Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Betsy Graseck
- Charles Peabody
- Gerard Cassidy
- Glenn Schorr
- Ken Usdin
- Matt O'Connor
- Mike Mayo
- Steven Chubak

Presentation

Operator

Good day, everyone and welcome to the Bank of America Second Quarter Earnings Announcement. 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. (Operator Instructions) Please note today's call is being recorded.

And it is now my pleasure to turn the conference over to Lee McEntire. Please go ahead.

Lee McEntire {BIO 6651246 <GO>}

Thank you, Catherine. Good morning. Thank you for joining the call to review our second quarter results. Hopefully, you've had a chance to review our earnings release documents. As usual, they're available, including the earnings presentation that we'll be referring to during the call, on our Investor Relations section of the bankofamerica.com website.

I'm going to first turn the call over to our CEO, Brian Moynihan, for some opening comments. And then, Paul Donofrio, our CFO, will cover the details of the quarter. Before I turn the call over to Brian and Paul, let me just remind you, we may make some forward-looking statements and refer to non-GAAP financial measures during the call regarding various elements of the financial results.

Forward-looking statements are based on management's current expectations and assumptions and they're subject to risks and uncertainties. Factors that may cause actual results to materially differ from expectations are detailed in our earnings materials, our SEC filings on our website. Information about the non-GAAP financial measures, including reconciliations to US GAAP, can also be found in our earnings materials that are on our website.

So with that, let me turn it over to you, Brian. It's all yours.

Brian Moynihan {BIO 1517608 <GO>}

Good morning and thank all of you for joining us and thank you, Lee. Today, Bank of America reported $9.2 billion and after-tax net income of $1.03 per diluted shares. These results included a few items worth highlighting and I'm on Page 2, ahead of Paul going through the details.

First, as the asset quality continue to improve and economy continue to recover, we released $2.2 billion of credit reserves established in the first half of last year. The idea that a company with our credit quality and other industry participants would be releasing reserves this quarter is not new news, but the reality is, at BAC, we're seeing credit quality levels that are very strong. Net charge-offs fell to 25-year low as of percentage of loans not just raw dollar amount.

Let me mention a few items that don't really were industry-wide or expected at BAC. We've recorded a $2 billion positive income tax adjustment following last month's enactment of an increase in the UK corporate income tax rate to 25%. This required a remeasurement of our deferred tax assets, which just reverses the write-downs from previous years when the tax rates were lower. In addition, our expense level included two things I would note, these add up to about $800 million.

With our strong results and the tax benefit, we took the opportunity to pre-fund $500 million to our charitable foundation. This accelerates our plan funding for not only rest of this year, but the next year as well. This is not new money, just utilizing some of the tax benefit to cover future expense. We also recorded roughly $300 million of expense associated with processing transactional card claims related to state unemployment benefits. This represents, to a large degree, a catch-up as we move through claimed by backlogs.

Away from these IOC, we produced another quarter of solid earnings and showed evidence of good client activity in an economy that continues to recover from the pandemic. Now, as we all know that the healthcare crisis has shown improvement and economy has recovered. Progress on vaccinations along with the continued support of fiscal monetary policies has promoted a full and speedy recovery and a return to economic health.

We, like others, are reopening our facilities and we're seeing more products being sold by our teammates in addition to the continued digital engagement at very high level. Our advisers, and bankers, and relationship managers are once again meeting with clients face-to-face, building even stronger relationships. We are seeing customer demand continue to grow given the opportunities our companies see.

I want to take a minute or two on the economy, in that -- if you go to Slide 3. We have included a few slides highlighting our customer data, let me hit a few highlights. The GDP growth estimates by our BofA Securities Research team for the second quarter stand at 10% and stand at 7% for the full year 2021. The re-openings further driving projections of an economy has continued to grow at a rate above the pre-pandemic periods into '23.

