Q3 2019 Earnings Call

Company Participants

- Brian Moynihan, Chairman of the Board and Chief Executive Officer
- Lee McEntire, Senior Vice President of Investor Relations
- Paul M. Donofrio, Chief Financial Officer

Other Participants

- Betsy Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- Jim Mitchell, Analyst
- John McDonald, Analyst
- Ken Usdin, Analyst
- Matt O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Hello and thank you for joining the Bank of America Third Quarter Earnings Announcement. At this time, all participants are in a listen-only mode. Later you will have an opportunity to ask questions during the question-and-answer session. Please note this call may be recorded. I will be standing by should you need any assistance.

It is now my pleasure to turn today's conference over to Lee McEntire. Please go ahead.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thanks for joining the call to review our third quarter results. I trust everybody has had a chance to review the earnings release documents that are available on the Investor Relations section of bankofamerica.com's website.

Before I turn the call over to our CEO Brian Moynihan, let me remind you that we may make forward-looking statements during the call. After Brian's comments, our CFO, Paul Donofrio, will review more details of the third quarter results. We'll then open up for questions; please try to limit your questions so that we can get to all the callers and for more information on the forward-looking comments we may make, please refer to either our earnings release documents, our website or the SEC filings.

With that, take it away, Brian.

Brian Moynihan {BIO 1517608 <GO>}

Thank you, Lee. Good morning everyone and thank you for joining us to review our third quarter of 2019 results. These results reflect our success in a US economy that continues to grow at around the 2% GDP level. In that kind of economy, our job is simple; drive solid customer activity, manage risk well, manage expenses well all while investing heavily in our competitive advantage. That's what we've been telling you, it has been what we call responsible growth. The investments we've been making in the franchise for many years and our disciplined responsible growth approach are evident across every line of business results and respective customer basis you'll see in the materials.

Today, we reported $5.8 billion in after-tax net income and $0.56 per share for the third quarter. Those results include a previously announced $2.1 billion pre-tax impairment charge. This charge relates to the investment in our merchant -- Bank of America merchant services joint venture from 2009 that negatively impacted our EPS by $0.19. That charge however positioned us to meaningfully invest and integrate our payments platforms in our commercial side businesses over the next several years. Excluding that charge, third quarter net income was a record $7.5 billion after-tax and EPS of $0.75 per share. On this adjusted basis, net income increased 4% from the third quarter of '18 while earnings per share increased 14%. This reflects an 8% reduction in average diluted shares from third quarter of '18.

Returns after adjusting for the impairment charge was strong, return on assets of 123 basis points, return on tangible common equity at 15.6%. So, before Paul dives into the quarter's results, to the lines of business, I wanted to cover a little bit about client activity, cost and operating leverage at an enterprise level. These are the items that we focus on for you that allow us to drive our competitive advantage. But first some general context around the operating environment.

Despite the repeated discussions or the continuing discussions around the potential recession in the United States, I want to offer some data from our customer base which represents the activity of a substantial portion of the American consumers. Our annual customer's outgoing payments on a consumer side of our company are nearly $3 trillion or about -- when compared to US economy, about 15%. Consumer payments year-to-date are up 6% compared to the same period in 2018 through the nine months. For the third quarter that pace was as solid or slightly increased from earlier in the year. This means, the US consumer continues to benefit by strong employment prospects.

Now, interesting on the commercial side clients, at roughly $325 billion in average US commercial loans outstanding, we do see a lot of client flows as the market leader in United States. Our total commercial loans grew 6% compared to the third quarter of '18 with good middle market utilization rates. And importantly, our small business segment also grew 6%. As such, we are the largest US commercial lender and the largest small business lender in the United States according to the FDIC data. This solid activity means that commercial customers continue to fare well. These are tangible examples that the US economy is still in solid shape, despite the worries and concerns about trade wars, capital investment slowdowns or other global macro conditions.

Now let's slip -- let's turn to Slide 3. Across nearly every line of business, we are seeing strong customer activity. You can see that on the slide. I won't take you through all the statistics here, but let me highlight a few. On a consumer business on the left hand side of the slide, our deposit growth has consistently been above the average from an -- the industry average for many periods. It's actually dramatic that we're gaining market share and not just in balances, but year-to-date, we've seen something that's interesting to us. We've had a 2% growth in a number of net checking households, 700,000 increase. This is the fourth year of growing net checking households after decade of consolidation of accounts. Relationships and other changes to our business that began a decade ago to reposition. It is also at record levels at primary accounts, and record levels at total balances and average balances in those checking accounts. 92% of our customers, we have the primary checking account in a household and the average balances reach $7,000. Now through a renewed focus on growth in our Wealth Management franchise, Andy Sieg and Katy Knox are leading the charge. And we've seen net new Merrill Lynch and private banking relationships, up over 30% plus in each case. And we're expanding the franchise by bringing our retail franchise, our consumer banking franchise to markets we had long established Wealth Management or commercial client coverage.

Paul is going to cover the continued growth in digital uses across our client base, which provides an important dual benefit of strong customer service and lower cost structures. Now in the commercial and corporate side as you can see on the right hand side of the slide, as well as the institutional investor coverage we have, we are also growing the client bases. We have been investing in the client-facing teammates in our commercial banking for a few years and we've increased our investment banking covers, especially in the middle market and we've added new traders and sales staff in Europe as we opened our Paris brokerage office.

As you can see, these efforts are deepening relationships with 3% growth in solutions for household -- customer relationship in commercial. This investment has led to an improvement in our client coverage and investment banking market share. Earlier this quarter, my teammate, Tom Montag highlighted some of the gains we are making in middle market investment banking coverage at a conference. We expect to see that can -- we have seen that continued excess and we expect for it to continue in the future as we continue to bring our capabilities to our great commercial banking franchise in United States.

Let's turn to Slide 4. This increase in client activity can be seen in the growth in deposits, loans. On Slide 4, we look at the deposits. Average deposits grew $59 billion or 4.5% year-over-year. For four years now, we have grown deposits compared to the prior year for everyone of those quarters by more than $40 billion when compared to the year before, all while we've improved the mix of deposits. Deposits with our consumers grew $38 billion in total or 4%, reflecting the value clients place on the relationship benefits offered by the convenience of our network, the value of our leading digital capabilities and our unique preferred rewards program. Global Wealth Manager was responsible for $16 billion of that $38 billion in consumer deposit growth, reflecting client expansion and preference to hold cash and move investments as well as inflows of about $8 billion from the conversion of some money market funds and deposits at year-end 2018.

Our Consumer Banking deposits grew by $22 billion or 3% year-over-year. More importantly, you can see in the right hand side -- upper right-hand side of the slide that these came from checking balance growth. One additional point we'd focus on here is a long-term trend of deposit growth even in a moving rate environment. When the Fed started raising rates at the end of 2015, many of you had questions, whether our deposits continue to grow and what rates, we'd have to pass through the customers. Since the end of 2015, our average consumer banking deposits are up $145 billion in balances, three-quarters of that coming from checking accounts. These balance are either no interest or very low interest in our core relationship in the households of America. Our rate paid remains low due to that superior mix of deposits.

Now, when you look at global banking in the lower right-hand side of the slide, $23 billion in deposit growth reflects a rising rate environment and additional bankers we have deployed over the last few years to continue to sell our superior global transaction services capabilities. As we move to Slide 5, we see the loan side of the equation. Overall average loans are up nearly 4% year-over-year despite selling about $9 billion of non-core consumer real estate loans out of the all-other category over the last year. Average loans on line of business grew $52 billion or 6% year-over-year, as both consumer and commercial loans both grew at a 6% pace.

Middle market borrowing as I said earlier, continued to complement large corporate financings. As you can see in the bottom right-hand chart, we continue to demonstrate a fairly consistent range of responsible loan growth in our commercial businesses in all our business segments. Within consumer, you'll note that strong residential mortgage growth, but also the more stable credit card balances which reflect our decision last year to continue to manage less profitable promotional balances down or driving core balances and our relationship, especially in preferred rewards capabilities.

