Q1 2021 Earnings Call

Company Participants

- Brian Moynihan, Chief Executive Officer
- Lee McEntire, SVP - Investor Relations
- Paul Donofrio, Chief Financial Officer

Other Participants

- Betsy Graseck
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- Jim Mitchell, Analyst
- John McDonald, Analyst
- Ken Houston, Analyst
- Matthew O'Connor, Analyst
- Mike Mayo, Analyst
- Steven Chubak

Presentation

Operator

Good day, everyone. And welcome to the Bank of America, First Quarter Earnings announcement. At this time, all participants are in a listen-only mode. (Operator Instructions)

Please note, today's call is being recorded. And it is now my pleasure to turn the conference over to Lee McEntire. Please go ahead.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thank you for joining the call to review our first-quarter results. Hopefully, you've all had a chance to review our earnings release documents. As usual, they're available, including the earnings presentation that we'll be referring to during the call on the new and improved Investor Relations section of the bankofamerica.com website. I'm going to first turn the call over to our CEO, Brian Moynihan for some opening comments and then I'll ask Paul Donofrio, our CFO to cover the details of the quarter.

Before I turn the call over to Brian and Paul, let me just remind you that we may make forward-looking statements and refer to non-GAAP financial measures during the call regarding various elements of the financial results. Our forward-looking statements are based on management's current expectations and assumptions that are subject to risks and uncertainties, particularly during the pandemic period we've been operating in. Factors that may cause those to be different are detailed in our earnings materials and the SEC filings that are on our website. Information about the non-GAAP financial measures, including reconciliations to US GAAP can also be found in our earnings materials that are available on the website.

So with that, I will turn it over to you, Brian, take it away.

Brian Moynihan {BIO 1517608 <GO>}

Thank you, Lee, and thank all of you for joining us. It's been a year since we first reported our results, which would include the health crisis impact, but what we see different now is we see an accelerating recovery versus the economic uncertainty that we faced the last year at this time.

The most recent economic indicators reflected an economic recovery that has gained momentum and continues to be supported by fiscal monetary policies. From our company's perspective, we have emerged as a steep and stronger company than compared to -- than what we were when we entered the healthcare crisis. Compared to last year, Bank of America's balance sheet has higher capital ratios, higher reserves, with lower charge-offs and record liquidity. Our diverse business model with leadership positions across all our businesses has helped us earn our way through the crisis.

But global markets and global wealth management businesses, which would typically benefit from this healthy capital markets environment, continue to perform well this quarter. Our consumer and global banking businesses also performed well. But they were -- this is after being more negatively impacted for several quarters by the interest rate environment and credit costs. These businesses now are in full recovery mode and are out generating new assets and new relationships with our clients. All this work by my team in which we're very proud of here has led to EPS in the first quarter of $0.86 per share and a return on tangible common equity of 17%.

Paul is going to take you through the details in a moment, but simply put, we believe our decade-plus long dedication to responsible growth has put us in a position to both earn more money and deliver more back to you, our shareholders.

Our announcement this morning regarding share repurchases highlights our intention to increase those repurchases over the coming quarters as the current restrictions are lifted by the Federal Reserve.

But first, let's discuss the recovering economy. On slides 3, 4 and 5, we've shared slides like this with you in the last few quarters. They are updated with the most quarterly data. They highlight the key economic signposts. I won't go through all the details on them, but they're there for your reference. But a few highlights, obviously GDP consents of production -- projections continue to improve and you can see our tremendous best-in-class Bank of America research team's projections in the upper left-hand corner of slide 3.

You will note, also the increases in the consumer spending from our Bank of America customers at the bottom of the slide, which is not only much higher than the prior year when payments began to decline but notably as much higher this year to date than year-to-date 2019, a more appropriate comparison.

This is a key element of the economic optimism you're seeing reflected in the market. Looking back to 2017 after tax reform and other matters, we saw a step change in money movement by our customers, moving from a previously a 5% year-over-year type of growth rate to up to 9% in 2019 versus 2018. Then the pandemic hit and growth of '20 over '19 was only 1%. But, so far year-to-date, we're going faster on a larger base than 2019, 9% plus growth churn at 10% plus. The first quarter was a record dollar amount of money moved by Bank of America consumers. The trend is fully on track, even though the economy has not yet fully reopened. March was a record month of spending by Bank of America consumers and led to the highest ever quarter of consumer spending. As you look also on these slides, note on slide 4, the lower level of card delinquencies as a spike from the expired deferrals and the (inaudible) has worked its way through the charge-offs. In addition early-stage delinquencies are at or near historic lows suggesting low levels of card charge-offs again next year -- the next quarter, excuse me.

As the economy has improved, customers have continued to increase business across our platform. When you think about it from a customer's perspective, which is what we do as a business and comparing across the pandemic period of the last 12 months, we have simply added more customers across every line of business and those customers are more digitally engaged in every business as well.

You're going to see later on slide 17 that we added nearly one million active digital customers this quarter, pushing this past 40 million active users, led by increased use by boomers and seniors. We have more deposit and cash management of customers and balances in every business from consumer to small business to Merrill Lynch to private bank, the Business Bank, and the commercial bank across the whole franchise.

New investment relationships in our consumer businesses Merrill Edge platform now total more than 3 million accounts and net new households continue to grow both in Merrill Lynch and the Private Bank.

We saw aggregated client flows across our investment platforms of $48 billion in the quarter, bringing those total investment assets over $4 trillion with a range of those capabilities from our digital-only capabilities in our consumer business, all the way through the great service and capabilities provided by 20,000 Wealth Advisors.

We added new lending customers whether it's through PPP and small business and business banking and along with broader traditional banking relationships with our middle market and corporate clients. And we've helped existing new clients obtain funding taxes market through our sales and trading investment banking platforms

Combined sales and trading investment banking revenue of $7.3 billion is the highest in a decade and is up 28% year-over-year. Jimmy DeMare and Matthew Koder and the teams led by Tom Montag have done a great job there. Our customer satisfaction levels across all these groups of clients rose during the pandemic and the brand loyalty of our company is at the highest it's been. We also note that employee engagement is highest it's been and we have driven our success to our teammates this quarter and you'll note in our expenses with another broad-based bonus plan, which is the fourth time we've done this. In the support provided to the communities we serve, our employees sense of pride in our company and what it does has reached new levels of satisfaction.

So that being said, we do have some work to do in certain areas as we have for the last decade. I'd highlight those three areas with a couple of comments on each. Those areas are loan growth, net interest income and expense. Our loan growth continues to be a lot of liquidity in the system as customer payments remain high which impacts our loan balances. This is across the whole consumers and companies. Pipeline origination is improving but remained below pre-pandemic levels. We've reinstated all our credit standards back to where they were before the pandemic and we remain highly focused on capturing loan growth as economy expands and continues to recover.

The projected economic growth should cause the need for companies to borrow, build inventory, increase hiring and invest and do what they do in their businesses. As you can see from slide 4, global banking loans after falling in January appear to have stabilized again in March. We'll have to see how this plays out, but that's the first -- the month of March was a good sign.

Pipelines continue to build but line usage remains low, card applications and mortgage originations continue to increase in each of the last three quarters. This along with mortgage rates moving higher and driving lower prepayments and run off of current mortgage loan sets up consumer loan growth. Strong customer liquidity obviously negatively impacts loan growth, but it has benefitted credit cost. We saw a quarter one net charge-offs remain below pre-pandemic levels in dollars and percentage further supporting reduction in our credit reserves this quarter.

