Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Andrew Lim, Analyst
- Brian Kleinhanzl, Analyst
- Gerard Cassidy, Analyst
- Glenn Paul Schorr, Analyst
- James Mitchell, Analyst
- John McDonald, Analyst
- Kenneth Usdin, Analyst
- Kevin St. Pierre, Analst
- Matthew D. O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst
- Steven Chubak, Analyst
- Unidentified Participant
- Vivek Juneja, Analyst

Presentation

Operator

Good day, everyone, and welcome to today's Bank of America's Second Quarter Earnings Announcement Conference Call. At this time, all participants are in a listen-only mode. Later, you will have the 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 this morning's call for a discussion of our 2Q 2019 results. I trust everybody has had a chance to review the earnings release documents, which are available on the Investor Relations section of the bankofamerica.com website.

Before I turn the call over to our CEO, Brian Moynihan, let me remind you that we may make forward-looking statements during this call. After Brian's comments, our CFO, Paul Donofrio will review the details of our second quarter results. We'll then open up for questions. For further information on any forward-looking statements, please refer to either our earnings release documents, our website, or our SEC filings.

With that, I'll turn it over to you, Brian.

Brian Moynihan {BIO 1517608 <GO>}

Thanks, Lee, and good morning, everyone, and thank you for joining us to review our second quarter results. Many of you discuss, written about and engaged in debate about the perceived change in the forward environment that we all saw this quarter. However, what we saw in our client base during the second quarter 2019 was solid consumer activity, pointing to a continued growing economy in the United States this year, albeit at a slower pace. In that environment, our company reported the best earnings quarter in the company's history. That's made possible through the hard work of my 209,000 teammates, who are driving with responsible growth.

We reported $7.3 billion in after tax net income and $0.74 per share, both these items increased on a linked-quarter in the year-over-year basis. Revenue on an FTE basis was $23.2 billion and grew 2%. We increased our return on assets to 123 basis points. Our return on tangible common equity was 16.2%, and in the end responsible growth continue to produce strong earnings, returns in shareholder value.

As we look at Slide 3, we start to highlight how we achieved these results. Revenue grew 2% and expenses were basically flat year-over-year. We generated operating leverage of more than 200 basis points. Our credit costs remain low and stable, as that resulted in year-over-year net income growing 8% and during the past year we bought back 7% of our shares. This reflects the model of combining solid operations with strong capital returns and then, thereby driving strong core EPS growth.

This quarter, diluted EPS grew 17% from the second quarter of 2018. All the way along our capital and liquidity positions are very strong and continue to strength. Book value per share grew 10%. We also had important client growth and market share gains in our businesses. Client activity showed $75 billion of deposit growth, a growth rate of 6% year-over-year. We also had $37 billion of that deposit growth came from people consumers. At the same time, we saw a strong investment flows from the customers. Loans in our businesses grew $34 billion or 4%, importantly, we saw progress in other focus areas as well. A year ago, I told you, it'd continue to drive to regain our position investment banking, has a nice start, we saw market shares across many of the products, the investment bank in the first half of this year. One examples IPOs, we are number one in volume for US IPOs in the first half. Matthew Koder and his team have done a good job and off to a good start driving this business.

All in, we are pleased with the results this quarter, we grew, we did it the right way, we stay with our risk parameters and we continue to invest heavily in our franchise -- franchise adding salespeople, more technology, increasing our marketing spend and improving and expanding our physical plant in all dimensions. This results also led to the highest first half earnings in the company's history.

So as we look at Slide 4, we show you the last five years results for the first half. For the first half of ' 19, we generated nearly $15 billion in after-tax earnings compared to the first half of '18, EPS was up 16% and you can see that growth has continued for the last five years. In those years, we have driven operating leverage, you can see that in the lower right. This year we saw that operating leverage continue in the first half. This led to a 57% efficiency ratio. We use the excess capital beyond the need for growth and investments in our company to buy back shares, the trend which has accelerated and you can see on the lower left here. Now our primary goal of driving responsible growth has been to produce sustainable results even if the environment changes. This requires us to drive operational excellence and all we do. So that we could drive operating leverage and we did it again this quarter.

As you move to Slide 5, you could see our -- we've extended our positive operating leverage, straight to 18 consecutive quarters. In those 18 quarters, you've seen many different market environments, changes in interest rates, economic growth that sped up or slow down, but we still managed to drive operating leverage for 4.5 years successively. Generating operating leverage doesn't getting easier after four plus years. However, with that strong expense discipline, we remain focused upon it.

Now one of the things that you don't see here is and you see in our results is the improvement we're starting to see in some of the categories, especially consumer fees as you go through the quarters, the last four quarters. Over this last decade, we faced service charge headwinds and consumer from reductions in accounts and other fees related accounts for many years. This was based of our consumer strategy to strive to have the best-in-class franchise where lower fees because of changes in overdraft policies, but also most importantly to drive we've had towards being the core relationship bank for the American consumer.

Now in the recent past from offsetting those rate of fee reductions by increase in the growth in the actual counts, the number of accounts we have that are primary household relationships in the past over the last few years. We have much higher retention than we've ever had and we're improving client's satisfaction to levels it hasn't been seen before. But most importantly that focus in relationship depth has resulted in 90% of our households of primary and it was an average balance of $7,000 plus.

In card income, we're seeing the consumer debit and credit card spending at a 5% plus level year-over-year. This seems consistent up with us to a 2% plus growth US GDP environment. We're still fighting the headwinds of the reward impacts that would go on in that business and you see that in us and our competitors. But in the end the day, we're providing great value to consumers in the end of the day when you look at the total relationship in those consumers it's great economics to our shareholders.

Now next couple of slides, we're going to do something we've done in each of the earnings reports for some time. But we're going to add a piece to it. We always have talked to you about a consumer business -- banking digital usage, which you can see on Slide 6. But importantly, on Slide 7, we'll talk about how that impact is now being driven across our Corporate and Global Transaction Services business. So first let's start on Slide 6 with our consumers. Each quarter we showing you these charts. In the second quarter, we -- in a broader context, we had 2.4 billion interactions in the second quarter alone with our consumers across all our channels. To show you how dominated it is by digital, 2.3 billion of those interactions were digitally or automated base. This explains why we have to be in our excellent both high touch and high-tech.

If you looked at our digital only clients, meaning customers have not use the financial center in the past year, we have 30 million consumer customers across our platform, who are our primary digital, who have more than $400 billion in balances with us today. Their entire relationship is managed digitally and a balancing activity continue to grow strongly. But that's not our business. Our business -- our customers want both, physical and digital access. This is why we continue to invest heavily enhancing our number one ranked digital platform, while at the same time, enhancing our best-in-class financial centers. And again this quarter you see the interaction of those two in the lower left hand side of this slide. with a record number of appointments that were set up. 580,000 times a person took their mobile or digital device, set up an appointment to come into a branch in the quarter. And you can see that on the lower left.

To better serve the three quarters of million customers that come into our centers every day, this quarter we added another 17 financial centers to help drive the growth in our consumer business, renovated 45 more bringing over 1,200 that we've renovated in the last few years and we remain on track to not only hit the three-year targets we established 18 months ago of adding 500 new financial centers and the targets we established to renovate over 3,000. We also are adding many more relationship managers in these new centers and refresh a lot of centers to bring them up to our modern high-touch environment.

Now one of the things that we hear a lot about is the millennial customer and Gen Z customer. Our digital capabilities are one of the things attracts millennials to our platform. Today, in our customer base, we estimate that we have 16 million millennial customer, those are customers between the ages of the 25 and 41. These millennials are very important for our growth and they hold nearly $200 billion in deposits investments with us. It's a powerful platform to all the segments to the US consumer population.

Now turning to Slide 7. While many of us focus on the consumer digital trends, I think it's also important to recognize a significant activity of the digital transformation our commercial space. Over the past decade, we've been investing continuously in our global transaction services platform. And on Slide 7, we start to show the digital capabilities as part of that investment. We focus on making the business easier, faster, cheaper and more secure for clients and make it more convenient to access and be in business 24 by 7.

We now have nearly $500,000 CashPro online users with double-digit growth in mobile usage attached to that. Mobile payment approvals by these users were $123 billion in the past year, doubling year-over-year and is growing very fast, obviously. One of the latest enhancements, the type of thing that shows innovation we have is to have mobile tokens delivered through an Apple Watch to help corporate treasures process payments. And the end of the day, the people who work with our companies, in our companies, want the same convenience that our consumers want to be able to deliver the services.