Also, the unemployment rate dropped below 6% this quarter, projected by economies to continue to fall. We've also noticed ability to increase consumer spending from our own BAC customers, which is not only much higher than same periods in 2020, which you would expect, but is notably 22% higher than the first half of '21, compared to 2019, and you can see that of all right of page. That's growth rate '19 was already growing strongly before the pandemic.

A few comments regarding the characteristics of this spending, I think are interesting. We are halfway through the year and the total payments through all the different means were $1.8 trillion, that's 60% of last year's level. Last year, indeed, was a record even though it was suppressed in various periods when businesses were shut down. More specifically, for the second quarter, the total BAC consumers fall business payment set a fourth quarterly consecutive record, reaching $976 billion, up 41% year-over-year and 23% over '19. The trend has also continued into early-July.

Spending consolidators, COVID vaccinations increased business reopen and domestic travel increase. Combined spender retailers and services comprises over 50% of debit and credit card spending, a portion of the total spend. That increased 27% over 2019 second quarter, but did slow a bit towards the end of the quarters, consumer move their attention and started taking summer leisure, trips, and activities. You can see that by noting the return of travel and entertainment spending, which comprise about 10% of debit/credit card spend. You can see, we're recovering travel remains below 2000 -- while recovering travel remain below 2019 spending levels.

Splitting the travel up a bit, as of mid-June, domestic airline purchases were up 8% over 2019, while international airline purchase on our cards are still down approximately 40%, showing a difference of the progress against the war on the virus in United States versus other places.

Now let's go to Slide 4. We just put this chart in to show you that the consumers are paying their bills. We've shown this each quarter so you can see that the actual card delinquency levels continue to edge down even as people are out in a circulating economy.

Before we go to Paul, I want to comment specifically on three areas of interest due, loan growth, NII, and expense. We can do that on Pages 5 and 6. So first on loans, Paul and I are going to show you the average loans, Paul will show you that later, and period loans, I'll show you in a minute, and long-term trends, which are on Page 5.

What all these figures point to is accelerating growth during the quarter as we've spoken about on occasion. This quarter, we saw loan mortgage across almost every business move past stabilization begin to make progress. Companies need to build inventory, hire workers to meet the growing customer demand. This virtuous circle of hiring workers and meeting customer to spending will help drive the economy, and hopefully, will resolve more line usage on our phones.

You can see the path on Slide 5 of loan since the pandemic started in March, 2020. As you can see, all of them are turning up in recent months. But moving to Slide 6, you see the more traditional detail for our company. Let's start on the lower right-hand side of that slide, and talking about the commercial portfolio.

Commercial loan balances, after adjusting to the reductions of PPP loans for quarter two forgiveness, grew $15 billion. This was led by global markets client borrowing activity, but beyond that and still excluding the PPP loan forgiveness, middle-market lending group and our business banking team finally had growth in a month of June 2021, the first since last March.

Fueling some of this improvement is calling of bank tenants. [ph] Relationship managers that have increased their calling ups, were now aggressively calling on targeted prospects, and with vaccination progress, face-to-face meetings have nearly doubled each month over the past 90 days.

Commercial loans wealth management clients grew in pace of 5% in the quarter, as these customers borrow through our custom lending products. A small business, our practice solutions, a group which supports medical, dental and veterinary practices, has been building throughout the quarter, the small business production overall is back to pre-pandemic level.

Turning to consumer loans, overall growth that in the peer loans was $6 billion. Car loans grew with increased spending even as customer payment percentage has remained high. Auto originations have grown fairly consistently, although recently, lower dealer supplies has affected that. Mortgage balance growth, which is a big part of our loan portfolio and consumer, has been a challenge in the low rate environment with high refinancing volumes exceeding originations in past quarters.

We are only modestly down this quarter as our origination volumes are finally overcoming the payoffs. We are pleased with the trajectory through the period and that feeds into the second half of the year, while average loans drive -- debt loan balances during the third quarter will drive that high -- it's good to start with a trend that has reversed the past quarters declines.