Our net interest income, we told you six months ago, with that we believe the third quarter would be the trough and has proven to be so. Despite the dry down of loans and two less days of interest in this current quarter, NII was flat to fourth quarter of last year. As we move through 2021. We believe the benefits from a steepened interest rate curve should begin to work its way into our revenue driven by continued investment of our liquidity, as well as picking up those lost days of interest. Thinking about the expected NII trajectory, this year and the year ahead, I would set the stages as follows. If the forward interest rate curve materializes and we see modest loan growth rate in the later quarters of the year, we ought to see NII as we exit the fourth quarter of this year, $1 billion a quarter higher than the most recent level of $10.3 billion in this quarter.

The last area I would highlight is an expense. We had a large expense this quarter driven by several factors. Some are seasonal impacts, some are good news and that their volume and revenue-driven impacts and others were not typical of our normal operating expense due to charges taken. We expect a significant decline as you look forward to the second quarter of 2021 in expense. We've seen the headcount in our company start to work its way back down due to attrition, especially as specialized programs begin to run their course.

I'd also remind you that for the first quarter is typically elevated for payroll tax expense in this year was about $350 million. Next, I would say roughly $500 million of our increase was driven by improved activity and higher revenue, which is of course is a positive, it's what we're in the business to do. The item I classify is different from our typical costs were as follows. First, given the progress made in our digital engagement with our customers and other customer traffic behavior, we will continue to rationalize real estate for our teammates and our customers and recorded impairment charge to that of $240 million in the quarter.

Second, a portion of the equity awarded last year to our global banking markets teammates, we had a different retirement rule. And as previously reported, we changed our retirement rule which caused that to accelerate for this quarter instead of being amortized over the next four years. Other costs worth noting include severance costs and special incentive award recognizing a broad base of 200,000 teammates for their outstanding efforts during this pandemic. That award for the fourth time is built on shared success awards the three-times prior that was given at three previous years.

Additionally COVID expense remains elevated as we continue to help our clients through the various assistant programs established by the government, PPP, unemployment claims, stimulus payment disbursement and PPP forgiveness.

But broadly speaking, we have done a great job in helping customers through these programs. We have now originated almost 500,000 PPP loans and have obtained forgiveness for our clients for 200,000 of those. We've processed $180 billion unemployment claims and $73 billion in the IP stimulus payments. Paul is going to share a bit of the details in the quarters expenses even after absorbing these expenses, our PPNR rose from fourth quarter. As we ended last year, we talked about target for this year's expense, I mean, 2021 fiscal year expenses to be similar to the $55 billion level in 2020.

Given the charges this quarter, we would increase that target by about $1.5 billion. However, I just want you to keep some perspective here. We reported $57 billion in expense for the year 2015, six years ago. Even though all the investments we have made in technology in the build-out of branches, new markets, new sales resources and just having more customers, more activities, the inflation of healthcare and real estate and other costs, moving our teammates, our starting wages from $15 to $20 an hour during that time period. We are targeting 2021 expense roughly to where it was in 2015, six years later and a lot bigger company. That disciplined operational excellence is what we do and you should expect us to continue that.

In summary, this quarter we again drove responsible growth. We support our employees by keeping them safe and rewarding their efforts in the pandemic. We support our customers by providing strong balance sheet and resilient systems to transact. We supported our communities by supplying critical funding and driving improvement toward racial and social equality with our increase in our $1 billion commitment to $1.25

billion. We've already delivered over $300 million of that commitment. At the same time, we delivered to you, our shareholders, $8 billion in earnings generating a return on tangible common equity of 17% and returned $5 billion in capital to the shareholders in the first quarter. This shows you we can both deliver for you, our shareholders, and deliver for our customers, our employees, and other stakeholders and society.

With that, let me hand off to Paul to cover the quarter in a little more detail.

Paul Donofrio {BIO 1533743 <GO>}

Thanks, Brian. Good morning, and hello everyone. I'm starting on Slide 6 and 7 together. As I've done in the past few quarters now, the majority of my comparisons will be relative to the prior quarter to reflect how we are progressing through this health crisis rather than year-over-year. In Q1, we earned net income of $8.1 billion or $0.86 per share, which compares to $5.5 billion or $0.59 per share in Q4. The earnings improvement include a strong revenue growth, which more than offset higher expense. Additionally, earnings also included a $2.7 billion reserve release, which resulted in a $1.9 billion provision benefit.

Revenue growth was driven by strong sales and trading results, record investment banking fees and record asset management fees and our wealth management business, while consumer fees faced the seasonal challenge against elevated Q4 holiday spending. With respect to returns, return on tangible common equity was 17.1 and ROA was 113 basis points. Moving to the balance sheet on slide 8, the balance sheet expanded $150 billion versus Q4 to $2.97 trillion in total assets. Deposit growth continued to drive the balance sheet higher, deposits grew $89 billion in the quarter and are up $300 billion from Q1 '20.

Note that, as deposits continued to grow, loans declined $25 billion from Q4. We deployed some of this excess liquidity into debt securities, which increased $172 billion while cash balances declined $54 billion and reverse repo also fell. It is also worth noting that our liquidity portfolio is now more than one third of our total balance sheet and has surpassed $1 trillion dollars.

On a period-end basis our goal markets balance sheet increased by $129 billion coming off year-end seasonal lows and as customers increase their activity with us. Note that on an average basis, it is only up marginally from the prior year and versus Q4 up only $40 billion. Shareholder's equity increased $1 billion, earnings were mostly offset by $4.5 billion in net capital distributions and a decrease in OCI of $1.8 billion driven by an increase in long bond rates.

With respect to regulatory ratios, consistent with fourth quarter standardize remains our binding approach for us and at 11.8% our CET1 ratio is our binding metric. While the CET1 ratio declined 15 basis points from Q4, it is 230 basis points above our minimum requirement of 9.5%, which translates into a $35 billion capital allocation.

The benefits to the ratio from an increased level of capital were more than offset by higher RWA from the liquidity deployed into mortgage-backed securities and growth in our global markets balance sheet. Our supplementary leverage ratio at quarter end was 7% and 6.1% on a pro forma basis, excluding the relief for deposits at the Fed and investments in treasuries; 6.1% versus a 5% minimum requirement leaves us plenty of room for growth in the balance sheet. Our TLAC ratio remained comfortably above our requirements. Let me spend a minute on loans and deposits before moving away from the balance sheet, I will focus on averages as that is what drives NII.

With respect to loans, on slide 9, you can see the downward trend across the year, as customer liquidity and accommodating capital markets drove pay downs well above historic levels. I would draw your attention to the linked quarter change, global banking commercial loans declined $16 billion but, as Brian noted earlier, we are seeing pipelines build and balances have stabilized for more than a month, so we are hopeful for turnaround. Loan payments by consumers continue to outpace originations with loans declining $14 billion in consumer banking led by mortgages. Plus we saw normal seasonality in our card products as customers paid down holiday balances with stimulus contributing to the high payment rates. But what is also noteworthy, is the linked-quarter improvement in GWIM and Global Markets.

GWIM continued to benefit from security-based lending, as well as custom lending and Global Markets, we've relaxed some hold limits as the economy continued to strengthen. With respect to deposits on slide 10, we continue to see tremendous growth across the client base, not only because of growth in the money supply, but also because we are adding new accounts and attracting liquidity from existing customers.

Turning to Slide 11 and net interest income. On a GAAP non-FTE basis NII in Q1 was $10.2 billion and $10.3 billion on FTE basis. Net interest income declined $1.9 billion from Q1 '20 driven by the rate environment and lower loan balances but was relatively flat to Q4. Compared to Q4, we see this as a good outcome considering the headwinds of two fewer days of interest, lower loan levels and modestly higher premium amortization expense. These headwinds were mostly offset by the deployment of excess deposits into securities and a benefit of approximately $100 million from a legacy litigation settlement involving some securities.