So let me end up here by addressing a few questions which are in your mind. Number one, many of you asked, what we see if the expected forward yield curve comes true, i.e., the reduction in interest rates that is in the curve? I ask Paul to layout our thoughts on that and he will do that shortly. The second question is, can your strong asset quality continue to last? Assuming the economic conditions continue to move along. We think that net charge-off should remain low for some time and we've told you that for many quarters in a row. This is not because something we're doing in the second quarter of 2019. It's because the work we've done over the last decade to continue to maintain our risk profile on a consistent basis and drive towards that. We see no immediate credit concerns as evidenced by the volume or additions in nonperforming loans or delinquencies ready the statistics around credit that you can see in the documents. The third question is, okay, given an environment where you may see a slowdown economy. Do you have further expense levers to pull? One of the questions we get is because we managed expenses so well is a more things you can do.

We believe that it's important to continue to invest in the future or franchise. Paul is going to talk to you about near term expense guidance a little later, but importantly, the reason why we're investing is to produce these investments meaningful results. Our 2019 expenses are projected to be lower than 2018, and that brings us to every year in the last decade we've had declining expenses, except for one, but we as the managers you want us to be, agree with you, that if there severe economic and issues ahead, we have the flexibility to continue to reshape this expense base. Obviously, starting with revenue related costs, which would adjust quickly and automatically and then changing our investment strategies. I can share these areas we focus on and are on our mind just as on your mind.

So with that, let me turn it over to Paul for a few more details on the quarter. Paul?

Paul M. Donofrio {BIO 1533743 <GO>}

Good morning, everyone. I'm going to start on Slide 8, since Brian already covered the P&L. Overall, compared to the end of Q1, the balance sheet grew $19 billion driven by loan growth, which ended the quarter more than $20 billion higher in our business segments. Liquidity strengthened in the quarter. Global -- average global liquidity sources of $552 billion, remained well above requirements, shareholders equity increased $4.4 billion, as we issued $2.4 billion in preferred stock ahead of plan call announced in July, and common equity increased $2 billion.

Versus Q1, the $2 billion increase in common equity reflects an increase in AOCI as the value of our AFS debt securities rose, given the decline in long and interest rates. In total, we returned $7.9 billion in Q2, through common dividends and share repurchases, a 112% of net income available to common. As a reminder, we recently announced plans for a

20% increase in our quarterly dividend, as well as the increase in our share repurchases to more than $30 billion over the next four quarters. With respect to regulatory metrics are TLAC ratios remain comfortably above our minimum requirements, our CET1 standardized ratio increased to 11.7% remaining well above our minimum requirement of 9.5%, higher capital levels drove the increased AOCI, excuse me, higher capital levels were driven by the increased AOCI. Improved the CET1 ratio, while higher loan balances and commitments mitigated some of that improvement.

Moving to client activity and starting with average deposits on Slide 9, average deposits grew nearly $75 billion or 6% year-over-year. This was the 15th consecutive quarter in which we grew deposits more than $40 billion. Global Banking alone brought in more than $39 billion. Global Banking continued to benefit from strong customer demand reflecting the additional bankers we have deployed over the last few years and the middle market franchise.

We also continue to see a shift from non-interest bearing to interest-bearing deposits in global banking. Deposits with consumers grew $37 billion or 4% within that global wealth management was up $18 billion year-over-year, reflecting client growth with a preference to hold cash of mid-market uncertainty as well as inflows of about $8 billion from the conversion of some money market funds to deposits near the end of 2018. Consumer Banking deposits grew by $19 billion or 3% year-over-year. More importantly checking balances grew, while more expensive balances declined modestly. In fact, checking balances grew $22 billion or 6% year-over-year to $374 billion, while rate paid remained low at 9 basis points, up only 5 basis points year-over-year.

Turning to average loans on Slide 10. Overall, our loans grew a little less than 2% year-over-year. Our all other portfolio is down to $45 billion and has been running off at a pace of approximately $2 billion per quarter, excluding loan sales, looking at loans across our business segments, core loans grew $34 billion or 4% year-over-year. Consumer, Wealth Management and Global Banking segments each grew at a healthy year-over-year pace. As you can see in the bottom right chart, we continue to demonstrate a fairly consistent pattern of responsible loan growth. Growth of loans to consumers was led by an increase in mortgages as lower interest rates stimulated more originations and allow many of our customers to lower the cost of owning their existing home or buying a new one. Within Global Banking, we saw increased activity for middle-market clients, complementing the continued activity from large global corporate borrowers.

Turning to Slide 11. I'll not only review the drivers of our net interest income this quarter, but also provide a few perspectives on the future given the expectation of lower rates embedded in the forward interest rate curves. Net interest income on a GAAP basis -- on a GAAP, non-FTE basis was $12.2 billion, $12.3 billion on an FTE basis. Compared to Q2 '18, GAAP NII was up $361 million or 3%. The improvement was driven by the value of our deposits, as interest rates rose in 2018, as well as loan and deposit growth. On a linked quarter basis, GAAP NII was down $186 million. In Q2, we benefited from additional day of interest as well as loan and deposit growth, which was more than offset by three factors.

First, lower long term rates resulted in higher prepayments of mortgage-backed securities, which caused higher write-offs of bond premiums. Second, Q2 included higher funding costs from growth in non-earning trading assets and other global markets assets. And then lastly, lower short-term rates reduce yields on floating rate assets such as commercial loans. As a result of these impacts, net interest yield of 2.44%, declined 7 basis points linked quarter, but was up 3 basis points year-over-year.

With respect to deposit rates. We remain disciplined and saw minimal movement in total deposit repaid at 57 basis point it increased just 3 basis points from Q1. With LIBOR rates lower than Q1 and the forward curve predicting further declines, we would expect client deposit rates to begin to move lower over the third quarter.

Turning to asset sensitivity of our banking book. We remain asset sensitive, given the nature and size of our deposit base and the type of loans, our customers have sought from us. Our asset sensitivity in a rising rates scenario increased compared to Q2. This was driven by the decline in mortgage rates, which increases the likelihood of mortgages, a mortgage prepayments in the baseline. The lower current forward curve also caused increased asset sensitivity in the falling rate scenario.

In the second half of the year, we expect NII to benefit from growth in loans and deposits, as well as an additional day of interest in Q3. However, lower rates are expected to have three primary negative effects; first, yields on floating-rate assets should continue to decline from short-term rate reductions; second, lower long-term rates may continue to stimulate mortgage refinancings causing increased write-off of bond premiums; and third, reinvestment rates on securities and mortgages will dilute the current portfolio yields.

However, lower LIBOR rates should reduce the cost of our long-term debt and other funding partially offsetting these headwinds. Last quarter on our earnings call, we reviewed our expectations that net interest income could go roughly 3% for the full year of 2019 over 2018. That was based on a relatively flat forward curve at the time of our earnings call. Since that earnings call on a spot basis, the 10-year rate has fallen more than 40 basis points and short-term LIBOR rates are lower by 10 basis points or so. From here if we were to assume stable rates, we think our NII for 2019 would now be up approximately 2% compared to 2018. Additionally, the forward curve anticipates two fed fund rate cuts in 2019 and another in 2020. If rates follow the forward curve and the fed funds rate were indeed to be cut twice this year starting this month, we think it would likely shave another 1% of NII growth for 2019.

Turning to expenses on Slide 12. We have now been pacing at our targeted level of non-interest expense for several quarters and our efficiency ratio has improved 100 basis points year-over-year to 57%. At $13.3 billion, we were basically flat compared to Q2 '18 with expenses up less than $50 million, while holding expenses roughly flat, we increased investment in our people, our brand, in technology and in office space. And as you know, we are adding and renovating financial centers, which serve, not only consumer clients, but also commercial and wealth management clients. Investment in people included adding more sales professionals, increased merit and benefit, as well as the shared success bonuses, which we have awarded for two consecutive years now. Since the portion of share success bonuses best over time, we are now covering those programs in our ongoing expense base. Also in the expense base is the increase in early Q2 of our minimum wage to $17 an hour.

And as you know, we announced our intention to continue to raise our ROE minimum wage until it reaches $20 in 2021. Compared to Q1 expenses are also up modestly as Q2's decline from the seasonally elevated Q1 payroll tax expense was more than offset by the increase in investment, in initiatives, and marketing in Q2. In the second half of 2019, we expect our expenses to roughly equal our first half expense of $26.5 billion. We expect increased technology investment in the second half, plus the cost of adding new client-facing professionals to be roughly offset by the seasonally lower incentive costs. We previously projected that we could hold 2019 flat with our 2018 expense of $53.2 billion inclusive of these planned investments. However, as you heard Brian say, we now estimate expense in 2019 will be modestly lower than that.

Turning to asset quality on Slide 13. Asset quality continued to perform well driven by our disciplined approach to underwriting in a solid US economy. As you know, the industry received annual stress test results this quarter, and once again, our loss rates in stress scenarios were lower than our major peers. Total net charge-offs in Q2 were $887 million, a little more than $100 million lower than Q1 and the year ago quarter. The decline was driven by the sale of $700 million of home equity loans, which resulted in a $118 million of recoveries from previously charged-off loans. Absent this recovery net charge-offs were just over $1 billion or 43 basis points of average loans and consistent with the net loss of rate ratio in Q1 and the prior year quarter.