Within Commercial, I want to highlight a couple of areas of activity important to understand as you think about commercial clients in the state of the US economy. First, as I said earlier, small business lending. Over the last year we've grown small business loans 6% regaining our market position as the Number 1 lender to small businesses in the United States. Supplying capital to small business is very important as they are the key driver of employment in the US. As we continue to innovate around capabilities and offerings to important client base, another portfolio within our commercial loans and leases book is our global equipment financing portfolio. Growth in this portfolio is a sign that commercial clients are investing capital in the US economy at a faster pace in the overall economic growth. This portfolio is $65 billion, and it grew $6.5 billion plus or 11% in the past 12 months. This reflects investments by clients in equipment to drive their business, invest in renewable energy products.

These are just a couple of examples within our stable lending portfolio is growing and supporting clients in a real economy and growing the size of smaller competitors' entire lending portfolios. As we look to the expense side of the equation on Slide 6, we've been driving a responsible growth. Part of that is to have sustainable growth, which it means we self fund our investments and find ways to handle the inflationary cost to keep expenses relatively flat while, continue to invest heavily, $3 billion in technology, new branches, new teammates. Slide 6 shows a two-year expense trend here. I'll talk about the expense on Slide 6, excluding the impairment charge we took in our investment in Bank of America merchant services.

We've been operating in a tight range of $13 billion to $13.3 billion with only one exception for last few years. So we've been able to operate at $53 billion annualized expense base, despite increased investments in technology and infrastructure and buildings and people and philanthropy and other costs. At $13.1 billion this quarter, we were basically flat compared to quarter three, 2018, despite elevated litigation cost of about $350 million compared to a six quarter run rate of about $100 million per quarter. Regarding headcount; year-over-year headcount went up. It went up in the sales professional category by 1,700 people. We offset that cost through reduction in other teammates.

As you look to the next slide, Slide 7, you see the familiar operating leverage trend, which has been a highlight to the firm's culture of funding investments through operational earnings. Despite the immediate revenue impact of a lower interest rate environment and other revenue challenges with a slowing economy, we have a good track record of generating operational savings, we're able to keep it operating leverage relatively flat. Essentially expenses and revenue grew about $500 million, less than $500 million each. On a more core operating basis taking account the elevated litigation, you could see operating leverage even in this difficult environment.

As I've said before, generating operating leverage does get tougher when we told you that over the last several quarters, after four successful years of keeping expenses, declining and holding relatively flat. This will continue especially as we work through periods of interest rate cuts, but we remain focused on our mission to continue to grow revenue faster and expenses. The question we ask ourselves is how much flexibility and the question you ask us is how much flexibility we want to leverage from initiatives spending on technology or infrastructure or hiring or we just keep -- or do we keep investing to build our market share momentum. As we talk to the investors who own substantial portions of our stock, they continue to tell us to invest in our client and customer successes to take the advantage of our strong position and continue to invest in times. But even with that, you can see in this chart that we maintain our discipline around operating leverage.

With that, I'm going to turn it over to Paul for few details in the quarter.

Paul M. Donofrio {BIO 1533743 <GO>}

Thanks, Brian. I'm starting on Slide 8, with the balance sheet. Overall, compared to the end of Q2, the balance sheet grew $30 billion, driven by loan growth which ended the quarter more than $9 billion higher. We also grew the balance sheet in Global Markets to support additional client activity. Liquidity remained strong, as average liquidity sources were unchanged linked quarter. Shareholders' equity declined $3 billion, driven by a $2 billion decline in common equity, as positive OCI from lower rates and net income totaling $7 billion was more than offset by $9 billion of capital return to shareholders through common dividends and share repurchases.

The remaining $1 billion decline in equity resulted from the redemption of preferred stock in Q3 after issuing lower yielding preferred shares in Q2. With respect to regulatory metrics we remain comfortably above our minimum requirements. Regarding CET1 ratios given the reduction in capital I just reviewed, our CET1 ratio standardized, decreased to 11.4%, which is nearly 200 basis points above our minimum requirement. And as mentioned in our SEC filings, the impairment charge recorded this quarter reduced regulatory capital, but had no impact on our capital plans announced in July. Our risk-weighted assets increased modestly as a result of increased client activity and higher loan balances across the businesses. Lastly, our TLAC ratios also remained comfortably above our requirements.

Turning to Slide 9, and net interest income. On a GAAP non-FTE basis, NII was $12.2 billion, $12.3 billion on an FTE basis. Compared to Q3 '18, GAAP NII was up $126 million or 1%. The year-over-year improvement reflect solid loan and deposit growth as well as modestly higher average short-term rates year-over-year. As you know lower rates are a headwind, the Fed cut short-term rates in July and September and average long end rates are down over 100 basis points year-over-year. However, versus the linked-quarter GAAP NII was flat. There were two primary negative impacts to NII in the quarter. First, lower short-term rates reduced yields on floating-rate assets and second, because of lower long-term rates, we experienced faster prepayments on mortgage-backed securities, increasing the level of bond premium write-offs.

Offsetting these negative impacts were one additional day of interest, loan and deposit growth, reduction in the cost of our long-term debt and a small decline in the interest rate paid on deposits. In addition, Global Markets NII benefitted from lower funding costs and a shift in mix of client activity. While NII improved in Global Markets, results are better assessed by studying together both NII and trading account profits, as client activity from one quarter to the next can shift in mix between these two revenue lines. In fact sales and trading revenue in the quarter which includes both NII and trading account profits was down slightly versus Q2.

With regard to deposit pricing we were disciplined. First, note that customers who have borrowed from us on a variable rate basis benefited from an approximate 30 basis point decline in LIBOR on a linked-quarter basis. At the same time, we lowered the rates on interest-bearing deposits by 5 basis points to 76 basis points. Roughly half of our $1.37 trillion deposit book in our Consumer Banking businesses, where our customer pricing remained relatively unchanged, while the deposit rate we pay in Global Banking and Wealth Management declined 12 basis points versus Q2.

As you know, in our banking book, we have more variable rate assets than variable rate liabilities given the quality of our deposits, particularly in Consumer Banking. This makes us asset-sensitive in our banking book or perhaps it would be more descriptive to call us liability insensitive. In any case, this asset sensitivity increased compared to Q2, driven by the forward curve at the end of September, which was lower than the curve at the end of Q2.

Looking forward, on our Q2 earnings call, we reviewed our expectation that net interest income could grow roughly 1% for the full year of 2019 over 2018. That expectation has not changed, despite the lower long end rates and the expectation for another short end rate cut in Q4 nor have we changed our expectation that Q4 NII (technical difficulty) with the Q3. In Q4, we expect the decline in short-term rates will more fully effect yields on our variable rate assets. In addition, given the decline in long end rates over the past couple of quarters, reinvestment rates on securities and mortgages is expected to dilute current portfolio yields. However, LIBOR rates have reduced the cost of our long-term debt and the funding of our Global Markets business. This plus loan and deposit growth are expected to partially offset the headwinds.

Turning to asset quality on Slide 10. We saw no meaningful change in asset quality, which continues to be strong. We have maintained our responsible underwriting standards for years now and we remain disciplined again this quarter in a relatively solid US economy. Similar to Q2, we sold some non-core consumer real estate loans where the sales price was above our carrying value due to prior charge-offs. This resulted in recoveries that reduced net charge-offs and provision expense in both Q3 and Q2 this year. Recoveries in Q3 and Q2 were $198 million and $118 million, respectively. Including these recoveries, total net charge-offs in Q3 were $811 million compared to $887 million in Q2. Adjusting for the charge-offs, excuse me -- adjusting for the recovery excuse me, net charge-offs were just over $1 billion in both periods, and the net charge-off ratio would be 42 basis points in Q3 and 43 basis points in Q2.