On NII, the good news is that, we correctly called a bottom three quarters ago. We told you then that we thought the third quarter of 2020 would be the trough. Despite the volatility and lower rate moves and significant decline in loans, we've been able to hold NIIs at that level or more of a three straight quarters. We expect it to move higher and Paul is going to discuss that later.

The other area I'd comment on is expense. We saw -- on a reported basis, we saw $0.5 billion in expense reduction from first quarter of '21 to second quarter of '21. This quarter, we also had about $800 million in notable items for the aforementioned charitable contribution in unemployment claims process. Absent those notable items expense, that have been down about $1 billion, in a low $14 billion range. This is a level we are targeting expense as we move through the rest of the year.

In the second half of the year, as we normalize our operations, we'll continue to return our business as usual working on process improvements that allow us to reduce our headcount and to continue to fund franchise at best. Headcount in second quarter, including -- excluding new summer interns, declined by roughly $2,500 or over 1% from the first quarter.

So the messages for this quarter are straightforward. The organic growth machine that we had rolling before the pandemic hit is re-emerging as the economy normalize. We start to be careful to ensure that the war on the virus stays won, but we're seeing great returns. In retail, and preferred and small business, we saw strong production of core transaction accounts above pre-pandemic level. This quarter was our best net sales growth in check-in account since the second quarter of 2015.

We saw car production about 90% overall pre-pandemic, but net cars -- net of run-offs were positive, the first time since the first quarter of 2020, when we entered the pandemic. We saw its growth in new Merrill Lynch investment accounts and Paul will talk to you about that. We saw good mortgage production, we saw a stronger digital activity.

In wealth management, we saw household growth and strong flows continue to grow, even with the use of our banking platform to grow its credit side. In go with banking, we saw loan growth and new production coming on, while line usage still remains very low. We saw investment banking close this quarter with record pipelines.

In markets, we saw a strong first half, even compared to 2020, and a strong second quarter, a bit with more normal seasonal impact, so normalizing more like '19, but still higher. And we saw headcount come down as operational excellence kicked in by over 2,000 people. We have work to do driving down our core expenses and getting out the net COVID expenses overtime. And above all, due to responsible growth, we saw a strong core credit metrics. So as economy continues to recover, we're seeing organic growth engine kick back in.

With that, I'll turn it over to Paul.

Paul Donofrio {BIO 1533743 <GO>}

Thanks, Brian. Hello, everyone. I'm starting on Slide 7. As I have done in the past few quarters, the majority of my comments or, excuse me, my comparisons will be relative to the prior quarter rather than year-over-year, given the pandemic.

Since Brian already covered a lot of the income statement, I will just add a couple of comments on revenue and returns. Revenue was down 6% from Q1, the decline was driven by lower sales and trading results. That more than offset solid consumer and wealth management revenue, which was a result of higher card income and AUMPs. It is also worth noting that while investment banking fees were down from a record Q1 level, they remained strong at more than $2 billion in Q2.

Lastly, when comparing revenue against the prior year quarter, remember, Q2 '20 included a $704 million gain on the sales of submortgage loan, which expect to returns -- our return on tangible common equity was 20% and ROA was a 123 basis points, both benefiting from the positive tax adjustment and sizable reserve release.

Moving to Slide 8. Balance sheet expanded $60 billion versus Q1 to a little more than $3 trillion in total assets. Deposit growth of $24 billion supported $16 billion of loan growth, while the combination of market-based funding and long-term debt issuance supported expansion of the balance sheet in global markets.

Other notable movements on the balance sheet included a continued deployment of excess cash into securities. Securities increased $83 billion, while cash declined $66 billion. Driven by the additional deposit growth, our liquidity portfolio remained above $1 trillion or one-third of the balance sheet. Shareholders equity increased $3 billion as earnings outpaced capital distributions.