The net interest yield was relatively stable declining three basis points from Q4 and it was flat if you exclude Global Markets. Reducing cash and repo, we deployed some of our excess liquidity into securities in Q1, split across treasuries and mortgage-backed securities, share securities increased $172 billion from year-end on a weighted average basis relative to what we were earning on the cash, we improved our yield on that roughly $170 billion by approximately 150 basis points. Now, the improvement in yield could have been higher, however but similar to Q4 purchases, we hedged a portion of the treasuries purchased with swaps effectively keeping those securities floating.

As you will note, given all the deposit growth and low rates, our asset sensitivity is rising. Our asset sensitivity to rising rates remained significant, highlighting the value of our deposit and customer relationships. Sensitivity is lower from the year-end levels as higher rates and deployment of liquidity into securities increased our baseline, so the sensitivity no longer assumes that liquidity is available to invest at higher rates.

A few thoughts on NII for the remainder of the year. But first, please note that these forward-looking comments on NII assume that the forward interest rate curve materializes, that the economy continues to recover and that we have some fairly modest loan growth in the back half of the year. Given those assumptions, we expect some improvement in premium amortization across the next few quarters if mortgage rates follow the forward curve. At $1.5 billion in Q1, the write-off for premium continued to be a headwind as mortgage prepayments remained quite high. So, forward-looking comments include a lot of material moving parts from rates, loan levels, and premium amortization, but as Brian said, we believe 4Q '21 NII could rise by as much as $1 billion from this quarter's level.

Okay. Turning to Slide 12 and expenses; Q1 expenses were $15.5 billion, $1.6 billion higher than Q4. I will add to some of the remarks Brian mentioned earlier. First, Q1 included the normal seasonal elevation of payroll tax expense of about $350 million.

Second, as a result of the current period's solid revenue performance and a better outlook for revenue for the remainder of the year, we accrued for higher incentives and experienced increased processing costs. This added roughly $500 million to the quarter. Third, we incurred some expense that differs from our typical operating expense. We reversed a decision made on some 2020 incentive comp awards making certain portions of those awards retirement-eligible, this accelerated approximately $200 million of expense into Q1 that would have been expensed over four years. We also recorded an impairment charge of $240 million for real estate rationalization and we incurred $160 million of severance charge as we moved back towards business as usual with respect to our headcount. This is based on an expectation that as roles get eliminated through process improvement, some associates might choose severance over opportunities to work in a different role in the company.

Lastly, our COVID costs remained largely unchanged as modest declines in some employee-related costs were offset by cost associated with restarting PPP originations and forgiveness and additional unemployment claims processing. COVID costs are proving a little slower -- but little slower to safely reduce than we had hoped.

Turning to asset quality on Slide 13, government stimulus and support has helped customers get through this pandemic. That support coupled with our customer assistance programs and years of underwriting discipline and responsible growth has resulted in low net charge-offs. Net charge-offs this quarter were $833 million or 37 basis points of average loans and were lower than Q4 and they were 14% lower than the fourth quarter of 2019, which was the last quarter before the pandemic, despite an expected increase in card losses of $229 million in Q1. With the exception of a small uptick in small business and card losses, losses in every other category declined from Q4.

Provision was a 1.9 benefit in the quarter as an improvement in the macroeconomic outlook and lower loan balances resulted in a $2.7 billion release of credit reserves. Total consumer reserve releases were $1.4 billion, driven primarily by card, while the commercial release was $1.2 billion.

Our allowance as a percent of loans and leases ended the quarter at 1.8%, which still remained well above the 1.27% where we began 2020 following our day one adoption of CECL. With respect to our reserve setting assumptions, we continue to include a multitude of scenarios based upon our Q1 weighting of those scenarios, GDP is forecasted to return to its 4Q '19 level by the end of 2021. The weighted scenario also assumes that the unemployment rate at the end of 2021 will be just north of 6%, which is in line with March unemployment rate.

For 2022, the weighted average scenario assumed unemployment just under 5.5% as we exit the year. To the extent, the economic outlook and the remaining uncertainties continue to improve, we expect our reserve levels will move lower. On slide 14, we show the credit quality metrics for both our consumer and commercial portfolios, overall consumer net charge-offs rose $211 million from Q4 and absent the $229 million increase noted in card other losses declined. With respect to card losses, given the reduction in late stage delinquencies in the 180 day pipeline, we expect card losses to be lower in Q2.

NPLs remained low despite a small uptick due to our consumer real estate deferrals which have limited expected loss content given the healthy LTV ratios. Moving to commercial, net charge-offs declined $296 million from the fourth quarter as the portfolio stabilize with receivable criticized exposure and NPLs declining in the quarter. Overall, given the environment, the asset quality of our commercial book remains solid and 90% of the exposures are either investment grade or collateralized.

Turning to the business segments and starting with consumer banking on slide 15, consumer Banking produced another strong quarter in terms of customer deposits and investment flows reflecting the strength of our brand, the innovation around digital and deployment of specialists in our centers, all of which has enabled us to capture more than our fair share of the increase in customer liquidity. The segment earned $2.7 billion in Q1 versus $2.6 billion in Q4 as the provision benefit more than offset lower, mostly seasonal revenue and higher expense.

Revenue declined 2% reflecting lower card income from Q4 -- Q4's elevated holiday spending, expenses moved higher as a result of real estate impairment costs as well as seasonally higher payroll tax expense. This also caused an increase in our cost of deposits this quarter to 142 basis points, absent the impairment charge, the cost of deposits would have been 131 basis points. As expected, net charge-offs rose from Q4 due to the flow through of the bold[ph] in card delinquencies as noted earlier. A $1.4 billion reserve release resulted in a $617 million provision benefit in the quarter.

On slide 16 you can see the significant increase in consumer deposits and investments, average deposits of $924 billion are up 25% compared to Q1 '20, with nearly two-thirds of that growth in checking. Rate paid is down to three basis points as 56% of the deposits are low interest checking. Lastly, note the growth throughout the quarter as average deposits were up $39 billion from Q4, we covered loans earlier, so I would just note investment balances of $324 billion are up 53% year-over-year as customers continued to recognize the value of our online offering.

As Brian noted and as you can see on slide 17, we continued to see improvement in digital enrollment this quarter, 70% of our consumer households use some part of our digital platform this year. We continued to see digital payments and Zelle taking hold across all our businesses. Zelle consumer dollar volume is up 72% year-over-year. Small business is up 182% year-over-year and 90% of our business to consumer payments in global banking are now made via Zelle.

As you can see, our digital assistant Erica continues to add users capabilities and usage plus we are applying our success with Erica to other businesses as well.

Okay, turning to Wealth Management, we continued to deliver solid organic growth, served the comprehensive banking and investing needs of clients and managed risks responsibly. We experienced strong household -- new household acquisition in a virtual environment and a very competitive market. This resulted in a record quarter with respect to total client flows including near record AUM flows and record AUM fees.

Net income of $881 million improved 6% from Q4 as revenue growth and improvement in provision exceeded an increase in expense. With respect to revenue, the record AUM fees are complemented by higher NII on the back of solid loan and deposit increases. Expenses increased driven by revenue related costs and seasonally elevated payroll tax.

Merrill Lynch and the Private Bank, both continued to grow clients as we remained a provider of choice for affluent clients. Client balances rose to a record $3.5 trillion up $822 billion year-over-year driven by higher market levels as well as strong client flows. During Q1, our advisors added over 6,000 net new households in Merrill Lynch and nearly 700 net new relationships in the Private Bank.

