

May 26, 2010

Honorable Bill Lockyer  
California State Treasurer  
915 Capitol Mall, Room 110  
Sacramento, CA 95814

Re: May 5, 2010 Letter Regarding Municipal Credit Default Swaps

Dear Treasurer Lockyer:

Thank you for your May 5, 2010 letter to Brian Moynihan with follow-up questions regarding credit default swaps (“CDS”). I am responding on behalf of Bank of America Corporation (“BoFA”) and its affiliates (together with BoFA, “BAML”) to the “Follow-up Questions on Credit Default Swaps” that were attached to your letter. As an initial matter, I note that BAML supports the State of California, and its departments, agencies and authorities, as a major lender, bondholder, liquidity provider and credit provider. In 2009 BAML underwrote \$5 billion in financings for the State of California and its various departments, agencies, authorities and political subdivisions, and in 2008 the amount underwritten by BAML was \$3.5 billion. BAML’s positions with respect to CDS on California general obligation (“GO”) bonds are *de minimis* relative to its overall long exposure to the credit of the State of California.

QUESTION 1 -- *Information about proprietary trading.*

BAML does not engage in what you have defined as “proprietary trading” (that is taking and maintaining unhedged long or short positions, unrelated to market making) of California GO CDS. Instead, BAML is a swaps market maker and in that capacity makes regular two-way markets in municipal CDS, including CDS on California general obligation (“GO”) bonds, acting as a swaps dealer with respect to California GO CDS. BAML’s trading of California GO CDS, while effected as principal for its own account, is in response to the flow of actual and anticipated counterparty market making transactions, and while BAML’s California GO CDS exposure on a net basis at any given time may be modestly long (BAML being a net purchaser of unhedged credit protection) or short (BAML being a net seller of unhedged credit protection), BAML seeks to maintain, over time, a more or less balanced book of long and short transactions.

QUESTION 2 -- *If you trade on a proprietary basis, why is that appropriate?*

Not applicable.

QUESTION 3 -- *Future plans with respect to proprietary trading of California GO CDS.*

BAML has no present plans to engage in proprietary trading with respect to California GO CDS.

QUESTION 4 -- *Information about "speculative" California GO CDS trading by counterparties.*

BAML does not have the information required to confirm whether our counterparties have engaged in "speculative trading" (defined for purposes of your inquiry as California GO CDS positions that do not hedge "specific, identified credit exposure(s) to the State" of California) in California GO CDS. BAML's experience is that counterparties do not disclose to market makers the reason or strategy behind their trading. Counterparties view information about their trading strategies and positions as confidential, proprietary and valuable, and therefore do not want to confer that valuable information on a market maker. Additionally, BAML does not ask for such information because BAML does not need it to act as a market maker, and possessing this information would raise significant regulatory issues about its protection and use. We do not believe that BAML, or CDS market makers generally, could effect any procedural changes that would allow BAML and other CDS market makers to continue functioning effectively as market makers while giving them access to the information required to answer this question.

QUESTION 5 -- *Information about firm's research recommendations to clients for "speculative" California GO CDS trading.*

We do not believe that BAML (including, prior to January 1, 2009, Merrill Lynch Pierce Fenner & Smith Incorporated), in the municipal research published by our research department since January 1, 2007, has recommended that clients take "speculative" (as defined) long (buying unhedged credit protection) or short (selling unhedged credit protection) positions in California GO CDS.

In our letter to you of April 14, 2010, we described portions of the municipal research published by our research department that discussed California GO CDS, and municipal CDS more generally, in the period from January 1, 2007 to the date of that letter. We have attached copies of our published municipal research that include discussion of California GO CDS specifically or municipal CDS generally during the period from January 1, 2007 to May 24, 2010.

QUESTION 6 -- *Information regarding market making income from California GO CDS.*

BAML makes a market in California GO CDS as part of an integrated, hedged book with other municipal CDS and with municipal and corporate CDS indices. In such an integrated book, positions in California GO CDS are not taken or managed in isolation, but rather are taken and managed in relation to positions, including hedges, in the other securities traded in the book. BAML does not track income from California GO CDS because any income figures for an isolated component of an integrated, balanced book would be incomplete and inaccurate.

QUESTION 7 -- *Appropriateness of market making for clients taking "speculative" long credit positions through California GO CDS.*

In the course of its market making activity in California GO CDS, BAML is unable to identify when counterparties are taking speculative positions, so we are not in a position to know to what extent this may have occurred. As a general matter, though, market making in California GO CDS is a complementary component of BAML's overall California municipal market making activity, enhancing its ability to be an effective municipal market maker. BAML believes that its activity as a market maker in California municipal securities, both through CDS and cash securities, adds liquidity to this market. As a result, this encourages investment in California GO bonds in a way that is beneficial to California and its taxpayers.

QUESTION 8 -- *Future plans for making markets for clients wanting to take "speculative" long credit positions through California GO CDS.*

BAML intends to continue being a market maker in California municipal securities and in California GO CDS. We do not know whether trading counterparties will be taking "speculative" positions (as defined for purposes of your inquiry) against California GO bonds.

QUESTION 9 -- *Belief regarding benefit from "speculative" trading of California GO CDS.*

As noted, we do not engage in "speculative" trading of California GO CDS, nor are we able to know whether counterparties do. As such, we are not in position to offer conjecture about the activities of others. In general, though, we believe that market making in California GO CDS adds liquidity to this market. As a result, this encourages investment in California GO bonds in a way that is beneficial to California and its taxpayers.

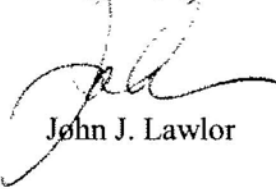
## CONCLUSION

We hope this information will be useful to you in your consideration of the municipal CDS market.

This letter is being submitted to you with the request that you keep it confidential and not provide or otherwise disclose it to any party, unless you are required to do so by law. If your office should decide to disclose it to any other government agency or other person, we also ask that you notify us immediately and provide that agency or other person with notice of this request. Furthermore, if any person should request the opportunity to inspect or copy this letter, we ask to be notified immediately and given advance notice of any intended release.

The municipal research reports submitted in response to Question 5 are proprietary, copyrighted documents that were prepared for the use of our clients, and they may not be redistributed, transmitted, disclosed, or posted to any web site, in whole or in part, in any form or manner, without our express written consent. BAML reserves all rights in such documents.

Very truly yours,



John J. Lawlor