done right” versus “not done right.” And I know that gets technical, and that’s why I didn’t talk a lot about this today. But those are kinds of things we should try to avoid. And frankly, as you hear about it, you should try to avoid pushing people past the point of where we can get this done right.

ALAN BJERGA: Thank you for coming today.

[applause]

And thank you to all of you for coming today, to the National Press Club. Today’s meeting is adjourned.

[gavel]

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