Outside of the normal expected Q2 seasonality in our credit card portfolio, we had a modest increase in commercial driven by a couple of single name losses. Provision expense of $857 million, excuse me, provision expense was $857 million and included a modest $30 million net reserve release. Our guidance on net charge-offs for many quarters now has been roughly $1 billion per quarter and that remains unchanged. This guidance assumes current economic conditions continue.

Okay. On Slide 14, we breakout credit quality metrics for both the consumer and commercial portfolios with respect to consumer metrics delinquencies trended lower, which we believe is a good indicator of future losses. Additionally, non-performing loans continue to improve, even after taking into consideration the loan sales this quarter. And in commercial, we also saw a modest decline in non-performing loans, while reservable criticized ratios remained near historic lows.

Turning to the business segments, and starting with Consumer Banking on Slide 15. Consumer Banking produced another strong quarter, earnings grew 13% year-over-year to $3.3 billion. Revenue grew 5% and we've created operating leverage of more than 400 basis points. The efficiency ratio also improved year-over-year to 45%. Even as we invest in new markets and renovate financial centers, the all-in 162 basis point cost of running the deposit franchise was relatively flat compared to Q2 '18, as the decline in the cost of deposits component offset the increase in rates paid. Client activity remained strong with loans and deposits showing solid growth. Mortgage originations clearly benefited from lower rates. Customer satisfaction improved, asset quality remained strong as a net charge-off ratio was 124 basis points decreasing 4 basis points year-over-year.

And I would note that much of the loan growth that we have added to our balance sheet is high quality consumer real estate loans. We continue to add salespeople for consumer lending, investment advice and small business lending. And we also increased our spend in marketing via campaign, where our 91 local market teams around the country ask their customers, what they would like the power to do.

Turning to Slide 16. Note that the 5% year-over-year improvement in revenue was driven by NII, while card income was down modestly year-over-year, card spending grew 5% more than the prior year, which on its own was a strong quarter given elevated spending driven by tax reform last year. Versus Q1, we saw an improvement in card income driven by solid purchase volume. We continue to expect higher rewards to dampen card income, but would also remind you that we use awards to deepen relationships with a focus on total customer revenue not just fees. Enrollment and Preferred Rewards increased to $5.7 million and now represents 65% of the eligible opportunity and our retention rate of these customers is now 99%.

Balances with these customers grew 11% versus Q2 '18. With respect to service charges, they were also down modestly year-over-year, again this quarter, we faced the headwinds from actions we took in previous quarters that reduced customer penalty fees. However, as with card versus Q1, we saw a modest improvement in service charges.

Turning to Global Wealth and Investment Management on Slide 17, strong results were driven by new investment accounts and more traditional banking products as well as the markets rebound in the quarter. Referrals from across the company also gained momentum. Net income which approached a record level was just over $1 billion and grew 11% from Q2 '18. Pretax margin was a record 29%. The business created 240 basis points of operating leverage year-over-year, as revenue increased more than 3% and expenses grew 1%. Within revenue, positive impacts from banking activities and higher rates, growth NII higher, while fee improvements from AUM flows and market valuations more than offset general pricing pressures, with respect to expenses higher revenue related incentives as well as continued investment in new advisors, technology and brand were modestly offset by lower intangible amortization and deposit insurance costs. Digital used by affluent clients continues to gain momentum as mobile usage once again grew double digits year-over-year. For example, GWIM clients used e-signature twice as much as they did only a year ago.

Moving to Slide 18, GWIM results reflect continued solid client engagement in both Merrill and the private bank, strong household growth in both businesses, contributed to the $2.9 trillion in client balances. AUM flows were $5 billion in Q2 or $24 billion over the past four quarters, contributing to record AUM balances, which rose 6% year-over-year to $1.2 trillion. On the banking side, deposits of $254 billion were up $18 billion or 7% year-over-year driven by client growth and the desire by some clients to hold more cash amid the market uncertainty.

Linked quarter deposit outflows reflected seasonal tax payments by our customers. Loans were 3% higher year-over-year, reflecting strong mortgage growth given the decline in rates. We also saw good growth in custom lending. With respect to client activity, one thing worth noting is the increase in client referrals both to and from mail in the private bank advisors. This quarter we had nearly 15,000 referrals, two advisors from other parts of the company, and advisors made more than 58,000 referrals back to our other LOB's. In Q2, these introductions added $7 billion to client balances in GUM and help us grow households.

As you turn to Slide 19. I know many of you look at Global Banking and Global Markets on a combined basis. So to help you with your comparisons, I note as I did last quarter that on a combined basis, these two segments generated revenue of $9.1 billion, $103 billion in Q2, which is nearly a 16% return on their combined allocated capital. Looking at them on a separate basis and beginning with Global Banking on Slide 19, the business earned $1.9 billion and generated a 19% return on allocated capital in the quarter. Earnings were strong, but down 9% from Q2 '18, driven by the absence of reserve releases for energy exposure in the prior year. Revenue was down modestly year-over-year as loan spread compression and ALM activities offset the benefit of loan and deposit growth.

Strong deposit and loan growth reflects the hundreds of bankers we have added as well as continued investment in how we deliver our loan product and treasury service. With respect to expenses, lower deposit insurance costs, mostly offset continued investment in technology and bankers.

Looking at trends on Slide 20 and comparing to Q2 last year. As you heard Brian mentioned earlier, we have made steady progress in investment banking over the last few quarters. We saw a nice finish this quarter with IB fees of $1.4 billion for the overall firm, down 4% year-over-year, but up 9% from Q1. This performance has to be put in the context of overall industry fees which according to Dealogic were down roughly 20% year-over-year. In fact, using Dealogic data, our market share has improved across most major products comparing the first half of '19 to the first half of 2018.

Switching to Global Markets on Slide 21, as I usually do, I will talk about results excluding DVA. Global Markets produced $1.1 billion of earnings and generate a return on capital of 12%. Overall, revenue declined 6%, while expenses declined 2% year-over-year. Within revenue euro decline in sales and trading was partially offset by a gain on the sale of an equity investment. Sales and trading declined 10% year-over-year, FICC was down 8%, while equity fell 3%. The decline in equities to $1.1 billion reflects weaker performance in EMEA derivatives compared to a stronger year ago period.

Fixed lower revenue was due to a weaker trading environment with lower overall client activity across most products. The 2% year-over-year expense decline was a reflection of lower revenue related compensation.

On Slide 22, you can see that our mix of sales and trading revenue remains heavily weighted to domestic activity, where a global fee pools are centered. Within FICC, revenue mix remained weighted towards credit products and we had no days or trading losses in the quarter .

Finally on Slide 23, we show all other, which reported a small net profit $358 million better than Q2 '18. There are two primary reasons for the improvement, first, provision benefit increased $136 million from Q2 '18, driven by the non-core loan sale, which as previously noted, resulted in a recovery of $118 million. Second, we had an improvement in our tax rate compared to Q2 '18. The tax rate for the company was 18% in the quarter, a little lower than our expectations. We expect the tax rate in the back half of the year to be approximately 19%, absent any unusual items.

Okay. I think with that, we're ready for some 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 - James Mitchell {BIO 1972127 <GO>}

Hey, good morning, guys.

A - Brian Moynihan {BIO 1517608 <GO>}

Morning,

Q - James Mitchell {BIO 1972127 <GO>}

Hey, just might as well ask the question on NII. Appreciate the guidance for this year. How do we think about, I guess, number one, the impact of just one rate cut? Is it sort of half? Is it linear? And I guess, number two, as we think about next year, the forward curve is realized over the course of the next 12 months, how do you think about that impact into next year? And given the strong loan growth you guys have seen kind of accelerated in 2Q, is there enough asset growth that you can still grow NII in this environment next year? Thanks.

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

Okay. So in terms of just isolating in on a 24 basis point cut on the short end, I guess a crude approximation is the $3 billion impact over the 12 months of 100 basis point down rate shock on the short end. The quarterly impact of that is a little more than $175 million, but it'll be even less than that because that $3 billion is measured relative to the forward curve, which already includes rate cuts. Plus that analysis is just on our banking book. If you include our markets book, which is modestly liability sensitive, you get to the approximately $100 million levels that I discussed in the prepared remarks. In terms of 2020, look, I would say, it's a little early to be talking about 2020. We don't know what rate cuts we're going to get. We don't know why we're going to get them, which is important. So I think as we get a little closer, we will be more likely to be to talk about that.

Q - James Mitchell {BIO 1972127 <GO>}

Okay. Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

Jim, I'd add one thing. Remember, if you think about the industry's thought process over the last three years basically as rates rose, there was one thought process in how people price deposits and other things and as that changes, you'll see a different thought process take hold at least in our company. And I think if you look at some of the statistics and materials on the -- especially on the corporate GTS type business that the necessary increase for the highest balance customers and, et cetera, that's occurred, will slow down and come back the other way. And that frankly, it's just the nature of a change in the rate environment, which the pricing is still catching up to. And so I think -- so as you think about it, as you get out the longer term in '20, you have to think about that situation sort of reversing back to different frameworks than framework we had literally 200 plus basis points of short-term rate increases.