Capital distributions of $5.8 billion were limited to the average of earnings in the previous four quarters for regulatory guidelines and we're well below the $9 billion earned in the quarter, with respect to regulatory ratios, consistent with Q1 standardized, remained the binding approach for us and was down a little less than 30 basis points from Q1.

While the CET1 ratio declined 30 basis points in Q1, it remained at 200 basis points above our minimum requirement of 9.5%, which translates into a $31 billion capital cushion. While book value rose $3 billion, regulatory capital was up $1 billion, as the $2 billion tax adjustment did not benefit CET1 capital.

Higher RWA from the liquidity deployed to securities, growth in our markets and balance sheet, and higher GWIM loan activity more than offset the benefit to the ratio from higher capital. Our supplemental -- excuse me, our supplementary leverage ratio at quarter-end was 5.9%, dropping from the prior quarter, primarily due to the removal of the regulatory relief. 5.9% versus a minimum requirement of 5% equates to approximately $600 billion of balance sheet capacity, which leaves us plenty of room for growth. Our TLAC ratio remained comfortably above our requirements.

Turning to Slide 9. Brian reviewed ending our loan balances earlier, so I will focus on average balances, which are more closely linked to NII. As you look at the year-over-year trends, note that these numbers include PPP loans, which have been moving lower now for two quarters, driven by forgiveness. You can see the change in those PPP levels on the slide, focusing on the linked quarter change.

While loans on an ending basis were up nicely, on an average basis, even with a $3 billion decline in PPP balances, loans were flat. Wealth management and global markets experienced the most notable improvements, GWIM continued to benefit from security-based lending as well as custom-lending, while continuing to have solid mortgage performance.

In global markets, we looked for opportunities to lend to clients against a number of different asset types, creating mostly investment-grade exposures as a good use of our liquidity. In consumer, we saw our credit card loans stabilized for the first time in more than a year, as credit spending ramped up and new accounts continue to build across the quarters. Quarterly new account levels are nearly back to 2019 level.

With respect to the positive supply chain, we continued to see significant growth across the client base, not only because of the growth in the money supply, but also because we added new accounts and attractive increased liquidity from existing customers. I would just note that the linked quarter growth on a spot basis included a headwind of about $34 billion from customer income tax outflow. Normally, we see deposits decline in the second quarter given tax payments, but this year, we saw strong growth even with these tax payments.

Turning to Slide 11, net interest income. On a GAAP non-FTE basis, NII for Q2 was $10.2 billion -- $10.3 billion on FTE basis. Net interest income declined a little more than $600 million from Q2 '20, driven by the rate environment and lower loan balances, but showed modest improvement from Q1. Year-over-year comparisons beginning next quarter are expected to improve nicely as Q3 '20 has proven to be the native for NII and we are expecting NII improvement in Q3 and Q4.

Compared to Q1, the benefit of an additional day of interest and liquidity deployed was offset by a lower level of PPP loan forgiveness, the absence of proceeds recorded in NII from the Q1 litigation settlement, and modestly higher premium amortization expense. The net interest yield declined 7 basis points from Q1, driven by the continued addition of lower yielding debt securities in Q1 and Q2 and a larger global market's balance sheet.

Remember, as part of our liquidity that remain, I would include about $150 billion of debt securities, hedge to floating, which earned a bit more in cash. As you will note, given all the deposit growth for low rates, our assets sensitivity to rising rates remained significant and mostly unchanged from Q1, highlighting the value of our deposits and customer relationships.

Let me give you a couple of thoughts around NII for the back half of the year. Last quarter, when differed interest rate environment was 30 basis points to 40 basis points higher, we told you, we were targeting NII of roughly $1 billion higher in Q4 of this year. This quarter's loan growth is encouraging and supported with this target and the slowdown in mortgage repayments should also help improve NII.