Let's skip to Slide 20, which is a new page that highlights our progress to digitally engage wealth management clients. In Merrill and the private bank, our clients and advisors have both embraced the value of a digitally-enabled relationship in which digital tools are critical mechanisms for fast, safe and secure interactions. Our wealth -- our wealth clients are some of the most highly engaged clients in the franchise with 80% of Merrill households digitally active.

In Q1, we saw a record number of logins, clients are logging into trade check balances and originate loans with ease, all of which can be done through a simplified sign-in. We continue to enhance and modernize the capabilities for both the client and advisor and these capabilities are becoming key differentiators, as well as being recognized by third parties. Moving to Global Banking on Slide 21, the business earned nearly $2.2 billion in Q1 improving $500 million from Q4, driven by a provision benefit and solid revenue.

While loan growth has been challenging, deposit growth has been strong and investment banking revenue exceeded previous records. The team produced $2.2 billion in firm-wide investment banking fees growing year-over-year by 62% and 20% over Q4. Looking at revenue and comparing to Q4, despite the higher IB fees, total revenues declined 3% driven by weather-related impairments on some taxed advantage investments. Provision expense reflected a reserve release of $1.2 billion in Q1, importantly, net charge-offs of $36 million fell by $278 million from Q4.

Non-interest expense rose 14% from Q4, reflecting the incentive award changes noted earlier. Additionally, the strong IB performance and improved outlook, and seasonally elevated payroll tax increased personnel costs in Q1. Looking at the balance sheet on slide 22, average deposits moved up relative to Q4 as customers remained highly liquid, year-over-year deposits were up an impressive 27% while rate paid is at an historic low. As noted earlier, loans declined early in the quarter but stabilized late in the quarter. Household digital engagement continued to accelerate and usage continued to grow, driven by the same ease safety and convenience of our digital banking capabilities that our consumer customers enjoy.

We present some wholesale digital highlights on slide 23. Switching to Global Markets on Slide 24, results reflected the highest revenue quarter in over a decade with solid year-over-year improvement and an even more significant increase relative to Q4. As I usually do, I will talk about the segment results excluding DVA, this quarter net DVA was negligible, but the year-ago quarter, had a $300 million gain.

Global markets produced $2.1 billion of earnings in Q1, more than double the level of Q4 and up 39% from Q1 '20. Focusing on year-over-year revenue was up 26% on higher sales and trading and equity underwriting fees. The year-over-year expense increase was driven by volume-related expenses in both card and trading and an acceleration in expense from changes in the incentive awards. Sales and trading contributed $5.1 billion to revenue increasing 17% year-over-year driven by a 22% improvement in FICC and a 10% increase inequities.

FICC results reflected gains in commodities and strong results in credit, mortgage and municipal products versus relatively -- relative weakness in the year-ago period. This was partially offset by reduced activity and trading opportunities in other macro products. The strength in equities was driven by a strong trading performance in cash. The business produced strong returns delivering a 22% return on capital in Q1.

Finally, on Slide 26, we show all other which reported profits of $257 million compared to Q1 '20, the improvement in net income was driven by a larger tax benefit given an expected increase in ESG activities this year. The year-ago quarter also included a modest reserve build. Our effective tax rate this quarter was 12% and excluding the tax credits, driven by our portfolio of ESG Investments, our tax rate would have been 23%. For the full year absent any changes in the current tax laws or other unusual items, we expect an effective tax rate to be in the range of 10% to 12%.

Okay. With that, let's go to Q&A.

Questions And Answers

Operator

(Operator Instructions)

We'll go first to Glenn Schorr with Evercore ISI. Please go ahead.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi, thanks very much. I wonder if you could just -- you gave us a lot of details on expense side. I just wanted to try to get a jumping-off point on the second quarter. I think with all your comments, it gets you to the low to mid $14 billion range. Want to see if that's right. And then if you could give us the right perspective, meaning if you look, you we're able to keep total expenses flat for many years while you grew the franchise. Now, the economy is growing, capital markets are very strong and the expense dollars have crept up but I don't believe DVA very has an (inaudible) problem, but I wonder if you could address that and give us the right perspective to look at. Thanks.

A - Paul Donofrio {BIO 1533743 <GO>}

Sure. So in terms of the second quarter, I think you're about right, we expect expenses just north of $14 billion dependent on the revenue environment and the amount of progress we make in taking down the COVID costs. In terms of your comment about our ability to manage expenses, we agree with you, I think, as Brian noted in his opening comments, we've managed not to increased expenses for years now and we've absorbed merit increases, investments, minimum wage, improvement of benefits, all the dramatic increase in processing volumes, digital increases, so where we have sort of, as talked about in other calls, we've been using operational excellence and other initiatives to basically fund the investments in our future. I think our goal here is to clearly create operating leverage over an extended period of time, we've talked about maybe expenses rising, maybe at a 1% level per year.

And I think that's probably the best guidance we can give you, absent again some of the ins and outs. We had a lot of variabilities this quarter and obviously we're sitting here in the middle of a pandemic with a lot of COVID expenses that have been a little bit more sticky than we had all hoped, but they're going to come out. There is no question about that. And so we'll get back to kind of a normal level of expenses in a very reasonable growth level over the long term relative to revenue.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thank you. That's exactly what I was looking for. Maybe just one other one, we have seen a lot of growth in the private credit markets and it started out strong in middle-market lending. It's transitioning and doing some now large corporate lending, there is specialized lending in aircraft and transportation and marathon. So, I'm curious given the breadth of your franchise.

Those -- all those things, I mentioned a comment in your backyard, they don't -- that's just a lending relationship. They don't have the same franchise you have but curious if you see the growth in private credit as a significant competitive in traditional backyard.

A - Brian Moynihan {BIO 1517608 <GO>}

I'll say, Glenn, those depending on the asset or type of loan if people have been in these markets for years, I think mortgage or other types of consumer credit and then in the commercial side. So, sure that has an impact, but our job is to compete through it, but they already have an impact now frankly is the draw rates and lines of credit stuff are low and companies that are operating well. There's companies that still need to get through the pandemic impact, just aren't using the lines and that's bump along the bottom, we've shown you as long-term chart. So we feel good about our middle market in our business, banking businesses and small businesses, we feel good about, they're getting set up as the economy continues to improve and the growth will come back and in the services and rate we can provide are competitive and so I don't think that will ever change and I think it reaches further sometimes it reaches a step we want to as a company obviously, in terms of leverage -- extra amounts of leverage and things like that, but we feel we are very strong and competitive and before the pandemic hit, the middle-market grew mid-single digits, and we expect to return back to that level.

Q - Glenn Schorr {BIO 1881019 <GO>}

That's great. Thanks, Brian.

Operator

We'll take our next question from Gerard Cassidy with RBC. Please go ahead, your line is open.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Good morning, Brian.

A - Brian Moynihan {BIO 1517608 <GO>}

Hi, Gerard, how are you?

Q - Gerard Cassidy {BIO 1505265 <GO>}

Good. Can you guys share with us, I think you touched on the capital cushion being about $35 billion and you announced a $25 billion share repurchase program today. Obviously with the new stress capital buffer construct that goes into effect in the third quarter, you and your peers will be free to buy back your stock in the fashion in which you see if it's best for you guys. Can you give us some color on how you're thinking about the $25 billion buyback on how it will proceed after you get the okay. I'm assuming you're going to pass CCAR, of course, in June's then that gives you the green light to do the buyback.