Q - James Mitchell {BIO 1972127 <GO>}

Okay. Thanks.

Operator

We'll take our next question from Glenn Schorr with Evercore . Please go ahead.

A - Brian Moynihan {BIO 1517608 <GO>}

Good morning, Glenn.

Q - Glenn Paul Schorr {BIO 1881019 <GO>}

Hi. Good morning. One quick one on follow-up on cards. You mentioned spending up, margin compressed and the reward costs continuing to be there but obviously producing some growth. Can you talk a little bit more about the reward dynamic? How long the current environment you think lasts? And how you know that it's going to continue to fuel that growth, maybe something a little bit more of growth coming from current customer base versus new ones, things like that? Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

To just to start at the end of your question working backwards, we generated another 1 million plus cards this quarter. We've been fairly consistent doing that. What has really happened in our card business over the last few years has been the continued repositioning, it's really over now and now you're starting to see it's starting to work its way up and grow just in terms of balances and numbers of cards and things like that. If you think about on the reward question generally, remember than you mentioned it, Glenn. It's a relationship pricing piece. So our cards come with a relationship pricing across the whole relationship, including deposits.

So you could have $20,000 of deposits from these customers and so you reward them with a card because that's the way that you can do it, but you're actually getting the deposit. So we'll keep working that. But if you look at the more recent quarterly trend, you're going to see that you've seen the impact decline, although it's still going to hit, but you're seeing that help fuel our deposit growth in checking deposits, especially at 6% year-over-year in consumer and that is a huge payback for the rewards price. So you'll see that dynamic continue. We haven't seen big breakage fees and it's not so volatile. It's kind of steady, but the industry dynamics and how people are using rewards not only for the card activity but also more broadly is I don't expect to change. But in the Bank of America context, we've been using it for the broadest part of the franchise. And that's why you see the good growth in the other parts of the business.

Q - Glenn Paul Schorr {BIO 1881019 <GO>}

Appreciate that. One another one, a follow-up on wealth management. You mentioned new household growth up 45% year-to-date. Are you doing anything specific on incentives to spur that growth? That seems like a big number for such an already big business and the related question is, do you think of there being a ceiling to margins because they're already huge at 29%?

A - Brian Moynihan {BIO 1517608 <GO>}

A couple of things. One, on just on the way the incentive system works. Andy and the team going back two years ago now basically added to a modifier for lack of a better term in the incentive compensation construct for requirement bonus. If you grew your households on the numbers and obviously inverse that if you did not, and that's just led to the activity that you've seen in the pickup and Andy and the team have been done a good job. On the private banking side, we've been adding the sales teammates, and Katy and the team have been driving that. It's been -- it's up dramatically year-over-year and that's critically important because that business profitability dynamics we have a much or even higher and so it does come from modifying the system. And also it comes from the way we operate in the markets on a referral business that is in Paul's comments, you heard that. There's a huge flow between the FSAs that operate the Merrill Edge platform at the branch to the financial advisers.

So somebody comes in as has the amount of assets and desires a financial adviser, we move them to the platform. That happens a lot and then off the Business Banking, small Business Banking, commercial franchise, the entrepreneurs behind those businesses referred over and you saw I think 15,000, I think, was Paul's number towards Merrill. And we track that in every market. We make sure they get executed on the capital success rate, and that energy creates its goal in every market every year. And this year, we'll do 7 million referrals across all the businesses in the markets that we're doing. And so -- and then on the margin, we move to 29 as you see the NII type activities, loans, deposits continue to grow. That margin will continue to grow. We're fighting the fee compression on the pure asset management business that you've seen going on for years in this industry, but we have lots of advantage, scale and capabilities on the digitization of the operational side of that business and platforms and statements and things like that. We're getting to 50%, 60% digital statements in consumer. We're not anywhere near that in wealth management. And all that is not some snap your fingers and overnight it happens, but all the grind to make the business more efficient. So our industry-leading margin, we think we can keep pushing it up.

Q - Glenn Paul Schorr {BIO 1881019 <GO>}

Thanks. I appreciate it, Brian.

Operator

We'll now go to Mike Mayo with Wells Fargo Securities. Please go ahead.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. I was intrigued by your comments about 16 million millennial customers, $200 billion of deposits. And I think that's the first time that you've disclosed that information. So I guess what's the growth rate, profitability of those customers? And as you look at the millennial customer set, what's your assumption for how long they'll be customers with you? Since they're younger and you have more digital banking, do you now assume that they'll be with you, say, 20 years instead of 10 years? And if so, how do you change the price of products for that millennial customer set?

A - Brian Moynihan {BIO 1517608 <GO>}

One of the things, and I don't want to sound pervicacious in terms of people's views of big banks don't do big business with millennials, it's just to set the tone, we put the 16 million and give me $0.01, $400 billion of client balances with this. But if you look at our checking sales, Mike, and you look at the population representation of millennials in the population, Gen Z and the population, you look above 18 years old, and millennial is about 24% and people between 18 to 24 is 11%. But if you look at the rate we sell to that class of our sales to millennials, it's 40% of our sales. So it's basically 1.5 times the rate in the population we're selling to. And if you look at their holding balances today just pure checking, nothing -- not into savings or investment, the millennials hold about, I don't know, $70 billion of checking balances with us, and it's growing quickly. And so we are gaining share in that class. It's because of the digital capabilities and all things we talked about.

Are they profitable? All our consumers basically are profitable. It represents a big part of our business today. The representation is currently outstanding. Checking account is about 40% just from millennials. So we're gaining share in that segment. We've got to be on our toes at all times in this very valuable if you think, Mike, you've been around this business long time, you think about just those checking balances alone provide tremendous value. Will they stay with us? The answer is they have in the past and we expect in the future as long as we keep driving the great experiences we have and going back to the comments on the Page 6 I think is in the slide deck on consumer strategies just look at the activity levels and those are generally would have a stronger cohort to younger below 40-year old people. But on the other hand, across the platform, it wouldn't work. But if you look at it, it was Zelle, the activity volumes you look at with Erica in a year, 50 million-plus customer interactions. And if you look at it in terms of digital interactions that 2.3 billion in the quarter, mobile log-ins 1.5 billion, this is an advanced stage as anybody. And so we are very pleased with the team's work in this area. And then if you go to Merrill Edge, if you look at the millennial balances again, they represent twice the rate of the population and we're accumulating those balances, which when we compare them to other competitors, 64% of our new clients are in millennial categories for Merrill Edge and our preferred clients and things. So it's very good. We're driving it, but it's the competency of the team's capabilities in those categories that drive it.

Q - Mike Mayo {BIO 1494617 <GO>}

And the other question that I had, how long do you assume these customer to stay with you? And how does that compare to the past? And the reason I ask that, you look at some of the offers out there, and you get $400, $500, $600 simply for opening accounts in certain banks. The assumption is that once you get new customers, maybe they will stay with you longer than they would've, say, 10 years ago.

A - Brian Moynihan {BIO 1517608 <GO>}

Well, that goes back to your colleague's question about the rewards and things like that. Our preferred base of customers in the consumer business is a 99% plus retention rate. And so they really all stay with us, and so -- and that's extremely powerful dynamic. So the assumption I don't have it off the top of my head that the team puts in our models and stuff like that, but if you're retaining 99%, it's a pretty long duration.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Thank you.

Operator

We'll take our next question from John McDonald with Autonomous Research. Please go ahead.

Q - John McDonald {BIO 21440002 <GO>}

Good morning. The core loan growth continues to remain solid at 4%, Paul. Are you seeing some improved momentum in middle market and small business? And also the 2% reported is close some of that gap to that core number. I guess as you think about the rundown pace, could we continue to see a narrowing, so that your overall balance sheet growth looks closer to that core?

A - Brian Moynihan {BIO 1517608 <GO>}

I guess, I'll do the second one first. The answer's yes. I mean we have $45 billion in the non-core portfolio. Of that $45 billion, half I would say is sort of legacy home equity and residential mortgages that will run off and/or depending on market conditions, we may see some more sales. The other half is mortgages that our previous Treasurer or CFO bought many years ago. It's -- they're good mortgages. They're going to run off as well. Together, they're running off at about $2 billion a quarter. So yes, I mean, you can just do the math. It's becoming a smaller, smaller component of the overall picture. And as you point out, look, when you look at our LOB's, they were up 4% year-over-year this quarter. And we are seeing, I think, good growth in small business. In fact, I think we're the largest lender to small business companies in the US now surpassing a competitor recently. We're seeing in middle market this quarter, we saw a pickup in growth that really complemented the consistent growth that we've been seeing for many quarters now from large global corporations. I mean we don't see anything on the horizon to suggest that we can't continue to grow kind of what we've been telling you, which is kind of the low to mid-single digits for the company from the business segments.