So, while we still think getting NII $1 billion higher by 4Q is possible, admittedly, the recent -- a significant decline in loans and rates presents a challenge. This possibility, of course, assumes loans continue to grow in the second half and rates don't move lower from here. To improve our chances, we could decide to deploy additional liquidity at higher fixed rate in the coming weeks and months as we evaluate the trade-offs between liquidity, capital, and earnings.

Turning to Slide 12 and expenses. Q2 expenses were $15 billion, $0.5 billion lower than Q1. While lower than Q1, the combination of the $500 million contribution to the foundation and the nearly $300 million increase in costs associated with unemployment claims processing kept expenses above the low $14 billion target share with you last quarter.

Outside of these two items, expense was lower, driven by the absence of a few Q1 items, seasonal payroll taxes, the real estate impairment charge, and the acceleration expense due to incentive comp award changes. Additionally, lower incentive comps and several costs also contributed to the decline. Lastly, our COVID costs saw a modest decline as some pandemic-related employee programs began to roll-off, but this was mitigated to a certain degree by preparation cost for associates returning to the office.

As we move [ph] to the segments, I would just note that the sizable foundation contribution was allocated to the lines of business and therefore negatively impacted comparisons to prior quarters. As we look forward, we continue to invest at a high rate in people and in technology and in new financial centers.

We are seeing the benefits of these investments, and now as we move forward, we expect that natural attrition will allow us to reduce headcount as we transition back to a more normal business environment. As Brian mentioned, excluding summer interns, our headcount, this quarter, moved down by about 2,500 people.

Turning to asset quality on Slide 13, nothing but good news to report here. Net charge-offs this quarter fell to $595 million or 27 basis points of average loan. This is the lowest loss rate in more than two decades, that is, 28% lower than Q1 and more than 30% below the second quarter of 2019.

Our credit card loss rate was 2.67 and several loan product categories were in recovery positions this quarter. Provision was $1.6 billion net benefit, driven by the continued improvement in the macroeconomic outlook, which resulted in the $2.2 billion release of credit reserves, split fairly evenly between consumer and commercial loans.

Our allowance as a percent of loans and leases end of the quarter at 1.55%, which is still well above the 1.27%, which was the level as we begun 2020, following our Day 1 adoption of CECL, and as a reminder, the mix of our loans has also changed since CECL

Day 1. To the extent, the economic outlook and remaining uncertainties continue to improve, we expect our reserve levels could move lower.

Okay. On Slide 14, we show the credit quality metrics for both the consumer and commercial portfolios, a couple of points I would make here, with respect to card losses. Given the continued low level of late stage delinquencies in the 180-day pipeline, we would expect card losses to decline again in Q3.

For at least the next couple of quarters, I would expect total net charge-offs to moderate around the current level, with lower card losses partially offset by lower net recoveries and other products. With respect to commercials metrics, the reservable criticized exposure and NPLs, both declined in the quarter.

Turning to the business segments and starting with consumer on Slide 15. Consumer banking produced another good quarter with strong customer deposit and investment flows and the return of card loan growth. This reflects the strength of our brand, our digital innovations, and the deployment of specialists in our centers, all of which enabled us to capture more than our fair share of the increase in customer liquidity.

As Brian said earlier, this was a quarter of reopening, where both our high-tech and high-touch capabilities delivered growth in client activity. Given vaccination progress, we reopened certain financial centers, more of our associates were at their posts in our financial centers, and customer traffic was up, all of the above drove higher sales in our centers.

At the same time, we also saw increased sales with digital channels, which suggests increases and digital engagement are here to stay. The segment earned $3 billion in Q2, 13% higher than Q1, as revenue, expense, and credit costs, all showed improvement.

Revenue improved 1%, reflecting higher card income and increased purchase volumes and modestly higher account service charges on ATM usage. Expenses moved lower versus Q1, given the absence of the Q1 real estate impairment cost and seasonal higher payroll tax expense. We also saw some modest improvement in COVID costs as some of the elevated pandemic-related associated costs began to wind down.