On that adjusted basis and comparing to Q3 '18, net charge-offs were $77 million higher, reflecting modestly higher commercial losses and seasoning of card losses. Provision expense was $779 million and included a modest $32 million net reserve release. The prior year period included a $216 million reserve release driven in part by energy releases. On Slide 11, we breakout credit quality metrics for both our consumer and commercial portfolios. And as you can see, asset quality remains strong. Consumer non-performing loans declined as a result of the loan sales and in commercial, ratios tracking non-performing loans and reservable criticized exposure remained near historic lows.

Turning to the business segments and starting on with Consumer Banking on Slide 12. Consumer Banking produced another solid quarter of revenue and earnings growth. Earnings grew 5% year-over-year to $3.3 billion. Revenues grew 3%. We believe our efficiency ratio of 45%, which is one of the lowest among our peers is driven by our digital delivery platform and simplified product offerings which enables not only ease of use, but also efficiency. Our investments in this business continued at a steady pace and client activity remained strong with respect to loan and deposit growth, as well as consumer spending.

Again this quarter, we added salespeople expanded in new and existing markets, renovated financial centers and improved capabilities for consumers, as well as small businesses. And even as we continue to invest, the cost of deposit year-over-year declined to 150 basis points, nearly offsetting the increase in rate paid, which is now 11 basis points. Deposit growth was up $22 billion or 3% and centered in low rate checking. Loan growth was up 7% year-over-year. The low long-term rate environment continued to generate momentum in consumer real estate as new originations nearly doubled from last year to more than $20 billion. Asset quality in the segment remained strong as the net charge-off ratio was 118 basis points, down modestly from both last year and the previous quarter. In addition, we saw origination spreads improve in both mortgage and consumer vehicle lending during the quarter. Consumer investment assets grew $19 billion to $223 billion, as strong client flows were partially offset by market declines.

Turning to Slide 13, note that our 3% year-over-year improvement in revenue was driven by both NII as well as fees. NII benefited from deposit and loan growth. Card income was up 4% year-over-year as we experienced solid spending levels, partially offset by rewards, which continue to be a headwind. Each quarter we show you the improvement in the consumer digital statistics which are highlighted on Slide 14. Customers continue to transact and interact with us in person as well as through digital channels. So we continue to invest in both, by adding financial centers and renovating existing ones as well as enhancing and adding capabilities to our Number 1 ranked digital banking platform.

In fact over the past year, we have opened 98 financial centers, renovated 562 and installed nearly 1,000 ATMs and remain on track to hit our build-out targets. This includes opening financial centers in three new major US markets in the past year where we had previously no retail presence. And remember, while many are new markets, additions from a retail perspective, other lines of businesses like Commercial Banking, Merrill and our Private Bank have been serving customers for decades in these markets.

Turning to digital. In the third quarter, we saw nearly 2.5 billion consumer interactions across all channels. With digital accounting for more than (technical difficulty) and digital sales now represent 26% of total sales. And by the way, our digital and physical worlds are increasingly connected and synergistic. Digital appointments are great example of that. 13% of our financial center platform traffic is now driven by appointments set in advance. This allows us to better prepare and staff for the specific needs of our customers and improve their experience.

Turning to Global Wealth and Investment Management on Slide 15. Strong results were aided by growth across AUM, loans and deposits and generally good market conditions in the quarter. Client balances are approaching $3 trillion, as a result of flows and market valuations. Referrals across the company remained strong. Net income was $1.1 billion and grew 8% from Q3 '18. Pre-tax margin was a record 30%. The business created nearly 300 basis points of operating leverage year-over-year, as revenue increased 2% while expenses declined 1%.

Within revenue, positive impacts from growth in deposits and loans drove NII higher, asset management fees grew year-over-year, as fees from AUM flows and market valuations more than offset general pricing pressures. Transactional revenue declined modestly versus Q3 '18. With respect to expenses, investments in sales professionals, technology and our brand were more than offset by lower intangible amortization and deposit insurance costs. Mobile channel usage among wealth management households grew 45%.

Moving to Slide 16. GWIM results reflect continued solid client engagement in both Merrill and the Private Bank. Strong household growth contributed to higher client balances which exceeded $2.9 trillion. AUM flows were nearly $6 billion in Q3 or $21 billion in the past 12 months, boosting AUM balances to a record $1.2 trillion.

On the banking side, average deposits of $254 billion were up $16 billion or 7% year-over-year, driven by client growth and 2018 year-end conversion of balances from money market funds. Average loans were 5% higher year-over-year, reflecting strong growth in mortgage and custom lending. As you turn to Slide 17, before I review the slide, and as I've done in the past I want to provide summary information on Global Banking and Global Markets on a combined basis to allow comparison against competitors that may not break out these business separately. So on a combined basis, these two segments grew revenue to $9.1 billion and earned nearly $3 billion in Q3, generated a return of more than 15% on their combined allocated capital.

Looking at them separately and beginning with Global Banking, the business earned $2.1 billion and generated a return of more than 20% on allocated capital. Earnings were strong, up 3% from Q3 '18 driven by an increase in investment banking income and leasing related gains. The year-over-year growth in earnings was mitigated by the absence of prior year reserve releases, primarily from energy exposures. Growth in investment banking fees was the largest contributor to the 8% improvement in revenue year-over-year. Strong deposit and loan growth reflects the benefits of adding hundreds of bankers over the past few years, as well as continued advancements in how we deliver our loan product and treasury services. Expenses were up 4% as we continue to invest in technology and client-facing associates.

Looking at trends on Slide 18 and comparing to Q3 last year. As you heard Brian mentioned earlier and Tom discussed at an investor conference last month, we have made steady progress in investment banking over the past year. Our steady progress with clients is reflected in both our improved fees as well as market share rankings and lead tables. IB fees in Q3 were more than $1.5 billion for the overall firm, up 27% year-over-year. Advisory was particularly strong at approximately $450 million as we advised on five of the Top 10 transaction completed in the quarter.

Pointing to our strength and leadership in credit underwriting, activity in debt capital markets was strong with some record weeks of debt issuance. In Q3, we continue to add regional investment bankers with a focus on expanding our geographic coverage in the US to match our coverage model and market leadership and commercial banking across the US. One of the reasons for growth in deposits in Global Banking has been our consistent investment over multiple years and digital capabilities within our transaction services platform.

Referring to Slide 19, note the growth in mobile and digital usage at the top of the page, and our focus on solutions for clients on the bottom of the page. Treasurers are looking for the same type of convenience as consumers and our consumer and commercial teams work closely together to leverage technology advancements and drive usage and adoption of mobile and digital solutions. We now have over 500,000 CashPro users and mobile CashPro users doubled year-over-year. Mobile payment approvals by these users were $144 billion over the past 12 months, nearly doubling year-over-year.

Switching to Global Markets on Slide 20. As I usually do, I will talk about the results excluding DVA. Global Markets produced $858 million in earnings. When comparing to results year-over-year and quarter-over-quarter, note that both prior periods included similar size equity investment gains that were noted in previous earnings calls. And in both cases, these gains were not included in sales and trading results. Year-over-year revenue was down 2% as the segment share of improved investment banking fees and the modest improvement in sales and trading did not offset the prior year's gain on an equity investment.

Sales and trading improved 4% year-over-year. FICC was flat with Q3 '18 while equities improved 13%. FICC's revenue showed improved results in mortgage trading and municipal trading, but was weaker in FX and credit products. The improvement in equities to $1.15 billion was driven by growth in client-facing activities as well as continued -- as well as we continue to invest in our equity financing products. In 2019, in equities, we added new clients and increased our market share with existing ones. Benefits derived from increased scale have improved the efficiency of our balance sheet as well as return metrics. Expenses were up 2% year-over-year as we continue to invest in technology, plus Brexit preparedness continued to add expense.