I'd just add two thoughts to that. One is Sharon Miller runs our small business for us and the consumer business and Alastair Borthwick, who runs middle market, they've got their team sort of moving along and as you said, growing at a consistent 5%, 6%, 7% depending on the product set, type of what's real estates lower versus core middle market. And so we feel very good about that. You remember that the run-off pace in that all other book has been accelerated by the sales over the last few years. And that was to reduce our potential credit risk and stress, and you've seen that we reflected including last year asking for the extra capital return based on selling a bunch of loans during the year, which had higher charge-offs in the CCAR process as you might expect. And then secondly, operating risk of the company comes way down because those loans would have a tendency, and we saw them servicing release. So we're getting to the bottom of the barrel. It's now 4% of the -- 5% of the portfolio. It used to be 8%, 9% of the total portfolio, maybe 10%. So we feel good about that impact really narrowing now. And the sales are largely -- we're always chipping away this quarter with a relatively modest balance, but the sales are largely through the money in the stuff we have now is actually 12 years current pay and the thought that none of these loans were made since the crisis. So we feel good about that, and the last thing is think about in the Merrill side in terms of -- in the private banking side in terms of loan growth. We're seeing solid performance there and the integration in middle market investment banking, we feel good.

Q - John McDonald {BIO 21440002 <GO>}

Great. Brian, I know you touched on this a little bit, but could you talk about your feelings or your ability to maintain the strong checking account growth that you had given the stance on rates paid? What's your outlook for that checking account growth to continue or maybe relative to GDP or to the industry?

A - Brian Moynihan {BIO 1517608 <GO>}

If you look at it, we have maintained that pace. If you look at retail deposit growth since the beginning of '16, I think our gross of balances have grown about 20%. The peer group's grown about 12% and so that's significant difference. We've been pretty consistent, growing $20-odd billion in checking. That is the core transaction account. So if you look at the -- what we're seeing now is the average balance in our checking accounts, I think there 7.5 billion, 7 billion, 7,500, 7,500, 7.7, something like that. 92% current, yet we're still in the last couple of years starting to net accumulate, and so we feel good that we can keep that checking balance growth. It's not dependent on rate paid because of the core transactional account. So even though there's some payment to either interest-bearing checking, the dominant part is non-interest bearing, and it's just the core transaction count. If you look in the money markets and stuff and see the rates, that's where the people get paid for the excess balances, but this is the money that's flowing through the household on a daily, weekly, monthly basis. And we feel very good about it and feel that we can continue it because we have in all the environments and all the rate changes.

Q - John McDonald {BIO 21440002 <GO>}

Great. Thank you.

Operator

We'll now go to Saul Martinez with UBS. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hey, good morning, guys. Couple of questions. First, I wanted to key in on something you said, Paul, on the rate sensitivity. You mentioned -- I know it's a crude approximation, but 25 basis point cut on the short end. It's $175 million a quarter. But that's just the banking book. And you're liability sensitive in your trading book, and I think you mentioned it's $100 million if you kind of net that out. So should we -- is my math right in suggesting that you get something in the neighborhood of a $75 million benefit per quarter for every 25 basis point cut in your trading book? Because obviously, in the past, sometimes, we've kind of looked at your NII growth and your NIM expansion in a rising rate environment. And maybe it hasn't grown as much as we thought because of the headwinds in the trading portfolio. But as short-term rates move down, should we see the opposite of that also occur and some of those headwinds get mitigated by expanded margins in your trading book?

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

Well, I think you're close. But the one piece you're missing is that in addition to being modestly liability sensitive in the trading book, when you look at those disclosures about the impact of 100 basis point shock on the downgrade scenario on the short end, remember, that's below the forward curve.

Q - Saul Martinez {BIO 5811266 <GO>}

right.

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

So you're looking -- you're literally talking about a scenario where short-end rates would be shot down to 75 basis points and long end would be at 1 percentage point. So the -- so that 3 billion obviously -- it gets -- you have more and more impact lower and lower rates go. That's first 20 basis points is not going to be 3 billion divided by 16. So you've got to factor in both of those things.

Q - Saul Martinez {BIO 5811266 <GO>}

No, understood there, but is the logic right, I guess, is my question that you'll get an offset and that offset is sort of in that magnitude of, for every 25 basis point something in the neighborhood of $75 million on the trading book?

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

Yeah, I don't think we're prepared today to give so much guidance on how liability sensitive the trading book is. But when you put all the factors together, you kind of get to roughly 100 basis points -- I mean $100 million on that first rate cut.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

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

And remember, when I went through the script and talked about how that we still end up growing year-over-year, 2019 versus 2018, you've got to factor in loan and deposit growth. We've got the day coming in the quarter. So all those things impact it.

Q - Saul Martinez {BIO 5811266 <GO>}

And you're also baking in a little bit of a benefit, a little bit of an offset then from expanding margins and trading book on the rate cuts in that guidance?

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

Yeah, in that guidance we're putting in a little bit, yeah.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Changing gears. And apologize if I missed it, but did you disclose the size of the gain on the sale of the equity investment?

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

We didn't disclose this -- the equity investment? Trading, yes. No, it was $200 million.

Q - Saul Martinez {BIO 5811266 <GO>}

$200 million. Okay, awesome. Thanks so much.

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

Thank you.

Operator

We'll now go to Steven Chubak with Wolfe Research. Please go ahead.

Q - Steven Chubak {BIO 18457976 <GO>}

Hey, good morning. So wanted to start off with a question on the Investment Banking business. So it was pretty nice to see fee share increasing in the quarter. We had seen some share loss in some of the more recent quarters. I was hoping you could speak to some of the factors that maybe even driving some improved business momentum, whether it's leadership changes or anything else that you could attribute it to?

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

Sure. So just a quick review. Year-over-year, the market fees according to Dealogic were down, I think, 21%. Our reported fees were down only 4%. And if you look at Dealogic fees for us maybe 11%. So clearly, we picked up at least in this quarter meaningful, I would say, market share. I think this is a result of all the things that we said we were going to do, not that we ever had a problem in Investment Banking. But we think we should be top three, and there was a little bit of slippage there. And so we just reinvigorated the focus. We decided to add more bankers, particularly to cover the middle market. Remember, we have an army of corporate commercial bankers out there. They have great relationships. They've been making loans to clients for years and there's certainly an opportunity when those companies need to do something, need to use Investment Banking products for us to be there. We just needed to probably add a few more bankers dedicated to that segment. We've done that. We've got regional bankers now all around the US. We're going to be adding more. They're in the market with the commercial bankers. And that and I think just the reinvigoration from the leadership team across Global Corporate, Investment Bank and Commercial Bank and Business Banking, I just think is having an effect.

Q - Steven Chubak {BIO 18457976 <GO>}

Got it. Helpful color. And then, Paul, just one more for me, and it's on the topic of NII. I mean a slightly different tack. There's obviously pretty heavier lines across the industry on the 10-Q disclosures, which I know are inherently flawed. It's a very static snapshot. So maybe if you can speak to some of the factors that are driving more benign impact in terms of the rate sensitivity that you cited versus was explicitly disclosed in the 10-Q, whether it's volume growth, some issues relating to your comparing it versus the forward curve, deposit offsets or anything else you can speak to?

A - Brian Moynihan {BIO 1517608 <GO>}

Just one thing to be precise. Paul said a couple of times, but gets lost sometimes, and I'll let Paul get into the broader statement. When we disclose it, minus 100 basis points shocker down, 100 basis points across the curve, that is on top of what the forward curve has in it. And so sometimes people get confused by that because they think it's from the current rate -- stable rate environment we see today minus 100. It's actually in the case of forward curve having the rest of the year two cuts in it, it's 50 off and then another 100 off. And so that dynamic Paul's mentioned twice to sort of make sure people don't get ahead of us. But Paul can take you through the broader factors, but just be careful that you're not making that miscalculation, which we've seen other people do. We're not seeing you have, but other people have.

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

Sure, look, I'm not sure what else I can add. I mean, if you think about our clients, right, you've got GWIM client and Global Banking clients where if rates change, the pass-through rate on those clients are going to be roughly the same up or down, right? And you've got consumer clients where because of the great job we've done on rate paid in the cycle, there just isn't a lot of room on the downside. But if rates go up, there's probably a little bit more pass-through. So that's the dynamic we're living with. On top of that, you've got to factor in when long-term interest rates go down. The quarter later or the month later, you're going to see an impact. That doesn't continue forever. It's only an impact when the rates go down, you get a live effect on some increase in write-off of premium, and so that's what's going on.