A - Brian Moynihan {BIO 1517608 <GO>}

That will -- so let's start was a couple of things, one is the number goes up this quarter because the average of the four quarters is a move forward a quarter and that's a higher average. So we will be able to do more this quarter and then assuming the new rules come into effect in July, we have a substantial cushion and we will look to bring that cushion down. We're not going to -- we're going to maintain a cushion over the requirements of 9.5. It will maintain a cushion of that you'd expect us to move fairly a pace to start to bring us closer to the cushion that was honestly held up by the suspension last year this time of our ability to repurchase stock at all for the first -- for the second quarter, third quarter and fourth quarter of last year, which if you go back and think about our original CCAR filings. We are going to buy back a substantial amount. So we'll get back on the -- back in the saddle and driving forward and also because the earnings power of the company, to work on -- continue to work the dividend and so expect us to get right after as soon as we can.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. And Paul, you talked about the loan loss reserve levels. And when you compare them to your day one CECL number from January 2020, obviously, you're a considerably higher than that number. Can you share with us the outlook for potential loan loss reserve releases? And could you see an environment where you could approach that day one reserve level considering the economy, when you look at your own forecast that you gave us today is much stronger than what it was on the day 1 in January '20. Can you give some further color on that?

A - Paul Donofrio {BIO 1533743 <GO>}

Sure. Just on reserves, absent a deterioration environment which we don't expect. We believe the reserves will continue to come down in the coming quarters as we remain -- as the remaining uncertainties continue to diminish. In terms of the reserve versus sort of day one CECL, every quarter where we are reserving based upon the size and mix of our portfolio at that moment and our view of the future based upon independent sources. So as you think about that, you've got to recognize that our portfolio has changed. You know, for example, card, which as you know, has some of the highest reserve rates, is down 25% from day one.

So you really need to think about how the mix has changed, you just can't go back to our reserve level on day one, which I think was 127 basis points, if I am not mistaken, and just apply that to today's numbers. I think you've got to do a bit of a product mix there to get that. We've done that work and it shows we have still a significant, I'll call it, cushion to day one.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. Thank you.

Operator

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

Q - Mike Mayo {BIO 1494617 <GO>}

Hi, I have two opposing views and I'm hoping that you can help me reconcile that as it relates to efficiency. On the one hand, it's like your slides are very positive, global bank, 74%, digital connections, wealth, 80% of households, consumer digital still growing, and the unit cost per dollar of deposit about 130 basis points. It's like best in class. So all that technology progress is noted. On the other hand, I look at slide 12 and I see the efficiency ratio and I see the expenses and I hear the higher guidance for expenses for this year. So I guess if you could help me reconcile these positive underlying trends with this number on the page of 68% efficiency ratio and I do recognize that you're calling out a lot of expenses, the $1.6 billion increase quarter-over-quarter, is that -- should we consider that kind of just one time and where should this efficiency ratio go over time. Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

So, Mike, you pointed out that the operating posture of the businesses continues to improve. But if you go across page 12, you got to remember and you well know that in the stuff on the left-hand side of page, you had a rate environment that had finally after years to come up some level of Fed funds rate and then LIBOR rates and stuff and that helped our efficiency ratio move under 60. But even if you look at this quarter it's 68 and you back out the type expenses that you drop in the low 60s and then NII improvement will -- because that frankly as you well know it comes with very little expense attached to it, i.e., that we don't need more branches and more infrastructure or more -- even more commercial bankers as loans, usage goes up and the spreads just spread off of our floors due to our massive deposit base.

So I think you should expect to even our pro forma basis, you could see in the low 60s you expect it to move back in the levels you see here as we move through the year, pick up the NII and then if rates start to move up, it would even pick up more.

Q - Mike Mayo {BIO 1494617 <GO>}

And you don't always disclose how much you're investing, but how is your investing spend. I mean did you lighten up during the pandemic, on your take (Multiple Speakers) (Multiple Speakers) Mike, on the technology side, we did -- I mean technology initiatives last year were three and change in this year will go up frankly a bit and those numbers we gave you because we continue to take advantage of that -- and so I think 25 branches opened up in new cities this quarter and we're seeing the success from that, markets that we weren't in 2, 3, 4 or 5 years ago. We are now moving in the top 10, all organic and driving off of that and then sales people. Now that's what we highlighted up last year just because the opportunities weren't there. But you're going to see us continue to reposition people from the efficiencies in the OpEx program to the front. And so a head count rose really to support the exigencies of the circumstances. When you couldn't have your teammates (inaudible) with each other, we had to have a few more of them move and the issues that were there for social distancing and working from home and over staffing because of high risk employees. So we ran up a little higher. Now, you start to see us strip down, so that -- that core number of headcount will drive our expenses. But the reality is we invested at the same rate last year and everything except for incremental commercial bankers probably than we did in past years and we're going to do it again this year because it's -- the payback is huge. And then last follow up, I just on the COVID-related expenses. It seems like a little bit of a longer tail than maybe you had expected. When do you think some of those come off? I mean you've cleared your employees well with the special payments and all the other efforts that you've made is that like another quarter or two or towards the end of that?

A - Brian Moynihan {BIO 1517608 <GO>}

Well, we're blending it -- it's blending down because the situation change obviously as schools reopen and things like that. We can normalize -- we started last year this time and said teammates when you work from home, we'll give you $100 a day to hire somebody to come in your home, take care of your kids and you can do a great job for our clients. That's why our client scores continue to rise during the pandemic. Obviously, as schools reopen, we've tailored that program and will normalize it at the end of the second quarter. That's one thing, obviously PPP, Mike, it got extended again. But as we're seeing the volumes to be more modest this time, we can start to shape those teammates out of that forgiveness program, it will take us longer just because it's a tail. Obviously, but we're 200,000 done and so you'll see that happen and the extra cleaning and meals for the teammates and the testing and all those things we've done, that will come down as we sort of normalize operations over the next six months, but it took longer because things like PPP came out two more time since -- are two or three times, I guess, we're in four, that would be the right number, but, so it's good. But we're doing what we need to do to support our customers -- $0.5 billion -- $0.5 million loans originated under four different programs with constant change in rules.

At the peak, we had 10,000 people working on it. Now, we've got about 3,000 there and 3000 forgiveness and we can work it back down, think over the next six months, you see it start to blend down piece after piece after piece.

Q - Mike Mayo {BIO 1494617 <GO>}

All right, thank you.

Operator

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

Q - John McDonald {BIO 21440002 <GO>}

Thanks. Sorry, on the expenses again, just on the COVID expenses that you were discussing, Brian with Paul, we might -- what's the kind of size ballpark of that, I'm trying to think about, the 56.5 total expenses and if we took off the 500 kind of special stuff you announced this quarter, and then the COVID cost which might be a $1 billion a year, might you re-base it at some point at 55 before business growth and things like that. I'm just trying to kind of put some numbers on it, is that reasonable?

A - Paul Donofrio {BIO 1533743 <GO>}

I would think of COVID expenses in the first quarter to be approximately $400 million of net COVID expenses. That was roughly flat by the way to the last quarter, as Brian said, we ramped up for the new PPP and unemployment, processing of claims, but we did offset some of that ramp up with some lower expenses associated with childcare and supplemental pay and things like that.

A - Brian Moynihan {BIO 1517608 <GO>}

So, John, just to be simple-minded about it, the reason why we had -- we told you the full year is going to be higher is because, we think it's $1 billion to $1.5 billion higher in the first quarter here that wasn't sort of in our mind because of timing differences on some of the compensation matters and other things. So, as you well know, we'll get it -- we're pushing it back down as fast as possible.

Q - John McDonald {BIO 21440002 <GO>}

Yeah, Okay. And then, Paul, I just wanted to follow up, when you were talking about the interest rate disclosures, you mentioned that the model doesn't assume deployment -- automatic deployment of liquidity anymore. Can you just explain that? What changed because of rate moves or deployment? Thank you.