Our cost of deposits this quarter improved to an impressive 118 basis points. The team has done a great job of servicing more and more deposits, while maintaining a strong cost discipline headed digital engagement. Looking back at Q2 '19, we have added 38% more deposits, while expenses have only increased a little more than 3% annually in support of all that new activity, even with COVID.

On Slide 16, you can see the significant increase in consumer deposits and investments, average deposits of $979 billion are up $55 billion in linked quarter and nearly $170 billion from Q2 '20, with more than 60% of that growth in checking. Repaid is down to 2 basis points as 56% of the deposits are low interest checking.

We covered loans earlier, but would just note that, while average loans are down in linked quarter, period end loans are up modestly, excluding PPP, as growth in card balances and vehicle lending outpaced a small decline in mortgages. With respect to investment balances, we reached a new record of $346 billion, growing 40% year-over-year, as customers continue to recognize the value of our online offering.

Okay. On Slide 17, I'll highlight a couple of points regarding the continued improvement in engagement. After crossing 40 million digital users in Q1, we added another 0.25 million users in Q2. This quarter, 70% of our consumer households use some part of our digital platform. We also reached 2.6 billion logins from customers in the last 90 days, and while you will note the tremendous Erica and Zelle usage, where I would draw your attention to is the digital sales growth, which is up 26% year-over-year. 85% of book to mortgages in the quarter were done digitally, while 77% of direct vehicle loans were digital.

Turning to wealth management. The continued economic reopening and strong market conditions led to records in average deposits, loans, investment balances, and asset management fees in Q2, both Merrill and the Private Bank contributed to this improvement. Growth in gross new households at Merrill continued and the average size of the new households is larger this year than last year, and at the same time, net new households grew, but at a slower pace, given expensive competitive hiring practices across the industry. We remain committed to organic growth and our advisors and private clients' salesforce as a stronger, more sustainable long-term strategy.

Net income of nearly $1 billion improved 12% from Q1, as we saw an improvement in both revenue and expense. With respect to revenue, the record AUM fees complemented higher NII on the back of solid loan and deposit increases. Expenses dropped as the absence of seasonally elevated payroll tax in Q1 was partially offset by higher revenue-related costs. Client balances rose to a record of $3.7 trillion, up $725 billion year-over-year driven by higher market levels as well as strong client growth.

Let's skip to Slide 20, which highlights our progress to digitally engage more plans to clients. In both, Merrill and the Private Bank, we are focused on three pillars for digital engagement. One, digital adoption and deeper engagement; two, modernizing our platform for advisors and clients; and three, secure and easy collaboration with clients. We provided stats in Slide 20 that show record levels of digital engagements improved further in Q2.

These are some of the highest levels of digital activity across our customers. More and more clients are logging in to easily trade, check balances, and originate loans, all through one simplified sign on. 70% of checks deposited by the Private Bank clients and more than half of checks from Merrill clients are being deposited digitally now.

And through leveraging Erica-based AI capabilities and through use of WebEx meetings and secure text messaging, we are making it easy and more efficient for clients to do business with us wherever and however they choose. This creates additional capacity for our advisors to spend more time with existing and potential clients.

All right. Moving to Global Banking on Slide 21. The business earned $2.4 billion in Q2, improving $251 million from Q1. Strong revenue growth and lower expenses were mitigated by a lower provision benefit than Q1. Deposit growth maintained or remained strong and increased $20 billion to a new record. Outside of PPP loan forgiveness, we saw modest growth across the platform, as discussed earlier.

Revenue growth reflected the absence of the prior quarter impairment on some energy investments as well as increased ESG investments. Revenue also included strong (inaudible) IB fees of $2.1 billion, down only modestly from the record Q1 level. This performance resulted in an improvement to a number three ranking in overall fees with a pipeline that remains strong.