On slide 21, you can see that our mix of sales and trading revenue remains weighted to domestic activity where global fee pools are centered. Within FICC, revenue mix remained weighted towards credit products. Finally on Slide 22, we show all other, which reported a loss of $1.6 billion. Results here included the joint venture impairment charge. Excluding this charge, the segment would have reported a profit of roughly $100 million. A few other items impacted results here, first provision benefit from the recoveries totaling $200 million related to the sale of primary non-core consumer real estate loans totaling $1.8 billion. Second, the elevated litigation expense Brian mentioned is booked here. And third, the effective tax rate this quarter was 16% and included discrete benefits booked here and related to the resolution of several tax matters. We continue to expect the effective tax rate in Q4 of around 19% excluding unusual items.

Okay. With that, let's just open it up to Q&A.

Questions And Answers

Operator

(Operator Instructions) And we'll take our first question from Jim Mitchell with Buckingham Research. Please go ahead.

Q - Jim Mitchell {BIO 1972127 <GO>}

Hey, good morning, guys. I guess I'll ask the question and you can decide not to answer it, but just if there is any help you can give us on sort of the NII outlook beyond 4Q. I know there's a lot of moving parts, but given the forward curve and maybe you could also help us think about the premium amortization year-to-date, what that drag has been and how that would play out in a stable rate environment from here? Thanks.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Sure. So let me start with the premium amortization. If -- I'm not going to give you a precise number, but if you think about the extra day we had from Q2 to Q3. The increase in premium amortization in the quarter, more than offset that. In terms of, but going forward, unless long end rates fall meaningfully from here, we wouldn't expect that level of increase in premium amortization in Q4 even next year without significant increases -- significant decrease among the rates.

In terms of the outlook for 2020, obviously, that's going to be highly dependent on future Fed activity and on deposit pricing across the industry. We don't think it's really prudent right now to provide specific guidance at this point. You have our thoughts on, well, I'm sure we're going to be talking about Q4, and you have our thoughts on that from our prepared remarks. You've also going to have our asset sensitivity disclosures. So the only thing I would remind you is when you think about Q1, we will have one less day of interest, which impacts NII by about $80 million, but we'll get that day back in the third quarter.

Q - Jim Mitchell {BIO 1972127 <GO>}

Right. So maybe just a follow-up on that. Just on the balance sheet growth. It seems like both loans and deposits have accelerated a little bit. You indicated some pretty strong trends in sort of new account growth, both consumer and wealth. Do you -- and coupled with sort of a lower rate environment, do you see deposit growth picking up across -- you had good in commercial, across the consumer franchise broadly whether it's wealth or traditional banking?

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah. I think, we have -- if you go back many quarters ago we discussed, our thought process is to tell our teammates to price to achieve sustainable deposit growth of 3% or more faster in the economy, which means you are in axiomatic point there as you're gaining share at all times if economy is growing less. So they've been doing that. We are staying very careful and disciplined. There were some adjustments made on the Wealth Management business. If you look back last year we had some growth there that we slowed down because it was a little too tied to bidding too much rate. They changed that process, they flattened out, now they are growing again.

On the commercial side, the changes of interest-bearing and non-interest bearing and the fees for services and all that stuff, calculations change, but I'd say you should expect us to continue to grow at the rate we're growing now or faster because frankly, we've been very disciplined about how we've been driving against core checking accounts on the consumer side, core checking and savings accounts in Wealth Management business, and obviously GTS business and so I'd expect it to continue to grow maybe faster than

3%, 4% and 5%, but the thing about that is -- that is incredible amounts of new customers at very advantage pricing that we can put to work.

Q - Jim Mitchell {BIO 1972127 <GO>}

Right. That's great. Thanks.

A - Paul M. Donofrio {BIO 1533743 <GO>}

I think one thing. Jim, just, as I said in my prepared remarks. There is a lot of discussion, when the Fed started raising rates, what would happen? And what I said back there was, consumer increased their deposit balances by about $145 billion since the first Fed rate increase, and now there has been two decreases. Right. So think about that, that machine just churning out growth and growth and growth, 75% of that was checking balances. That's the real encouraging part of the -- of the story in consumer. All time customer satisfaction high in those businesses. All time employee satisfaction high. All time customer growth rates high for 15 years or so. And you just take that and play it out, it's pretty important.

Q - Jim Mitchell {BIO 1972127 <GO>}

Yeah, it seems like it could be a good leading indicator. Thanks.

Operator

Our next question will come from Mike Mayo with Wells Fargo. Please go ahead.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi, I'm little stuck on Slide 7 with the efficiency. And you mentioned all the investing that you're doing. So, are you willing to go to negative operating leverage or with the investments like, you had the new sales people in the branches and you had more deposit growth. You have new regional banking coverage. You have more investment banking. So, the investments are paying off. So what's your confidence in growing revenues faster than expenses over the next year, even though you're not giving specific guidance, but more generally, what's the role technology inside the firm that's enabling this operating leverage? For example, how many data centers do you have and how many you are going to close? Of what percent of your applications, you expect to migrate to the cloud? Just a little bit more color on what's happening behind the scenes that enables your operating leverage and your expectation for continuing that.

A - Brian Moynihan {BIO 1517608 <GO>}

No. And Mike those a good questions. I think, we are going to invest in long-term value of this company and our clients. And so if this quarter we are sort of flattish on operating leverage. If we happen to go negative I'd argue and that was the right thing to do based on everything we're setting a time you do it. These quick changes in rates obviously have an impact that you then outgrow with the volumes coming in and producing the value. So, but that takes some compounding for the quarter. So our attitude in talking to our investors is, if we're gaining share and doing the right things, keep going. But the real key is back to your -- sort of your second question, which is we are -- we are getting the benefits of sustained long-term investment and the changes the way this company operates that continue to push through. And so three years -- 2.5 years ago we said we'd operate this year on $53 billion and change in expenses and we hit that number and a lot of you had assumed a $57 billion or something like that. Next year, we told you, we'd be in [ph]low 53s again and we still are sticking to that. And so that's -- three, four years out, you're saying how can you plan out with all the investments we're making.

That is because, we know we're making investments at the same time they are taking out -- taking out costs. The cloud journey for Bank of America is an interesting one. We started about really the new BAC framework for those of you, remember that, that came out of that into early days of simplified, improved. We had 200,000 plus servers those sort of accounts now down to 70,000. The first decision we made was to actually create an internal cloud. Those servers were operating about 30%, 67 data centers, very much dedicated by line of business, by operational unit, by risk or whatever. We took all that away and build common architecture, so the lion's share of applications run around 8,000 servers. We still have 70,000 servers, but those are more dedicated for very specific things and we'll continue to work to take them down, we're down to 23 data centers. Those who've been around the company for, I don't know, we took a $350 million charge a few years in the second quarter of '17 to pay for part of this changeover. But in that time frame, we've reduced expenses by basically around 40%, or $2 billion a year on our [ph]back loan . And so at the same time if you looked on pages 14 and 19 you can see just over the last couple of years the volume of transactions. So we're up 86% in mobile logins, we're up 39% in wire transactions and things like that.

So what you've had is this scale effect that we've been able to internalize in our provision these services from what we can get in the external cloud is still 25%, 30% cheaper, which we expect to change honestly. And so we are working with potential providers to take the next step, which was discrete data centers and resources to internal cloud, save a ton of money, then use that power to actually negotiate with third parties to how they might help you and support you and that's going on with Cathy Bessant and her team right now and how both wheel run us for us. But so far we're still cheaper in so far we have to make sure that the external providers are safe, sound, lead the data just for us to use with our customers, don't mix it with people's data, et cetera. And that discussion negotiation goes on, as we speak, but we will -- we're not -- we don't need to own the hardware, we just need to find out who can provide the right way.