A - Brian Moynihan {BIO 1517608 <GO>}

Paul, just on that this quarter, a couple of basis points in the compression due to the amortization in the premium, which goes away next quarter if rates -- if the tenure doesn't fall by 50 basis points again during the quarter. So and another basis points sort of seasonality. So when Paul's talking about some of these sort of spot issues earlier on, of the 7 basis points, 3 of it is really just literally a quarterly effect that goes away. And that's where you think as you think about it go back to all the factors, you listed loan growth, deposit growth, deposit pricing, loan pricing, but then the twist in the market when things change simultaneously could have a quarter effect and go away next quarter as long as rates don't move in the same velocity that they moved this quarter. And those are -- that's why that we're always careful about these estimates to make sure people understand the online bases. Now one of your colleagues said earlier, the coal clue this is we've got to grow loans and deposits. We grew $70 billion in deposits year-over-year. We grew $30-odd billion in loans. The rest of the deposit is going to securities. That is the core business, and that will drive the earnings power this company and average earning asset growing and that's what we're up to. That will ultimately make NII grow. The question is the twist and turns along the way can be a little different.

Q - Steven Chubak {BIO 18457976 <GO>}

Very helpful color, Brian. Thanks for taking my questions.

Operator

Our next question comes from Matt O'Connor with Deutsche Bank. Please go ahead.

A - Brian Moynihan {BIO 1517608 <GO>}

Good morning, Matt.

Q - Matthew D. O'Connor

Good morning. You mentioned earlier about some puts and takes on the expenses and gave guidance for this year to be a little bit below what you have thought a few months ago. But what are your thoughts kind of beyond this year? I think at one point, you have said try to keep costs relatively flat at $53 billion. And then you did mentioned if I think you're alluding to, call it, capital markets-related or volume-related areas those were weaker, there is some levers to pull on cost. But if it's just a lower rate environment, is there other area on the cost side that you can pull in? So I guess question, kind of stable rate environment your base case, what are you thinking on costs and then if the revenue shortfall is just rate driven or there's some areas that you can tie in? Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

So I think if you think about it over the last two years plus, I think we run around $13.1 billion, $13.2 billion, $13.3 billion of quarterly expenses except for one quarter we had $13.8 billion, which is sort of the seasonality of strong markets quarter plus. It was the first quarter with the, if I can stuff like that. So basically, we've got this thing at a run rate, and so -- but you've got to remember in '19 that run rate has picked up if you go back to when tax reform came through, we said, we put $500 million more in the technology investment platform, Chuck ran through last year and about $200 million or $300 million of its run through this year. So that was increased expense. We said, we did the share for success. We did over $1 billion in the two programs. There was a near-term cost to it, and then there was an amortization of the deferred parts of the stock that's all in the P&L today.

And then you have incentives in rent and all the other stuff benefits. And with all that, we thought we'd be 53 2, 53 3 this year and Paul's told you basically to assume that we'd be closer to 53 with all that going on and all that extra investments. So if you go back to '16, when we said, we're running at 50, I don't know, seven or six or whatever we were, we told you we'd be 53, low 53 is what we believe this we got here, we've invested a lot more, and we still are running at 53. That is the inherent ability of the New BAC, SIM operational excellence or health, which not -- doesn't mean a lot to tell you, but the team mates with listening will understand all that allows us to keep driving the relative efficiency of the company.

And even in environment where the world is kind of say goes on, you have 2% growth, we know there's more we can do. What we don't want to do is to get ahead of us because frankly, the investment year-over-year in marketing was $150 million last year's second quarter, this quarter, additional in the quarter. That won't sustain at that kind of level, but it's part of driving that customer satisfaction delight scores through the roof, which that means those that millennial accumulation accounts twice the rate of population, which then turns into customers to Mike's point of the future that the digital comp they allows us to serve more efficiency, which then drives down the efficiency ratio. That is the operating model. And so those investments pay back, and they'll redound to our benefit. But that said, we're saying, we gave you a flattish from '18 to '19 to '20, and we're basically saying you don't push '20 down yet your models because we will see what happens.

But right now, we think '19 is going to come in a couple of hundred million under what we said, which is just by the teammates here is good management. We didn't do anything, we didn't pull any lever. We just kept driving the basic efficiency this platform through and we'll continue to do that. And if that comes into be lower than the number we're talking about for '20, and we get there it's going to go to you. But importantly, as we shouldn't change our investment strategy, our belief and our Board's belief and our shareholder's belief, frankly, is don't change your investment strategy because right now, you're seeing the market share accumulations comes, that you wouldn't change pick up expenses by $100 million in the quarter, $0.01 wouldn't make good, but the investments are long-term strategic drives that are happening.

And just on the Investment Banking adding 50 middle-market investment bankers and adding -- doubling that again over the next couple of years, those are paying us back.

Q - Matthew D. O'Connor

Okay, that's helpful. And then just separately, the CCAR ask and approval impressive $30 billion as you mentioned earlier, do you plan to use all of that? And should we assume the timing if you do apparently you use all that is spread even or do you have the flexibility to front end if you wanted to?

A - Brian Moynihan {BIO 1517608 <GO>}

Yes, we plan to use all of it and it's spread equally over the quarters under the way the method works and the sort of the guidance they gave you. So it's spread evenly over the four quarters, and yes, we plan to use 100% of them.

Q - Matthew D. O'Connor

Okay, thank you.

Operator

We'll now go to Ken Usdin with Jefferies. Your line is open.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Thanks. Good morning, guys. Brian, you mentioned in your opening remarks just how strong credit is and expected to continue and you guys have talked about charge-offs kind of living in the $900 million to $1 billion range a quarter. We went under that even this quarter. So can you just talk about is there any reason why we should see any change in this kind of $900-ish million run rate even with card losses or barely even moving as is? Just an update on what you're expecting would be great. Thank you.

A - Brian Moynihan {BIO 1517608 <GO>}

I'll let Paul hit that one just because he talked about it. Go ahead, Paul.

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

So you're right. Net charge-offs were lower than $1 billion this quarter, but that's because we wrote back up charge-offs we took earlier associated with the loans we sold this quarter. So if you backed that out, it's approximately $1 billion of net charge-off. And that number we think is a good number, approximately that number. It'll bounce around because we're bouncing around the bottom and commercial. So one commercial client or another can always move things, but it's been $1 billion now or up to $1 billion now for many, many, many quarters. And if we see the -- if we think the environment stays the way it is, that's what we think it's going to be and then provision will follow that.

Q - Unidentified Participant

When you think about it cards the number, right? And if you look at our live charge-off rate, because sometimes grow. We're basically consistent with our current charge-off rates it's a stable portfolio, stable credit. And at the end of the day it's 80%, 90% of all the activity and you've seen that basically be fairly consistent, and this year is the lowest increase in card year-over-year since 2013. So that prime focus book, that primary customer account basis, the combined reward borrowing leads a very strong customer base there. So we feel good about credit, and our view of the economy is continues to move along in the low to mid-twos. That's what the research team has and then next year around two and given that we would not see a change.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Okay, got it. My second question is just on the preferred stack, you guys did some issuance, and I think some either pending or calls. Can you just talk about just at least where you expect the preferred dividend to lend going forward? And is there a more opportunities to refinance that part of the capital stack?

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

Well, we never really like to talk about plan stuff. But in terms of the preferred stack, we're going to end up roughly the same place where we started because we're just reducing the cost of that preferred stack by calling some higher yielding preferreds in place of lower-yielding preferreds. So in terms of the dividends in the first quarter and the third quarter, we're kind of approximately in the 440 range and in the second quarter and the fourth quarter we're kind of in the 240 range. That could fluctuate a little bit because it's based upon -- some of them are based upon floating rates. But on the other hand, some of those get forward after a while as well.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Got it, okay. Thank you.

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

Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

Thank you.

Operator

Our next question comes from Gerard Cassidy with RBC. Your line is open.

A - Brian Moynihan {BIO 1517608 <GO>}

Morning, Gerard.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Good morning, guys. How are you? Paul, I may have missed this. I apologize if you addressed it already. Can you share with us how you're managing the CET1 ratio with the stress capital buffer that may now be included in next year's CCAR? Have you guys run the numbers? And what is your CET1 ratio comes out under the SEB?

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

Well, our CET1 ratio and our ratio right now is 9.5. And we don't know what the final rule's going to be yet. But if you look at the past four years and you run using those scenarios, CCAR scenarios, our SEB would be below the 2.5% floor in three of the last four years. And that's just a reflection of responsible growth and how we run the company. We've got loans to consumer that are prime and super-prime. We have very prudent trading, and we've got a legacy portfolio that's running off. So we're below, we've been below for three out of the last four years.

A - Lee McEntire {BIO 6651246 <GO>}

And to be clear, this is Lee. What Paul said, our CET1 was 11.7% and our minimum requirement, which is what he was referring to is the 9.5%.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. And then, Brian, I know you had talked about the economy from what the research has said at Merrill Lynch, but can you share with us what your business customers are saying to you about their outlook? Obviously, the consumer numbers speak for themselves. We all see the employment numbers, which are very strong, but what are you guys seeing both in small business and midsized and larger businesses?