A - Paul Donofrio {BIO 1533743 <GO>}

The model doesn't assume automatic deployment of liquidity. I think we are talking about the 100 up and 25 down.

Q - John McDonald {BIO 21440002 <GO>}

Yeah, exactly.

A - Paul Donofrio {BIO 1533743 <GO>}

Yeah, I mean, I think we got a little bit less asset sensitive because we deployed some liquidity in the fourth quarter and in the first quarter. And so now that's in the baseline and if one rate shock up, you obviously, you're not deploying that liquidity at a higher rate anymore. So it kind of moved from the sensitivity to the baseline. You see what I'm saying.

Q - John McDonald {BIO 21440002 <GO>}

Okay, gotcha. Okay, got it. The last thing was just NII ramp that could happen to get you $1 billion higher by the fourth quarter, how do you see that distributed. Is that kind of evenly or is it kind of based on the second half loan growth coming back?

A - Paul Donofrio {BIO 1533743 <GO>}

Yeah, look, we've been fairly careful about our guidance. There is a lot of moving pieces here, you've got -- amortization of premium that can move around. You've got loan growth, which is hard to predict. So, we want to be careful about being too specific about how we get from here to there. I think we feel very good about getting to there. Again, the guidance that we gave you that NII in the fourth quarter could be $1 billion higher than what it was in the first quarter. That's based upon the forward curve materializing and some modest loan growth in the back half of the year.

We've got some flexibility because we do have liquidity and can go faster or slower on in terms of investing. We'd like to put that in loan growth and not necessarily into securities, but we will invest it over time. We've got to see the amortization expense start to come down. It hasn't come down yet even though mortgage rates have gone up. And like I said, we've got to see some loan growth and we'll pick up at least two days here. So that's the best perspective, I can give you.

Q - John McDonald {BIO 21440002 <GO>}

Okay, fair enough. Thank you.

Operator

And our next question comes from Matthew O'Connor with Deutsche Bank. Please go ahead.

Q - Matthew O'Connor

Good morning. I just wanted to follow-up on the deployment of liquidity that you've done. You did a lot this quarter and last quarter. If we look back since the end of 2019 most of your deposits have been deployed into securities and most of those securities I think are longer-term mortgage-backed that aren't hedged. I know you said some of the treasuries are hedged, but that's a small portion of what you added. So, I guess just conceptually like is this signaling that you think rates have kind of gone up -- kind of the big moves already happened for the next few years. Are you kind of thinking loan growth is not going to come back that much, or what's your thought of locking in so many assets at these rates this quarter and the last couple of quarters?

A - Paul Donofrio {BIO 1533743 <GO>}

Well, let me back up, because I want to make sure that everybody is clear. Well, kind of what we have done, you went all the way back to 2019. If you go all the way back to the year in 2019 deposits were up $450 billion and loans are down $80 billion. So we created $530 billion of liquidity to deploy somewhere plus we're going to see some more deposit growth. So, $530 billion of liquidity had to be deployed somewhere, through the end of Q1 securities are up $380 billion in cash, and equivalents are up $150 million to $300 billion. But as I said in the remarks, we bought treasuries but on about $150 billion of those treasuries we have interest rate swaps.

So you can really think of $300 billion of cash as being $450 billion in terms of our ability to fund loan growth or invest for term or other uses. So, we've been balancing liquidity, capital and earnings throughout this whole process. We don't tend to make bets on interest rates, one way or another. We're just want to make sure that we can deliver for our customers no matter what happens and I think we've been trying to do that as we've gone through this pandemic. Again, it's all about balancing liquidity, capital and earnings.

Q - Matthew O'Connor

Okay and then just separately in the prepared remarks, you guys mentioned about increasing hold limits a little bit, I think you were referring to the trading businesses, but if you could just circle back on that concept and give a lot more detail on kind of where you were and where you are now in terms of the whole limits?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, sure. I mean, look -- we, in terms of -- if you think about pre-pandemic underwriting criteria, we are, on the consumer side, I think back to pre-pandemic now. In terms of the commercial side, there are still the affected industries that we're watching carefully, but everywhere else I think we're back to pre-pandemic and in light of the size of our company, in light of the need for loan growth, I think we're relaxed a little bit on some whole levels, particularly in global markets where they have a more of a moving and storage mentality around loans and what they give for customers.

So yeah, we're just -- we're just taking a few maybe bigger positions than we might have otherwise taken pre-pandemic. But it's no real change in the underwriting standards, the company is bigger, we have more liquidity, we have more capital, so we think all of this is appropriate.

Q - Matthew O'Connor

And that's with respect to large corporate loans, not the trading book. Just to clarify.

A - Paul Donofrio {BIO 1533743 <GO>}

That's right, that's right.

Q - Matthew O'Connor

Yeah. Okay.

A - Brian Moynihan {BIO 1517608 <GO>}

But just across loan growth, just to think about it. So what's going to drive the company's P&L also is on the consumer side, especially, if you look at by business. So the wealth manager business actually has grown a little bit, you got the commercial business down and consumers down, consumers largely down because of mortgage churn but the big thing that happened is cards came down.

And what's been interesting to watch now is that because we pulled back this time last year's unemployment went the 15%. Everybody pulled back their underwriting criteria and that we've now reinstated, as Paul said, but so what's happened, we did 1 million units of new cards a quarter going into the last year's first quarter. It fell as low as 400, it's back up to 600 change already and moving north on that and if you look by month, it is stacking back up. So, yeah -- so that's -- and if you look at where that's coming from obviously the branch system, which basically was running at around 2500 of the 4300 branches for the last 6 months to 8 months, 9 months is only catching back up as it opens up and sales come in. So that bodes well on obviously the consumer side on the cards, which are most important. Mortgages production will continue to get back up and our prepayments to slow down as a slightly higher rate environment, you'll see that bodes well there.

GWIM has done -- has some of the mortgage aspects, but on the type of lending the GWIM does to often wealthy people, they've done a good job and we've actually seen that grow. And then you go to the business banking, middle market and that's all line usage, and so that should come through. In order for the economy to expand, 7% this year is what -- which, what our Bank of America team has that, at some point companies have to access capital to meet that final demand and you can see that users come up. So even in things like the card business because they're just aren't the cards to sell, you're seeing line usage down a lower level.

So, as you think across the things at whole levels and things that Paul is talking about enables us to push a little hard just because of sheer size of our company, but if you think about it -- think about the flywheel that we have in the company as a production engine having had necessarily to be slowed down in the crisis with 15% unemployment peaks and the final demand being crushed in the second quarter of last year. Then turning that crank back up just watch that flywheel start to take off, that's what we have good confidence in terms of getting right back on loan growth, but if you add it all together and we grew 5% it would be $45 billion of loans. So, to Paul's point you still have tremendous excess capacity because the deposit growth is so strong on core transactional deposits with the commercial and consumers.

Q - Matthew O'Connor

Understood. That's helpful. Thank you.

Operator

Our next question is from Betsy Graseck with Morgan Stanley. Please go ahead.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning.

A - Lee McEntire {BIO 6651246 <GO>}

Hey, Bet.

Q - Betsy Graseck {BIO 4799503 <GO>}

Question, Brian, on just capital -- capital allocation and you were one of the only G-SIB to really kind of trim down so that your G-SIB number didn't go up recently. And I'm wondering if you're thinking about the opportunities there to lean into a higher G-SIB maybe do more in capital markets. I know traditionally you've been looking to keep your RWA's in markets very tight, and I'm wondering if there is any thought to maybe leaning in at this stage, given all the excess capital and liquidity that you have, is that potentially an option that is on the table in addition to the buybacks you discussed earlier?