Q - Mike Mayo {BIO 1494617 <GO>}

Well. Thanks for providing data that others have not provided yet, so just one follow-up then. Again and the spirit behind this is, you're getting the operating efficiency, while we're making investments you're doing stuff behind the scenes like this. So if you've gone from 16 data centers to 23 data centers, how much further do you have to go? If it's on for 200,000 servers to 70,000 servers, how much more do you have to go? And what percent of your applications do you expect to migrate to the cloud over time?

A - Brian Moynihan {BIO 1517608 <GO>}

The last question I'd leave to people more expertise that Mike in the spirit of constant improvement, I never give people a number that I'm satisfied with, because and you should neither. In other words, if we think where you can -- we're at x for Howard and the team in this case or any of our businesses, you can improve it every day. And so that is the cultural change we made in this company and frankly the stability of having not had any acquisition activity and since 2009 in any -- anything other than organic movement. You can -- you can play any things out and execute them. Some of these things take three to four years to get done. So you have to be patient, you have to be consistent. You have to keep allocating investment to them to cause a change to happen and be disciplined about the cost coming out the other side. But I'll never tell people we're done, because then they'd stop working at it.

Q - Mike Mayo {BIO 1494617 <GO>}

All right, thank you.

Operator

Our next question will come from Glenn Schorr with Evercore. Please go ahead.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi, thanks very much. I'm curious, now that you've taken a charge on the merchant servicing JV. I'm curious about the go forward like, can you talk a little bit about what is built, what do you want to build? Is there going to be an impact on expenses that we'll see and how soon we'll see progress and what we'd see? Just [ph]let me -- there is to learn more.

A - Brian Moynihan {BIO 1517608 <GO>}

Sure. Glenn, let me start with a high level comment and then I'll let Paul, because remember, many of you don't know, don't probably remember that Paul ran GTS for a while and had his part of this portfolio. So the -- but he can hit some of the details, but philosophically, we want to control our destiny to be able to provide this type of service to our clients in a much cleaner way and we had a great partner in FDR and at some point that was good for what was going on and the world then it's changed. So we're making a change. So, lot of the discussions on -- in terms of where we take this, the team is working with FDR closely to unwind the venture as per the contract, etc., but it's been a good relationship. We expect that to continue in various ways, but on the other hand, we had to get control of our destiny, the sales force, the implementation. Paul, why don't you hit some of the pieces in terms of the numbers and even that can sort of what impact on expenses and things like that, revenue.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah. I mean I guess in terms of expenses, I would remind you that the accounting for BAMs doesn't change until, the JV actually ends in June, that's the first point. And so when you get out to Q3 '20, we will begin reporting our share of the revenue and our share of the expenses versus today where we record that share as net earnings in the other income line under the equity accounting method. Right. As we sit here today, given all we have to do between now and then, we're not disclosing specifics, there's a lot of work to do. And the bottom line impact is really not that impactful. As we get closer to, I think the actual dissolution will give a -- we'll give you some more guidance.

Q - Glenn Schorr {BIO 1881019 <GO>}

Do you have a lot to build in terms of being able to service the clients and deliver everything that you want to deliver to them, everything that you're doing now, I'm assuming your current partner is doing. So, I'm just curious how much of that you can do behind the scenes as you lead up to June 2020.

A - Paul M. Donofrio {BIO 1533743 <GO>}

I mean, we're working on our plans and we have fair amount to do. But as you think about technology spend and incremental build-cost, I would -- that's going to be prioritized within our normal $3 billion or plus a year that we're investing.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay. Brian, maybe one just high level. One on loan growth, I think, growing loans, core loans 6% and a 2% world like you described would be considered great by most metrics, just curious if you think that's sustainable, if we're going to sustain this 2% world?

A - Brian Moynihan {BIO 1517608 <GO>}

Yeah. I think, it will ebb and flow and you've seen it over the last, if you look that one page on the low ran quarter. It shows you across 6% to 3% to 6% for commercial. So what we've been doing, that's helping drive that. One of the major things we did is, I think if you calculate we have four segments which go against commercial lending, the Small Business segment in our consumer business, the Business Banking segment, the commercial -- Global Commercial Banking segment, which most of you call middle market and then in our GCIB for large companies.

If you look across those segments, especially in small business, but and importantly in Business Banking and Global Commercial Banking, Ather Williams, who runs Business Banking and Alastair Borthwick, those guys have been investing in headcount and people and relationship manager and I'd -- the precise number for each of them. But think 25% more bankers today than there were three years ago, which gave us an opportunity to divide the portfolios of clients further. So people had less clients to get more depth of relationship and that's why you see the statistics about key products per relationship.

And then secondly, with the capacity we added to get new relationships all consistent with our credit. So we often get asked you're growing commercial loans, we're not -- we always ask ourselves, okay, we're sticking to our credit standards and we've been able to do that. So I think it's sustainable and mid-single digits, maybe 6% is a little higher, maybe 5%, maybe 4%, maybe 6%, if economy is at 2%, but this taking market share, because of the deployment of the capabilities into the -- into the middle market and business banking franchise is along with some of the work that's going on with investment banking and others is a good place to be. And we -- and it's a three or four year investment, takes about three years to get a commercial banker coming into our franchise up to speed, honestly.

And then on top of that, we've -- there is Robert Ruiz, who runs the group there. It does the underwriting process, the whole enterprise behind all these businesses and we've invested tremendously in the technology and the support of that Group for their underwriting capabilities turnaround time all the things and that is allowing us to frankly have, as we're told the fastest turnaround time of the banks, large, large small or bigger or smaller. And so, we feel, that we're creating the kind of competitive advantage at this franchise has embedded in.

Q - Glenn Schorr {BIO 1881019 <GO>}

Awesome. Thank you, Brian.

Operator

Our next question will come from John McDonald with Autonomous Research. Please go ahead.

Q - John McDonald {BIO 21440002 <GO>}

Hi. Wanted to follow-up on Jim's questions around NII. Paul, you mentioned the full year outlook for the 1% hasn't changed. The prior year outlook for the fourth quarter was to be around $12 billion. You came in a little bit higher this quarter. Just as we think about jumping off point into next year, you still thinking about a fourth quarter NII around that $12 billion. Is that a fair reading of your disclosures and things like that?

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah, that's a fair reading.

Q - John McDonald {BIO 21440002 <GO>}

Okay. And then just could you remind us how to read those disclosures and think about the impact of another Fed cut from here? There's some differences to the 10-Q disclosure you mentioned prior, like it's only the banking book, it's relative to the forward curve, how should we needle that and think about what one rate cut is, if we're going to model that going forward.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Sure. So you'll have our sensitivity disclosures in our normal filings. But when you look at them, you're going to see that, over the next, and if the Fed were to cut rates by 25 basis points and remember that disclosure is beyond the forward curve, which has three rate cuts in it right, but if you look at that disclosure you will see that full 100 basis points would equate to around $3.3 billion on the short end, you just divide by 16, and you're going to get the impact on quarterly basis of about $200 million. But it's going to be a little bit less of that, because again that forward curve includes three rate cuts and then you're talking about 100 basis points on top of that. So you'd literally be, that forward curve is literally, I mean that sensitivity is closer to -- literally means you would be at zero interest rates and obviously the next rate we're not going to be at zero interest rates. So it's not going to be the full $200 million when you do the math on that disclosure. In addition, as you point out or alluded to, that's just our banking book. And if you include Global Markets, which is modestly liability sensitive that decline would be even further mitigated.

Q - John McDonald {BIO 21440002 <GO>}

Okay. So something I think you said maybe before $125 million to $175 million or something less than $200 million.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah. It's going to be -- it's going to be less than $200 million and I'd even tell you it's going to be meaningfully less than $200 million.

A - Brian Moynihan {BIO 1517608 <GO>}

John, these things -- I know, you guys would like us to round it out to six digit each time and give it to you for next years, but the reality is, we gave you an estimate for this quarter, last quarter, I mean, fourth quarter -- the current quarter and we gave it to you last quarter. And in fact, there has been more rate cuts and we're still holding the same guidance of $12 billion and change and Fed shows you that we're managing the heck to try to avoid some of these impacts and how we'd price deposits and better growth in deposits when you may have estimated than that. So there's a lot of estimation, but we're trying to give you thematically as Paul has talked about it over time, but it's -- there is a -- it's not, it's in precise, there's just a lot of moving parts that frankly we've managed better than we thought we could.