Strong debt issuance was more than offset by lower equity underwriting fees. We had a provision benefit driven by a reserved release of $834 million in Q2, which was $328 million lower than the Q1 release. Net charge-offs were near zero, reflecting both low charge-off and a notable recovery in the quarter. Non-interest expense declined 7% from Q1, reflecting lower compensation partially offset by other costs.

We've already covered much of the balance sheet on Slide 22, so let's get to digital trends on Slide 23. We continued our investments in digital solutions that deliver efficiencies for both clients and our employees. The solutions for clients have a compounded effect since they invariably mean less manual intervention by the bank, enhancing both efficiency and satisfaction.

Enhanced banking solutions are helping us capture greater market share as wholesale clients deal more with their banking partners -- to more banking partners that are stable and secure and that have the capability to invest in new technologies that will provide better data and global integrated solutions.

Digitization, and in particular, artificial intelligence, is helping us streamline processes and respond to clients more quickly and efficiently. As an example, our bankers are using technology powered by Erica to not only better manage credit exposure, but also identify and win new business. We present some wholesale digital highlights on Slide 23.

Switching to global markets on Slide 24, results reflect solid, but lower sales and trading activity, as noted earlier. While down from the more elevated pandemic period, trading revenue is still 10% or still higher from Q2 '19. As I usually do, I will talk about results excluding DVA. This quarter, net DVA was negligible, but the year-ago quarter had a $261 million loss.

Global markets produced $934 million of earnings in Q2, down more than $1.1 billion, compared to either Q1 or the year-ago quarter. Focusing on the year-over-year, revenue was down 15%, driven by the reduction in sales and trading. The year-over-year expense increase was driven by higher costs associated with processing unemployment claims and the activity-related sale and training costs.

Compared to Q1 expense, the higher unemployment processing costs were mostly offset by lower compensation. Sales and trading contributed $3.6 billion to revenue, declining 19% year-over-year. Sales declined 38% while equities improved 33%, recording one of the strongest equity performances in our history.

These results reflected the much more robust trading environment in the year-ago period, particularly from macro products, Q2 '21 saw credit tightened and agency mortgages dealt a difficult trading environment, given the volatility of trades. The strength in equities was driven by a strong trading performance and derivative and increased client activity, notably in derivatives and in Asia.

On Slide 25, we note half-year revenue trends across the last two years. As you can see, while the pandemic elevated results in 2020, 2021 remains well above the prior year's presented during by continued client activity and volatility in the markets.

Finally on Slide 26, we show all other net reported profit of $1.9 billion. The $2 billion tax adjustment benefit of results, absent this benefit, we would have reported $137 million loss, which is a decline of $239 million from Q1 '21, driven by lower revenue.

Revenue declined $545 million reflecting two impacts. First, higher partnership losses on ESG -- on increased ESG investments. As you know, we record grossed up revenue from these investments on an FTE basis in global banking, pay the full tax there, and then back out those entries in all other.

You can also see the increase in ESG investment in Q2 in other income on our consolidated income statement or partnership losses are booked. While this loss impacts revenue, it is more than made up for on the tax line. We expect our tax credits and associated losses in consolidated other income to increase by at least $100 million in Q3, and keep in mind, Q4 is normally even higher, reflecting seasonal activity.

Revenue in all other was also impacted by some refinancing activity. We called and refinanced higher cost structures notes which pushed some AOCI back to the income statement. Our effective tax rate this quarter, excluding the $2 billion tax adjustment was 10.7%, and further excluding tax credits driven by our portfolio of ESG investments, our tax rate would have been 25%. For the second half of '21, absent any changes and current tax laws or any other unusual items, we expect our effective tax rate to be in a range of 10% to 12%.

Okay. With that, we're ready to go to Q&A.