A - Brian Moynihan {BIO 1517608 <GO>}

Yeah, so, Betsy, and the two are not mutually exclusive at all, except way at the margin, way away from where we are now, but if the stock price increases in all the things that go into that calculation as you well know and are not all related to straight risk in terms of sheer size and stock, just things that go in. It is harder to maintain, where we were at the end of last year and you might expect we may move up a bucket and take advantage of that by actually expanding the business in the markets business with the opportunities there based on the capabilities that Jimmy and the team and Tom and team have put together. So why would you do that. The reason why we do that is our clients have been growing and we kept it about a third of the size and even if you took away some of the growth just due to the deposit things, it has to come down around 20% the size of the company and the idea is to keep it in synergy and synchronized over the company's over all size, but the company has grown around it in another step. And so we told Tom and the team are working on ideas to continue to do that. We were a little bigger now than we were at year end, obviously first quarter activity, but you shouldn't expect us to come down. Now those ratios aren't effective for a bit of time here, so we'll see how it plays out, but if the opportunities are there, we will take. The team has done a great job and managed the risks well. If you look at the trading results for the quarter, look at it for last quarter, look at it throughout the pandemic, they've done a great job in managing risk and balancing and we're proud of them and the work they've done and we're going to support them with some more capital.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay, that's great, thanks. And then separately, one of the most tedious discussions that I have with people is on comping your skillset and digital consumer apps and everything you're doing there, not only for consumer, but also for our corporate and SMBs with fintech players. And I say it's tedious because you have a huge market presence, okay. But I don't feel like you're getting your message out there beyond this call. So, have you given any thought to trying to get the message of what you've done for consumers in the digital and that the fintech that you actually are bringing to your clients beyond the four walls of your clients.

A - Brian Moynihan {BIO 1517608 <GO>}

Well, lets always start with the first thing that the reason why we do this is to serve our clients and do a great job and it flows through the numbers. As Mike said earlier, the idea that we run this huge consumer business at a cost advantage which is significant due to the digitization of all the consumer activity due to the way customers interact with us, the way we can help them, the way we can give guide posts and frankly the way we can take the fee structure out and that's -- we dropped overdraft fees dramatically over the years made up for, in terms of efficiency and other types of things. And so we get the word out, we tell everybody we win all kinds of awards and the list, go on and on in terms of the different banking agencies and you've seen it in the Merrill Edge growth is over $300 billion now.

And so our job is do a great job for our customers. And I think I'll leave it to you and your colleagues debate the relative merits of fintech reserves. But I will tell you, for a company making $8 billion and having 1 million[ph] new digital customers are fully active on the consumer side, 0.5 million on the digital on the corporate side, the impact on our ability to have expenses to be flat from even with extra money of $1.5 billion or so in the first quarter from six years ago shows the impact of the ability to digitize its company and we learn more about this in the last year in areas that we didn't do. So, we'll keep pushing it out there, you can tell the story, but the reality is that the number one person, we want to understand is our customers and that means attrition. The attrition of customers weigh down the penetration, the wallets weigh up, just look at the wealth statistics been through and see how that they've adopted to it. These are major changes, the size of which don't exist much out there.

So, we'll keep down in a way you keep telling a story, we'll keep telling the story, but the key is it's producing -- it's producing -- the kind of earnings we're producing and the kinds of efficiencies we're producing which continues to be down to our benefit going forward. The neatest thing about the stuff is where we go next with it, where we've been going with it. So Erica, there's just nothing close to it out there and driving with volumes and thinks. Zelle, if you look at the charts on the pages and show it. So, it's the usage and the personalization and ability to help people manage their payments and things for the mass market and their investments. So, we feel good about it. We'll tell the story as often as we can but they're out as just would like to see us keep growing the number of customers and driving it and driving on integrated basis. We're putting major investments in a couple of years we had to improve merchant services, payments on the commercial side of the merchant level and we're putting major investments in the 401K technology to push that. We're number 7 in that business, the lowest market position of any business we have. Number 6 or 7 of whatever we are, so these are major investments we're making, hundreds of millions of dollars a year that go into that expense base, but are paid for by the efficiency of the core business.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay, thanks.

Operator

And our next question from Steven Chubak with Wolfe Research. Please go ahead.

Q - Steven Chubak {BIO 18457976 <GO>}

Hi, good morning. So wanted to ask a follow-up on the NII outlook and really specific to premium amortization, just given the sheer amount of growth we've seen the MBS portfolio. The deployment of all the excess liquidity. Paul, I was hoping you could help size what the premium and benefit would be if we did see prepayment speeds revert to more normal levels and how much of that benefit is contemplated in the billion dollar increase in the exit rate for 2021?

A - Paul Donofrio {BIO 1533743 <GO>}

Sure. So let me just give you a couple of perspectives. One, the premium amortization in the first quarter was about a $1.5 billion and as you -- you know, as you point out the securities portfolio has grown. So, as you try to size what it could come down to, you just can't go back to last year and looking at what it was because the portfolio has gotten a lot bigger, that's sort of one. Two, as I think about that $1 billion, I would say the most important driver would be the modest loan growth. And the second most important driver would be the reduction in premium amortization. So, maybe that's enough guidance right there. Again, we're not going to go down to where it was in Q1 or really, I think 4Q '19 because we've grown so much. But it's going to be -- it's going to be meaningful in terms of a few -- more than a few $100 million in terms of that guidance we gave you.

Q - Steven Chubak {BIO 18457976 <GO>}

Okay, understood. And for my follow-up just wanted to ask on capital. If I look at your SLR ratio, excluding the relief and your CET1 ratios, if I assume maybe like a 10.5% target on CET1, five in a quarter on SLR, the CET1 is still your binding constraint today, but just looking at the sheer amount of balance sheet growth you guys saw this past quarter, I think it was about $150 billion or so -- our analysis suggests that you maybe have another $160 billion to $200 billion of balance sheet growth headroom before the SLR becomes binding and as we consider expectation just for additional (inaudible) balance sheet growth, how are you preparing for that potential, what sort of mitigating actions my you take, if the SLR does in fact become binding?

A - Brian Moynihan {BIO 1517608 <GO>}

It's just way out there, Steven, I don't think your numbers are right. We'll take you through some calculations, but I think the numbers a lot bigger than you think.

A - Paul Donofrio {BIO 1533743 <GO>}

Yeah. We've done that work and we've come up with a bigger number in terms of balance sheet capacity.

A - Brian Moynihan {BIO 1517608 <GO>}

So, on the SLR, it's a 100 basis point times -- much bigger base or 75 basis points in your example maintain it five quarter, so it's -- it's multiples of that. It's bigger than what we've grown so far by the lot.

Q - Steven Chubak {BIO 18457976 <GO>}

Yeah, I guess -- I think what the difference is there is the lines of like what constraint becomes more binding and its the SLR, I recognize you have excess under both, but if the ratio is going to shake out sub six pro forma that relief. I guess at a 5% ratio, i's, that's $500 billion of capacity to grow. But in terms of like where you have the most excess, it looks like SLR becomes binding in relatively short order. We're just maybe a couple of more quarters of $150 billion-plus growth in the balance sheet. So I guess that's what I was trying to get at is -- would you look to mitigate it, given that it becomes a little bit more binding than you're set one constraints.

A - Brian Moynihan {BIO 1517608 <GO>}

We've managed at all the capital ratios to maintain the minimum requirement. That's not the issue, but I think it's -- it's hundreds of billions of dollars away.