Q - John McDonald {BIO 21440002 <GO>}

I totally get it. And that's totally appreciated, Brian. Just with that, one more nitpick Paul, just from the third to the fourth quarter $12.3 billion this quarter. The pressures that you have in the fourth is kind of the combination of the LIBOR. And then also the premium amort, is that why you could come down a little more than $200 million in the fourth quarter and again subject to all the caveats.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Look, as you're thinking about the second quarter to the third quarter, remember, we had one extra day. We had a second rate cut that came at the end of the quarter. So as we sit here today, we don't have that extra day, you've got two rate cuts fully baked in that are going to affect asset yields plus, you've got in that forward curve, so everything we're talking about here assumes the forward curve, you've got another rate cut. I already told you that, I thought that the premium amort would not be as significant anywhere -- near as significant as it was second quarter to the third quarter. We're going to have loan and deposit growth. We're going to have -- we're going to, again, as Brian just said work hard on all the other levers we have like deposit pricing. And so you get to, I'm not giving you guidance I gave you, kind of how to think about it based upon those sensitivity disclosures. But that's why it's a little bit different going from 3Q to 4Q versus Q2 to 3Q.

Q - John McDonald {BIO 21440002 <GO>}

Okay, great. Thanks. Very helpful. Thank you.

Operator

Our next question will come from Betsy Graseck with Morgan Stanley.

A - Brian Moynihan {BIO 1517608 <GO>}

Morning, Betsy.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning. The question that we get, with everybody we speak with is around how you're thinking about the competition in retail brokerage, with some of the e-brokers obviously, going to zero-commission on cash and options and different players, different price points there on different products, but just wanted to understand, how you're thinking about that? I realize it's a small piece of the revenue line you've got, but just want to see if you think that this is at all, something that you need to address in the marketplace?

A - Brian Moynihan {BIO 1517608 <GO>}

The -- so, Betsy, let me take that. Because if you remember right I had that business when we introduced $0 commissions in 2006, so it's not a new concept to Bank of America. And so, about 87% of the current commission -- current trades are $0 in the area of that -- in the Merrill Edge and the self-directed platform that's been true forever. So this is not a change to our operating strategy, but we don't focus on trying to drive a pure trading type of thing. We think about the relationship in the Merrill Edge and things like that. So if you look at the consumer investment assets on Page 13, you can see, they're up $20 billion year-over-year. We're driving a whole relationship into these managed portfolios that's based on financial advice to that. Yet, we still have a very confident, capable, I guess some [ph]redactable competition. We have a very strong platform that grows also but if $0 change won't affect us much larger, because we frankly introduced it 13 years ago.

Q - Betsy Graseck {BIO 4799503 <GO>}

Right, that's with preferred accounts. And so when people look at Page 16 and they see the brokerage rev line there, it's like $700 million this quarter. That is really commission on other things than stocks and options. Is that a fair way to read it?

A - Brian Moynihan {BIO 1517608 <GO>}

That's really not relevant here, because that's in the Wealth Management business. Where this stuff shows up is actually back in the consumer side, because Merrill Edge is in that area and that's where the lion's share of this is. So it's not -- that $700 million is the -- financial advisory team under Andy, selling things, the closed end funds, muni bonds, stocks and a lot of other things. So if that -- that's under pressure for years. And as you will know and so that's a constant change of fighting the average yield for the total client assets in that business, but that's not affected by this decision.

Q - Betsy Graseck {BIO 4799503 <GO>}

Got it.

A - Brian Moynihan {BIO 1517608 <GO>}

And you -- you will see us push a little bit on some of the qualification for to open up this capability and another set of clients, but we only have 13% left to go, so.

Q - Betsy Graseck {BIO 4799503 <GO>}

Got it. Okay. And then just separately, one more question on NII, Paul for your mind, but in the quarter, the markets' NII helped out this quarter I believe and just let me know if I'm reading that right.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah, yeah, you're reading right. Markets' NII went up this quarter. As you --- and we've said that the markets business is liability sensitive. So it does help NII, if rates decline. I just would point out that we really manage that business looking at total sales and trading revenue not NII. And although the trading book is liability sensitive, it is really important to remember that client activity and product mix in Global Markets can vary quarter-over-quarter and will drive sort of income statement geography which can produce and increase as you saw this quarter, NII or maybe reduce NII in another quarter, with the offset is going to be in trading account profits. So that's where the real key here is to focus on the sales and trading disclosures as opposed to the mix between NII and trading account profits.

Q - Betsy Graseck {BIO 4799503 <GO>}

Got it. Okay, thank you.

A - Brian Moynihan {BIO 1517608 <GO>}

Thank you.

Operator

Our next question will come from Saul Martinez with UBS. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hey, good morning, guys. I'll also ask a question on NII. The one -- it seems like obviously third quarter is a little bit better than maybe expect and you're retaining the 1% growth in kind of implies $12 billion for the fourth quarter. You obviously have had rates come in, long ends come in, forward curve's pricing and at least two more rate cut. But it also feels like, maybe you're a little bit more optimistic than about the NII trajectory than you were maybe earlier this quarter. Is that a fair reading Paul. And if so, I mean, what makes you a little bit more optimistic about your ability to sustain NII? Is it just that loan growth is coming in better you've been able to reprice deposits little bit faster? What gives you a little bit -- what makes you a little bit more confident that your NII trajectory could be a little bit better than what you thought, maybe even a couple of months ago?

A - Paul M. Donofrio {BIO 1533743 <GO>}

I think we do feel good. And I think we feel that way, because we've seen how our teams are performing in a different interest rate environment. We've seen how teams and our clients by the way, have reacted to appropriate adjustments on deposit pricing, given the change in LIBOR. You got to remember all of our clients are getting a huge benefit and what their paying on their loans. So it's appropriate to adjust deposit pricing. I think we're obviously growing loans and deposits well. We've deepened relationships and we've improved our capability to service some on the loan deposit side. So I think it's just another quarter under our belt where rates were different. And we've seen how the teams have performed and we're feeling good.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. No, that's helpful. And on the deposit cost side, you did -- I mean, obviously, interest-bearing deposit costs were down 5 basis points, and it seems like that's going to be given the limited scope in retail, wealth and commercial you're being proactive there as you should, but you're coming from a lower starting point on deposit cost the most of your competitors to begin with. So I mean, just can you just talk to how much more room you feel like you have as we get further along in the rate cycle? How difficult does it become or does it become more difficult to be more proactive in terms of lowering your deposit costs?

A - Brian Moynihan {BIO 1517608 <GO>}

I think back to the -- in the earlier discussion that sort of general guidance we give our teams is you have to get us 3%. In the current economic environment we want to see 3% in core growth and deposits and you have to then price to achieve that both and then also at the same time achieve your goals on NII and things like that. So I think we try to be consistent. We value relationships. We focus on the core, on the commercial side, the GTS relationships, drive the economics in the business, as you well know. On the wealth management side, we're driving not only the investment cash, but all the transactional cash and you have to think of those as two separate executions and putting teammates investing by putting teammates into the Merrill Lynch offices who can help the client associates and others who have always done a good job, doing better job of getting core checking relationships and mortgages and things like that, which will help. And then on a consumer side, obviously, it's the -- it's just the power of the brand and the franchise and digital competency.

So, but we don't let people off the hook either way, and as I said we want them to grow, we want them to grow with the right kind of pricing that, you have somebody comes in and says I can grow by issuing a bunch of term CDs or premium price, we say that's kind of interesting, but that doesn't qualify for what we want. So, and that then if you look at it by business you're seeing, leave aside the movements as rates moved up and following you're seeing as you stabilize and even come down little bit, you're seeing able to, continue to grow and managing rate paid carefully.