A - Brian Moynihan {BIO 1517608 <GO>}

So the core loan growth is strong. The usage of lines is good. It's running near the high levels and stuff. So the activities there. I'd say that depending on the type of commercial customer, the more they're in the global trade international supply chain, whatever, words the more they have China slow down if that's 20% of the business, they're dealing with that. But they're all sanguine. They all feel good. They all would wish the discussions with trade would come to a resolution and reestablish the relationships and the flows because the fact that the current impact is one thing. The fact that belief that there's future impact. So I'd say they're optimistic. They're struggling to get people because that's the thing we're lacking in the US, especially. They see their business plans not being as robust as they were in '18, but still solid growth, but they continue to watch the headlines daily trying to figure out if these situations are resolved. And I think there's pent-up enthusiasm at the situation start to fall in place that you'll hear more investment business and things like that. On the other hand, there the initiatives in our surveys about their confidence are basically more consistent where they were as they are coming up to the peaks that hit in '18 right after tax reform, i.e., where they were in '17. So they've kind of come down a little bit, but the levels are as high as anytime they've been other than there's tremendous business enthusiasm came out of the year in '17 and early '18 between regulatory reform and tax. That has been mitigated by the trade discussions and uncertainty around them, but overall they are solid. And I think they're sort of waiting for this to resolve and then they'll get back and they'll pushback and accelerate again. Right now, they are staying within the speed limits to say that.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you.

Operator

And we'll now go to Brian Kleinhanzl with KBW. Your line is open.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Great, thanks. Yeah just a quick question on the NII sensitivity that you gave. What were the deposit beta assumptions behind those? Are you being conservative? Just trying to get a sense there.

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

Sure. So again, the way to think about it, and I'll give you a little bit more detail, but just to get the concept down, we've got GWIM clients, we've got Global Banking clients that pass-through rate on an up-and-down scenario of roughly similar, and we've got a consumer franchise where we have not passed through a lot of rate increase in the former rate paid. That's obviously going to have a different sensitivity in the up scenario than in the down scenario. That's just the basics. So if you look at the pass-through rate and the down scenario an average we're talking approximately 40%, and again, consumer would be a lot lower, GWIM and Global Banking would be a lot higher kind of in 60%, 65% range.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Okay, great. Thanks.

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

Thank you.

Operator

And we'll now go to Kevin St Pierre with KSP Research. Please go ahead.

Q - Kevin St. Pierre {BIO 7097174 <GO>}

Hi, good morning. Thanks. Going back to the mobile and digital trends that you're obviously really strong, but looking backwards over the last several quarters, your tax spend has been pretty flat, and you mentioned that tax spend is likely to increase. It's that a reinvestment constant investment in the mobile and digital channels?

A - Brian Moynihan {BIO 1517608 <GO>}

Yes, we've been consistent. It's been -- I think what I said is we elevated tax spend after tax savings, and then we've been relatively consistent. One of the things I'd say that we're receiving a benefit as we think about that number, if you think about the combination of money spent on Brexit, broker-dealers separation for resolution planning and a bunch of other initiatives like that, we can reposition that money more towards offense over time, and that's been good and as we look forward in the next couple of years, the flat number actually provides more pop for lack of better term, and our teammates always happy to hear that.

But these things are impacts that compound. And so I'll give you an example. If you look at digital mortgage, which the $3 billion were digitally originated this quarter of the $18 billion so it's growing. But it took us a year, a little over a year to do first $1 billion. It took us eight weeks to do second $1 billion. It took us six weeks to do the third $1 billion. So what happens with these implementations is the technology investments made and then it ramps up and what's really happening in digital mortgage remember is this actually saving us a lot of money in origination process as well as be a good client experience, and so you take that or take Erica, which is now moved to several million customers. You can see with 50 million interactions first year, but each month is growing.

Business, small business went out, and it's going at 50% a week type of numbers, even though we haven't told people it's out there and things like that, and so Zelle growing $100 billion year-over-year. Checks written are coming down more effectively. All this really points to the compounding effect of that digitization. So that consistent investment renders benefits two, three, five years out, and that's what we're driving that. So we'll be consistent in our investment. There's only so much you can do. We do about 1 million lines of code in every weekend and conversion, so to speak, and you've got to be careful you don't have a problem. And we've not going to want -- Kathy and the team have done a great job. We haven't seen any issues. We've implemented tremendous new code, so to speak, over the course of years here, and so we are bound more by what we can get done and getting the benefits out of it than we are by money.

Q - Kevin St. Pierre {BIO 7097174 <GO>}

Great. And I noticed the digital appointment continue to grow really strongly. Are you at a point where and I noticed that sort of year-over-year and sequentially, your financial center numbers are pretty stable. Can we assume that the foot traffic that's being driven you make sure you think you're at right critical mass of financial centers? Or can we expect over time continued consolidation and rationalization there?

A - Unidentified Speaker

We'll see the numbers not be as dramatic from the 6,100 to the 4,300 obviously, but it's a complete distribution system. So the ATMs have gone from 16,000 up to, I think, 18,000 or something that number now. Rates have come down. The branch are completely different. They're bigger. They have more people in them, people go to them because of more complex needs, et cetera, versus take the transaction side and take the check and deposit. So we're driving more colocation. But if you think about the real interesting news is remember at the end of the day, we have the number one retail deposit share in the United States. We're growing faster than everybody else, but we're still not in several markets in the top 30 markets, and that's we're building out, whether it's Indianapolis, whether it's Minneapolis, whether it's Denver, whether it's now Cincinnati, Columbus. And we are in Pittsburgh, and there is many other cities in the top 30 and top 50 that we have to figure out how we drive the configuration against them over the next piece of time here.

So the actual branch count may have different elements than you have thought going back to the constant down. But you see it drift down a little bit net-net, net because even major cities, the consolidation branches into bigger enterprises is colocation with Merrill teammates, Business Banking teammates, their small business teammates and private banking teammates as part of the drive. So don't get so focused on that. What I would get focused on is actually the cost of operating the platform. And if you look at that year-over-year, it fell by 4 basis points as a percent of deposits. That is phones. That is everything. And if you think about that, if you add that in the cost of deposit rate paid, you're basically flat year-over-year in total cost of goods sold for lack of better term to produce this wonderful transaction, franchise and consumer and then you throw the loans franchise on top of it and the investment franchise on top of that, it is a powerful engine. But it's a combination of everything that we -- that I just talked about not five plus branches or four less this.

Q - Kevin St. Pierre {BIO 7097174 <GO>}

Great. Thanks very much.

Operator

And we'll now go to Vivek Juneja with JP Morgan. Your line is open.

Q - Vivek Juneja {BIO 1505553 <GO>}

Hi, thanks for taking the questions. A couple of questions. Firstly, since there was -- you pointed out, Brian and Paul, a couple of times about making sure that we take account of the fact that your NII guidance is based on over and above the forward curve. So let's step back given that, that may not be as realistic or likely to happen. What is the outlook for NII if the forward curve is realized when you look over 12-month period? I know you've given us second half, but just these things are not linear. Can you give us a sense of what would that be on NII -- what would NII do with the forward curve being realized?

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

I'm not sure, I quite follow your question, Vivek. But just to be very clear...

Q - Vivek Juneja {BIO 1505553 <GO>}

Sorry, go ahead.

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

The asset sensitivity of the company, those disclosures that you read in the Q, that is in excess of the forward curve. When we were talking about earlier in this call somebody asked about what was the next 25 basis points, and we went through what we thought the impact of that was.

A - Brian Moynihan {BIO 1517608 <GO>}

Right, and I think Paul's statements early in the prepared remarks are exactly what you're saying, which is stable rates and follow the forward curve with the rest of '19. He gave you the 3 billion to 2% goes to 1% growth '18 to '19.

Q - Vivek Juneja {BIO 1505553 <GO>}

Right. Right. Now, you've give that for '19. And I might guess asking for a fuller 12 months rather than just simply the second half, Brian.

A - Brian Moynihan {BIO 1517608 <GO>}

Well, we said as we watch what happens over the next few months we can do better. We'll have a better view of giving you '19 or '20, excuse me, but you think of the run rate exiting '19 at that level, and you can add two more quarters to it. But loan growth, deposit growth, whether the cut comes, when it comes, those are all factors in there. So I think Paul said, we'll talk about that next quarter when we know a little bit more.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay, okay. So let's move to another one. Residential mortgage loan growth accelerated sharply this quarter far more than we've seen in the last couple of years, actually probably in dollar mark double of what you've seen in any quarter, and that's despite lower rates and more refi. So are you holding onto some conforming? Or is there such a sharp increase in jumbos?

A - Brian Moynihan {BIO 1517608 <GO>}

We have held old mortgages for six, seven years now.

Q - Vivek Juneja {BIO 1505553 <GO>}

Even the conforming?