A - Paul Donofrio {BIO 1533743 <GO>}

We're at 6.1 pro forma right, so (inaudible) and that's but $700 billion-ish of capacity down to the regulatory minimum as you said, we would want to have a buffer but that's the rough math.

Q - Steven Chubak {BIO 18457976 <GO>}

Okay, fair enough. I can take it offline with Lee later on anyway but that's very helpful and how you framed it. So thanks very much for taking the question.

Operator

And the next question is from Jim Mitchell with Seaport Global Securities. Please go ahead.

Q - Jim Mitchell {BIO 1877338 <GO>}

Hey, good morning. Maybe first on just maybe the cadence for card charge offs, obviously we had a little bit of an increase this quarter, but 30 plus day delinquencies are now back down to almost near lows. Could we expect? I think we had charge-offs that were in the 400's in the fourth quarter, are we heading back towards that or how do we think, you have lower balances, how do we think about the trajectory of card charge-offs given your view of the delinquency -- delinquencies?

A - Brian Moynihan {BIO 1517608 <GO>}

Just if you go to page 4, Jim, you can see it. I mean you kind of summarize that, but we went from 400 up to 600 still turn back down just because, look at the charts, you can see what producers next quarter's charge-offs is obviously on the right-hand side of this page, and it is coming down and so, and so you have balances lower but also just have sheer delinquency and as you think further out, it's going to come from the left-hand side of page and migrates is right from actual charge-offs, leave aside the projected and provisioning under the CECL but just -- so you've got it right. It comes down and you would hope frankly that if we get the growth that might change its dynamic in six months or something like that just because it takes a lot of getting delinquency out anything, maybe much longer than that, but this is -- this bodes well for the next couple of quarters.

Q - Jim Mitchell {BIO 1877338 <GO>}

All right. So I mean, the reason I ask is that if you look at charge-off ratios, I believe, last year they were lower than the pre-COVID levels. So we still think we can sort of keep that very low level at least for now until balances maybe start to grow more significantly, is that the takeaway?

A - Brian Moynihan {BIO 1517608 <GO>}

So that probably. Yeah, they go down as balances grow because there'll be no delinquency then, a year later when the delinquency from those balances whatever minor amount it is, comes through it might add too. And so the denominator effect will push even down further on percentages as the balances go up near term.

Q - Jim Mitchell {BIO 1877338 <GO>}

Right. Okay and then my follow-up on the technology side, you guys did an acquisition, a small one, obviously of Axia in your merchant processing business, can you just sort of give your thoughts on the opportunity set as you build out that platform. Are the more acquisitions do you think involved. What's your excitement level I guess of building that platform out?

A - Brian Moynihan {BIO 1517608 <GO>}

Look, it's a great little company, a company that we can put across the platform, has a wonderful market position where it plays and we're very proud of the deal. And, but the key is that we, you got to go back to the whole history of merchant services. We sold half of it in a joint venture 15 years ago now, whatever it was, raised some capital, come forward we bought it back. Remember, that's one of the reasons why expense run rate moved up by $800 million to $900 million a year that people forget about it because we brought that in last year for half a year and it wasn't in two years ago. But the reason why we bought it back is really to invest around the platform.

So, what's exciting about it is things like the acquisition to take us in the medical area, what's exciting about it is the ability to actually sell it through the sales force, without having to have a non-owned sales force selling it in our small business -- in our business banking colleagues that thousands of people out there and can help deliver the product.

And then what's really exciting is the integration of payment scheme that we've been working on for commercial payment. So it's the integration of the P2B, Zelle to small business and all these payment gateways, which is outside the traditional merchant business but you have to be completely flexible along our payment schemes to actually route it much more favorable to the merchant with very low cost to them and in real-time contemporaneous value exchange. So what we're doing with real-time payments and Zelle and combination into the business platform through the payment gateways. These are all exciting things and you go larger and it's bringing different elements and blockchain payments and everything else. So that's the core of the business on the commercial side, but it goes all the way from small business all the way up to large companies and so that investment was part of that, the new investments part of that and you'll expect us to keep driving at the implementation. The good news is, we're getting the network effect of Zelle and things like that when you look at those pages that Zelle has half the credit card charge of volume used by our consumers to make payments now, see a noodle on that for a minute, I think 35 million credit card people out there charge in Zelle in which half of it checks down 25% over the last couple of years in terms of checks written volume by our consumers. It's, -- get the network effect of that and then you get the merchants to use it with real-time. So this is all part of a thing that (inaudible) and Mark Monaco and team are leading it on that on the commercial side, that you should expect to see a lot. A lot of investment has been made, including a major replacement system that's coming through the P&L this year and the change in bringing the people on fully on balance sheet and a lot of investment will be made, including acquisitions like we just made.

Q - Jim Mitchell {BIO 1877338 <GO>}

Okay, that's a great color. Thanks, Brian.

Operator

Our next question is from Ken Houston with Jefferies. Please go ahead.

Q - Ken Houston {BIO 4299445 <GO>}

Hey, thanks. Just, just one question on just card and stimulus, and how do you guys get the sense of how much of the stimulus and incremental deposit growth is sticking around versus now kind of starting to be spent. And what's the trade-off with regards to the staging around that re-leveraging or that balanced growth that might start to come over time in the card business, specifically. Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

I think just on it depends literally when you look in customer's earnings power and things like that, but largely I think last I saw was 30% odd of the stimulus money has been spent to make it to be simple minded about it. So the other 70% sitting in people's accounts, it's little different by stratification of earnings power of the household. And so that's to be spent, that bodes well for our economic reopening and stuff. It has an effect on balances in carton stuff, yes, because consumers have used to pay down their debt in part of what it has been spent -- has been spent to pay down card balances. And then if then with a limited travel, just not getting as much as -- good news is you've watched January to February and March with the virus and vaccine pathways come into fore with the -- you're starting to see the purchase numbers go up and the payments rate went way up as you observed, last year, 30% through last year in this quarter, but you'd expect that might be more constant and then the usage rate will go up and start to drive some balance growth which is good news.

So the good news is the consumers are healthy from every aspect. We have no deferrals left except in the mortgage business. So all the debate we had about those -- last year this time through the system, delinquencies down, consumer sitting with money in accounts and the economy open up, which bodes well and that's what you saw in the retail sales numbers today and you expect that number -- those numbers to even be higher in the month of April because March was a partly reopened month and the weather isn't too pleasant in the Northeast. Well, even if you won't outside in northern parts of the central country.

Q - Ken Houston {BIO 4299445 <GO>}

Okay got it, and that's the offset -- the offset is in Jim's question about that better credit, could stick as an offset as well, if there is still 70% sitting around, so that's -- we'll take that trade-off.

A - Brian Moynihan {BIO 1517608 <GO>}

Yeah, where we play -- yeah, when we lend money in the consumer space, we never came close to what the projected losses where, we do leave aside the models projected it, you knew by watching the consumer delinquency and unemployment levels of our consumers, they are much lower than society and as that became clear that's what you're seeing coming through the reserve releases right now.

Q - Ken Houston {BIO 4299445 <GO>}

Thanks, Brian.

A - Brian Moynihan {BIO 1517608 <GO>}

Thank you.

Operator

It appears we have no further questions. I'll return the floor to our presenters for closing remarks.

A - Brian Moynihan {BIO 1517608 <GO>}

All right, well, thank all of you for joining us thank you and the company produced a $0.06 of earnings per share $8 billion return on tangible common equity of 17%. We look forward to talking to you next quarter. And we continue to -- we'll continue to drive responsible growth what we're doing there. Thank you.

Operator

We will conclude today's program. Thank for your participation, you may now disconnect.