Q - Saul Martinez {BIO 5811266 <GO>}

And should we expect non-interest bearing deposits to grow disproportionately in this environment? It seems with lower rate, it seems like higher yielding CDs become less attractive, and this is a -- for a bank like you, multinational bank and this is a great franchise and national franchise. It seems like a pretty attractive environment or good environment for you guys to take share and suck up demand deposits at maybe a faster rate than some of your peers.

A - Brian Moynihan {BIO 1517608 <GO>}

I think, yes, we expect to grow at a faster rate than our peers. That's going to act dramatic when you're gaining the shares. But if you look at the -- if you look at the slides on the deposits, you can see that growth in consumer drives the equation on the non-interest bearing and very low interest cost deposits. And the team there -- Dean and the team have done a good job of -- they've gone from 6 basis points to 11 basis points. That's due to mix. It's -- and as Paul said earlier, we are liability insensitive to some degree, because we have got the mix of deposits. And, but you've got to remember on $700 billion, 11 basis points, is $700 million some a year of cost, there's only so much price leverage in there. So we say, just keep growing and grow in the right categories. Yes, they have CDs and the CDs grew year-over-year.

A - Paul M. Donofrio {BIO 1533743 <GO>}

The only thing I'll add there is, I think you will notice, but if interest rates are lower than deposit rate paid is less important relative to all the other things people reasons why people invest with us or I should say deposit with us. So, theoretically you might see even more deposit growth in a lower interest rate environment, because trust is more important. The deep relationship they have with us across preferred rewards and other things we do for them. Mobile, the online capabilities, the nationwide network of financial centers, our global GTS capabilities, those just all become more valuable to customers if rates are lower.

A - Brian Moynihan {BIO 1517608 <GO>}

Great. Thanks so much.

Operator

Our next question will come from Ken Usdin with Jefferies.

Q - Ken Usdin {BIO 3363625 <GO>}

Hey guys, just a quick one, Brian, you mentioned that obviously, delivering positive operating leverage gets harder with -- and rate environment where it is, but as you look ahead and you've done this good job of keeping this $53 billion or so, what are the incremental things that become more productive underneath that allows you to fund the incremental investments, like, do we transition to other parts of the business becoming more productive or other pieces that yeah have it maybe still haven't yet attack that could still provide that underlying support? Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

Sure. I mean we have a -- the operational excellence platform, which certainly Tom Scribner had and now he is moved over to work on part of the operations group under Cathy. But, Anne Walker has -- she had simplified and improved. This is an ongoing program, which has literally every manager in the company that are couple of levels down from my team constantly working on coming up with the mapping of the process, improving our processes and asking for investment to help improve those processes.

So there are areas where we're very digitized and very, no paper and very electronic and you can think of that in some of consumer areas, there's areas where we're still just now getting the benefits of major investments. You may think about the underwriting area and commercial I talked about earlier that we're now bringing the people the teammates on to the platform to drive it. And so all our platforms have major improvements available to -- even though we're very efficient and our efficiency ratio needs of business units are industry-leading apart from our scale and apart from just the discipline of the teammates. So, and we look at deployment of the relationship management town, are we getting the calls and the customer visits and the productivity out of that. We're looking at do we continue to work on a real estate configurations that were down 50 million square feet real estate from the start of 2010, and yet we don't satisfy ourselves and the occupancy rate, can we push it up, can we densify the space.

The new building we'll build in New York will be also this new modern style work environment that will allow us to make economic a higher rental costs. And hence you look at every aspect of the company and continue to look at managers, we're down 10,000 managers over the last three or four years that could continue to drift down as we continue to look at what a manager does and how we test that. But we let attrition workforce and but not hiring and making sure we're plentiful on hiring and we can drive it up.

And so everybody wants to say what's the silver bullet, the answer is everywhere there's opportunities and we don't know how far these goes with machine learning, artificial intelligence. These things you hear about are still in an infancy of being applied and by the way, we spent $1.5 billion in data work over the last five, six years. You're largely around all the CCAR stuff, but ultimately in some of the work we are doing, but really to get all the data rates that are actually the bots and things that can operate are operating on good data and that investment then allows us to take advantage of it and we're still in the early days, courts that we invested in the markets business, so it's from one side of the company, the other. And going to the earlier comment, what target do you have? The answer is, we don't have a target except to improve every month, day, the day, month, week and quarter, and we'll continue to do that.

Q - Ken Usdin {BIO 3363625 <GO>}

Thanks a lot, Brian.

Operator

Our next question will come from Brian Kleinhanzl with KBW. Please go ahead.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Yeah, thanks. I just -- two quick questions here. On the Wealth and Investment Management, I heard that you were bringing down the non-interest expense. Can you get into a little bit more detail, if there is still more that can be done on expenses in there, I mean, it's surprising to see the positive operating leverage with expenses down?

A - Brian Moynihan {BIO 1517608 <GO>}

Yeah. It's -- we have the pre-tax margin if you think about it, once you pay the talent teammates we have and the financial advisory platform and the private banking platform. You're working on about half the revenue and we're getting 30% of that to the pre-tax line. So the idea is, you got to improve all directions, it's not just expenses and it's efficiency expense, simplification of product, especially for the -- for the clients, with $500,000, $600,000 continue to add straightforward products that are digitized on both the way they are delivered and the way they're -- statement and everything. And then making the advisors able to handle more clients and that allows us get more efficiency, real estate configuration. There is a lot of papers still in this business just because the history of it, so they're probably in the first inning of really, it's a very digital business in some ways when you think about trades and how they go through, but it's a very paper intensive business in other ways. The way we do AML, KYC refresh is a -- we're going to recognize the team that took a several 100,000 hours out of, several thousand hours out of the work to do that, it's just a thousand things. And so, but importantly also by driving the growth in loans and deposits and stuff that is less, creates more pre-tax profit margin frankly off the strength of the Bank's balance sheet and the size of our company and that gives us unique positioning. So we're running the industry leading margins. And we know we can continue to push them up. It is a very slow thing and we -- we don't change the way we pay people. We really focus in on working around and making our teammates ability to have a great career, make more money and sort of the clients better while we keep making the place, more efficient.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

And then a separate one for the US cards. I mean, I think you saw the gross interest yield, still pick up in the quarter despite the breakup and change in prime rates there, was there something unique going on. It allows you to kind of expand yields and by the way, if --

A - Brian Moynihan {BIO 1517608 <GO>}

In the card portfolio, right.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Correct. Card portfolio.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yes. Look, we've been focused on profitability. We have been careful about growth as we're growing. We're adding 1 million new cards a year and again with the focus on profitability. So we've reduced we've sort of scaled back on people we think are trying to game the system or just going after promotions. So that's improving the profitability overall. I think you saw that in the RAM that you're referencing, which is up year-over-year and that's mostly being driven by NII. I mean NIM growth in the card.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Great. Thanks.

Operator

Our next question will come from Matt O'Connor from Deutsche Bank. Please go ahead.

A - Brian Moynihan {BIO 1517608 <GO>}

Hey, Matt.

Q - Matt O'Connor

Good morning. If you look at your expenses, ex the impairment and the legal cost is about $12.7 billion. Obviously, if you annualize that it's below the $53 billion you're talking about next year and I know there's some seasonality in the first half of the year that drives cost higher, but I guess, first, is there anything in the $12.7 billion, that's kind of not are not sustainable or unusual and why isn't there may be some downward flexibility to $53 billion.

A - Brian Moynihan {BIO 1517608 <GO>}

You mean, benefit. You're saying...

Q - Matt O'Connor

Correct. Correct.

A - Brian Moynihan {BIO 1517608 <GO>}

Yeah, I think it's just -- the third quarter was just a little bit of timing. We're increasing our investment in people, in financial centers, in marketing, but it's not even throughout the whole year. So you got to think about the guidance we've given for the full year as opposed to just any given quarter.