A - Brian Moynihan {BIO 1517608 <GO>}

We basically sell the FHA VA that everything else that goes on, on the balance sheet because frankly, the risk in our mortgage portfolios are worth passing to someone to take the risk away from us. And so the increase is just due to purely the origination platform basically went from $5 billion last year second quarter to 18 this quarter, maybe 9 last quarter -- year, so that all goes on and increases the growth rate and then we're not also in the aggregate sense, remember we're not selling as much out of the portfolio and the current environment, but we have not sold mortgages to the secondary market for years other than the FHA VA product.

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

Remember we're focused on prime and super-prime. These are our customers. We feel good about the risk.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay. Got it. One tiny detail. Trade rev gain I know $200 million was the amount you gave. Is that included in other income? Or is that actually in trading?

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

That was not included in the external sales and trading numbers that we presented in the -- apparently discussed today, and presented in the materials. It's in other income in Global Markets. So it's in the revenue, but not in sales and trading.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay, great. Thank you.

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

Thank you.

Operator

We'll now go to Andrew Lim with Societe Generale. Please go ahead.

Q - Andrew Lim {BIO 15232581 <GO>}

Hi, thanks for taking my questions. I'm just looking for a bit more color on the net interest -- sorry, the deposit side in terms of mix and rates. So this is related to Slide 9. So we see here net interest-bearing deposits struggling to grow. Interest-bearing deposits growing quite nicely, and that's very much emanating to what's going on in the Global Banking side. So just wondering if you can talk a bit more about competitive dynamics as to why it's a bit more difficult to grow your non-interest-bearing deposits, especially on the Global Banking side? And then my second question is relating to the interest-bearing deposit side. So if we look to the supplement and the interest rate paid that's gone up by 4 basis points, could you talk about what's driving that it sounds like the beat is going up there? And then how would you expect that to develop in a declining rate environment? And then my third question is that your interest rate guidance and on the yield, is that based on a static deposit mix? Or do you think into accounts some further mix shifts as we've seen there?

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

Okay. Well, let's start with non-interest-bearing deposits, and you'll have to help me remember your questions as we go through here. So on non-interest-bearing deposits, we are growing non-interest-bearing deposits in consumer. We're growing low interest tracking in consumer. Those are -- that's really where you find conceptually the non-interest-bearing deposits on the company. In Global Banking, we have interest-bearing deposits and non-interest-bearing deposits. But remember, we're paying ECR on the non-interest-bearing deposits. The -- as interest rates rise, corporations that we're very comfortable leaving excess funds in their non-interest-bearing account when rates were lower, they just get a little bit more careful, and they only leave what in their non-interest-bearing accounts what they need to do their transactions. Think about it as like the daily sort of transactions that those clients need to do. And any excess liquidity they're probably pushing into non-interest-bearing plus outside the US, they don't really have the concept of non-interest-bearing and interest-bearing. It's all interest-bearing. So what you should focus on is the fact that we grew deposits in Global Banking 12% year-over-year, that reflects the sophistication and value we're bringing clients from that treasury services platform, and it reflects the bankers we've added and the relationships that they have in the US and around the world, 12% growth in a kind of is going at 2% feels good to us. So that's I went into the first question. What was the second question?

Q - Andrew Lim {BIO 15232581 <GO>}

The rates on your interest-bearing deposits. As we look to your supplement disclosure then I think we're looking at US interest-bearing deposits the rate they're going up 4 basis points from 73 to 77?

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

Yeah. I mean that is probably just reflects the mix shift that we've just been talking about in Global Banking. And there wasn't a lot of increase other than maybe a little bit of exception pricing in consumer. GWIM, I think, was relatively flat. And in Global Banking when you have a mix shift, you're going to see since more deposits are going in to the interest-bearing, you're going to see an increase in the overall deposit rate of the company.

Q - Andrew Lim {BIO 15232581 <GO>}

And would you expect that mix shift to continue going forward?

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

I don't know if it's going to continue. It depends on the rate environment.

A - Brian Moynihan {BIO 1517608 <GO>}

Remember, it really is a question of looking at the different businesses because consumers had checking growth 41 consecutive quarters. So you should expect the trends there to continue like we said earlier in our call. With institutional business, the Global Banking business as rates move, you saw movement, and then that movement will stabilize as rates stabilize or if they come down, you actually see the thing come back the other way a little bit. And if you look in the wealth management sort of halfway between, and you have to then think about the use of cash, some as transactional, some as investment oriented, i.e. trying to get the yield on it and where people put money depends on that, and that becomes more exacerbated and more prevalent in the wealthy part of their consumer client base than in obviously institutional client base. So we do use when we make our estimates, I think it was the third part of your question, we estimate mix as deposits, deposit growth by categories, deposit growth by business line, and we think of all that. And all that is factored into the question Paul -- discussion Paul had with you. I hate -- I don't want to be stubborn here, but you've got to remember that you back up and think about it. $70 billion of deposit growth all hugely advantaged cost of funds, all with core customers is what we drive in this -- in one part of our business here. That is a tremendous impact, and half of it from consumer side and then $20 billion in checking in our consumer deposit segment. These are massive growth engines that have exceed the size of many institutions.

Q - Andrew Lim {BIO 15232581 <GO>}

That's great. Thanks very much.

Operator

And our last question today is a follow-up from Mike Mayo with Wells Fargo Securities. Please go ahead.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. Your AOCI, I guess, it got better by what, $2.5 billion linked quarter. So that's good. You guided for lower NII growth this year. Investors don't necessarily like that. So I guess I'm asking you, this environment with lower interest rates, I know investors don't like guidance, lower or spread revenues, but how do you think about it? Because while you have lower guidance for spread revenues. You also have better values of those securities, better AOCI, better capital and better book value. So when you look at that trade-off, how do you think about it? Do you think on monetizing from those securities gains? Do you get as worried as investors you say, hey, this is fine. You look at the economic value of the firm. We're not paying attention to a few basis points here or there.

A - Brian Moynihan {BIO 1517608 <GO>}

We look at the long-term, Mike, as you're well aware and going back to your earlier question. So we always look at what the most efficient use of all the dynamics you talked about and -- but we're not here to trade the balance sheet. We're here to let the customer activity come through it and then optimize that for the shareholder, but -- and so the AOCI account this quarter, people always forget about that that's the offset to the NII debate with lower rates going forward is the current long-term securities you have or what's more. We invest every quarter about half treasuries and half mortgage-backed, and those treasuries are now advantaged when from the last whatever period of time. And so we don't try to say let's try to get a $0.01 here as you said because at the end of the day, we're driving that long-term value of the franchise. So I think the spirit of your question is, do you manage the company for the long-term value? The answer is absolutely yes. And did we -- are we mindful of trying to optimize things on a given day, month, week, quarter? Yes. But the reality is that we always make decision for long-term value of the company. And the real solve here that you referenced is our capital keeps growing even though we're returning 100% of it, and we have an excess for many of the constraints in the CCAR that is it tens of billions of dollars and we're going to return part of that, that's driven by how we were in the company for the last decade not how we ran in those week, and we're getting the payback for that.

Q - Mike Mayo {BIO 1494617 <GO>}

And then last follow-up. Just the total discussion where interest rates assumes that maybe we're going to head into recession, maybe activity slowing down, you have better data that we have. So what's your read on the economy? What's your overall read just on being conditions for you to do business?

A - Brian Moynihan {BIO 1517608 <GO>}

We don't see any condition. If you think of the US economy is two-third is driven by the consumers. And if you think about the employment levels, the job counts, you think about the wage growth, you think about the wage growth in our firm, which exceeds the national averages by 2 and 3 times. A lot of my peers I talked to and not only in our industry, outside it, wages are paying their teammates are much higher. They are sharing the benefits of their success. We do not see anything that says the US consumer in our business is spending 5% more plus than they did last year for the second quarter. It has grown first quarter, second quarter. It is accelerating and in a borrowing good shape, we don't see anything consistent with a recession. What we can see is consistent with a 2%-plus growth rate versus a 3% growth rate largely due to the impacts of some of the benefits of tax reform and things running through the economy last year. And so we feel very -- it's very solid, and so yes, there's a slowdown, but that slowdown was predicted by everybody and now you're seeing it evidence, but you're actually seeing a pick up a little bit in the consumer side from first quarter to second quarter, and we'll see how that plays out, Mike.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Thank you.

Operator

We have no further questions at this time. It is now my pleasure to turn our call back over to Brian Moynihan for closing remarks.

A - Brian Moynihan {BIO 1517608 <GO>}

Thank you very much for your time and your interest in our company. We had a strong quarter of record earnings. We have continue to manage it the right way. Growing responsibly by driving customer growth, by managing the risk well and by investing in a franchise on a sustainable basis. We'll continue to do that. We're monitoring the environment is the question that Mike just said in terms of focused on, any condition we see what we have to change the operating model, but we continue to deliver good share of value and plan to push the capital back to you that comes off this wonderful franchise that we have. Thank you.

Operator

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