Q - Matt O'Connor

Okay. So just some ebbing and flowing there.

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah. Just ebbing and flowing on marketing and other areas, which will rebound investments. We expect some of that to rebound in the fourth quarter.

A - Brian Moynihan {BIO 1517608 <GO>}

And Matt, that's why, if you go back to that earlier page in the deck, why we should. If you think about the last couple of years. There's always ebbing and flowing. But we're showing that we're kind of holding it here. And as you look over the next couple of years, we think we can hold it here, and then at some point, we'll will start growing. And we're trying to grow the -- we're trying to spend 3% more year but only grow the expense base 1% kind of long term picture. We're trying to take maybe 1% to 2% and with revenue growth of 3% to 4% in a normal environment that was great operating leverage and EPS growth, that's the long-term view that we keep holding to. When interest rates move quickly in a quarter. Those are things that deal with it, but over time, that's what you're trying to achieve. And so, you could take that is where the general operating principles we push our teams towards.

Q - Matt O'Connor

Okay. And then just separately, you talked about deposit growth potentially, 4% or 5% accelerating a little bit from where we're at right here, and then you talked about loan growth potentially being in the, call it 4% to 6% range. As you think about the overall balance sheet should they grow in line with deposits or are there some opportunities to bring down debt and you'll see a little bit less earning asset growth?

A - Paul M. Donofrio {BIO 1533743 <GO>}

Yeah. Look, on the specific point, there are opportunities to bring down debt. There is a little bit of opportunity there. Our TLAC ratios are probably a little bit higher than we want them to be. But that was because we were adding a new bank in Dublin, adding a new broker dealer in Paris. And by the way, putting up our broker dealer here in the US for resolution planning. So we have a little bit of opportunity there. I wouldn't make too much of a big deal about that. Basically, our balance sheet is going to grow as we grow deposits. With all that deposit growth going into loan growth, we still have the non-core portfolio running off a little bit. And whatever doesn't go to loans is going to go into the securities portfolio.

A - Brian Moynihan {BIO 1517608 <GO>}

And then you have the markets business, which also because of the financing activities and equities, not a lot of risk, but notional growth of balance sheet that you've seen.

Q - Matt O'Connor

Yeah. Okay, thank you.

Operator

And we will take our last question from Gerard Cassidy with RBC. Please go ahead.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you. Hi, Brian.

A - Brian Moynihan {BIO 1517608 <GO>}

Hey, Gerard. How are you?

Q - Gerard Cassidy {BIO 1505265 <GO>}

Good. Firstly, I just wanted to thank you and Bank of America for the continued support of the Bank Analysts Association meeting. You guys do that every year like you're doing this year. So thank you very much. We really appreciate that. The second point. Credit is very good for you folks in the industry. Can you share with us what -- when you look out over the next cycle, where are you guys spending extra time today just making sure that you don't take your eye off the ball because some potential problems that could be on the horizon?

A - Brian Moynihan {BIO 1517608 <GO>}

Well, Gerard, you asked the question, Paul and I, and Geoff Greener, our Chief Risk Officer and importantly, our Enterprise Risk Committee led by Frank Bramble, our Board of Directors. We keep saying, how do we make sure that we're sticking to our knitting, so to speak, and you do that by you see all this goes industry -- industry limits, country limits, leveraged underwriting limits. You pick just limit after limits house guidelines exception. So I think one of the things I think my peers and I would say is with stress testing and other things you're required to think of the worst of times in whole capital forward.

So I think in the industry generally, that has had a good, a great impact in terms of us all thinking through the long-term impacts, but importantly, the data and the capabilities that we built starting 10, 12 years ago just tremendous. So when we asked the question, we can actually see in very discrete areas, whereas our exposure to this or that. The other thing and that's important because then you can manage at that level. And team under Geoff has done a great job of sort of bringing that data to fore and making sure we're always watching all the different pieces. So, Mick Ankrom is in charge of credit risk of the company. I called him up after the Houston hurricanes, couple of years ago. I said, Mick what's our exposure. So what zip code you want it for and which product, do you want it for? You want the card versus mortgage of people at both. In all -- just as this is Saturday night or something like that, not to say he doesn't have more fun things to do, but it's. So I think that allows us to keep track of it, but it's just all those limits and this granular limits. And then the intrusion of underwriting profit requires really for any reasonably sized loans, a risk manager to specifically sign off along with a banker on the commercial side and consumer side, the parameters of the buy box of so-called, set by -- with risk and joined there. And that's, it's kind of beaten in the system, it's not something we -- people argue about or think about. So, our real estate exposure is limited by limit that (inaudible) presents and as head of the real estate exposure for the whole company and from the line side and supported by the team on the risk side. So it's just 30 years I've been around this business you just see the granular way. We used to say what do we have the people have to run outlook. Now you have it. And then you can manage a lot more effectively on a go-forward basis.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. And then pivoting a bit you touched on it in your prepared remarks about the regional bankers that you guys have been hiring here in the States. Tom talked about it at a conference recently. You had good numbers in your investment banking area this quarter and are taking some wallet share. Is it because of hires that you're making across the globe or is it because some of your competitors are still struggling to really get back into the whole group of what they were let's say 10 or 12 years ago?

A - Brian Moynihan {BIO 1517608 <GO>}

Yeah. I think that Matthew Koder and the team have just realized, we had the capabilities of the franchise tools. We just needed to really drive the calling effort and he has done a great job of doing that. Alastair Borthwick, and Matthew together have been working on building out this middle-market team, which is good. It's not only just pure investment banking everything is M&A or maybe debt capital markets. And also the exposure plays into a lot into the markets business, hedging fuel cost or hedging interest rate risk or currency risk. Because the average mid-sized US company is engaging all over the world. And that's a competitive advantage. Only a few of us have us to be able to deliver in. India for a mid-sized company, United States and help them, think through that or other places. So I think the team has done a good job there. We work very closely with the wealth management team in terms of referrals and coverage of the entrepreneurs segment thinking of a private bank or a financial advisor Merrill Lynch and their clients working with the commercial that we measure that, we would goal it. It has to come sort of naturally by money motion of transactional activity but the awareness of the capabilities and the coverage is they've done a good job and so we will always be susceptible of the biggest deals of that activity slows down. All of us have that issue, but that underlying middle market just a lot more companies 10,000, 5,000 companies that you can get out that there's just a lot higher probability of one I'm doing something on a given day than the top 1,000 companies.

Q - Gerard Cassidy {BIO 1505265 <GO>}

No, very good. Thank you. And look forward to seeing you in three weeks. Thank you.

A - Brian Moynihan {BIO 1517608 <GO>}

Okay. Thanks, Gerard.

Operator

And there are no further questions at this time, so I will turn it back to Brian.

A - Brian Moynihan {BIO 1517608 <GO>}

Thank you very much for your time and attention. And thank you for attending our earnings call. I think the themes for this call and you heard them in the Q&A in earlier presentations are the years of investments that the team has made and managed are paying off. We're using loans. Our loan and deposit growth, above industry averages and above the market on a conservatively responsible growth basis continues to help offset the NII pressure due to rate changes which is -- which all of you are focused on, it should be. We still continue to make sure we stay dedicated responsible growth to make sure that the credit risk and market risk we take on is consistent with how you expect us to manage it. And we continue to manage investments and expenses and run that sort of dual brand side of saying we can grow our investments and we can also continue to manage our expenses carefully and relatively flat. And then on top of all that, over the last few years, our ability to have sustainable predictable earnings in excess capital is coming back to you, along with 100% of the earnings at levels which are unprecedented among our peers. So that's helping drive down the share count and help them produce EPS growth that we need, so consistent with responsible growth and we look forward to seeing you next time.

Operator

This does conclude today's program. Thank you for your participation. You may now disconnect.