Questions And Answers

Operator

(Question And Answer)

We'll take our first question from Glenn Schorr with Evercore ISI. Your line is open.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi. Thanks very much. Wondered if we could contextualize that your loan growth inflection conversation. I heard you on cars and auto contributing to the modest pick-up on period-end loans. So I'm wondering what confidence level you have of that continuing in the second half will it be card auto, will -- or will middle market M&A or anything else start contributing?

And then maybe most importantly, do you think 2022 could be a normal-ish loan growth year, say, low-to-mid single digits like you had been running? Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

Hey, Glenn. I think if you look across all the businesses on an end-of-period basis had loan growth, which bodes well. The usage on lines is still low. And so that is still running in the low 30s, which is about 1,000 basis points on average lower in the banking segment. But what you see underneath that is that, even business banking which is the segment from $5 million to $50 million is net growing finally. And it was the most affected by the PPP run-off.

And the run-off of PPP in the quarter was up $6 billion, $7 billion or something like that. So we -- basically flat average balances that included, we overcame that. So we feel good as we look across the things. So what you really see is your net car production back to pre-pandemic. You see gross car production basically about 90% of pre-pandemic. You see autos, which will pick back up as inventories become available. And the real drive on a consumer side is mortgages, we're basically holding our own right now. And that was different than frankly -- on the refi side, we lost some balances through last several quarters. And then on the commercial side, it's really line usage. Honestly, it can't go any lower. Maybe it can, but theoretically, it can't because it's been stuck here for a good -- four or five quarters with the activity.

But the auto -- dealer line usage which is in that side of the house, for example, is very low than it traditionally is, so we expect those to pick back up. But the key is, we're actually producing more customers and more clients, even at the low usage, and the loans are starting to grow.

Q - Glenn Schorr {BIO 1881019 <GO>}

It sounds like we got a shot. Thanks. Maybe a very similar question on expenses and I'll be done. You noted that there's some COVID expenses still in there. But excluding the two one-timers you called out, we're still in the low 40s. It sounds low $57 billion range for the year is okay. Should -- we've asked this question every year, any one of us have. Should '22 be materially different than '21 given -- as you're able to fund a lot of your investments internally?

A - Paul Donofrio {BIO 1533743 <GO>}

So Glenn, it's Paul. We're not providing specific '22 expense outlook, but I will offer the following thoughts which I think answer your question. So our rough estimate for the fourth quarter expense is a range of low $14 billion. I think if you add to that the seasonal higher payroll tax, approximately $250 million in Q1, plus add in 1% inflationary cost that we have talked about now for many quarters. Remember, if we don't -- if we do nothing, cost would grow by 3% or 4%, but we're driving that lower every year and quarter through OpEx and other initiatives.

But if you take the 4Q expense, you had the higher seasonal payroll tax, you had 1%, that's a good base, I think. And then from there, adjust based on whatever assumption you want to make around higher revenue expectations in areas that are closely linked to compensation exchange fees. I think if you do that math, you'll have a pretty good number.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thank you, Paul. Appreciate it.

Operator

We'll take our next question from Matt O'Connor with Deutsche Bank. Your line is open.

Q - Matt O'Connor

Good morning. I know in recent quarters I've been asking about just the thought process on how you deploy liquidity and securities. And look, it's been the right call, because you were buying what felt like low rates, but rates have gone down again. But I just want to circle back on like what is the thought process you had alluded to potentially deploying more liquidity in the coming weeks. And I guess I'd step back and it seems like your loans are starting to grow, deposit growth starting to slow. And again, rates have ticked down again. So, why locked in kind of tenure duration at these levels with that as a backdrop?

A - Brian Moynihan {BIO 1517608 <GO>}

Matt, I'll let Paul hit it more specifically. But one of the things that we just have to always keep minding, and you've touched on this, the deposits are across $1.9 trillion and the loans are $900 million and change. And that difference has got to be put to work. And the reality is, we generated $80 billion deposit growth, and we got to put it to work. And that's what we do.

And so we're not timing the market or betting or either way. We just sort of deploy it when we're sure it's really going to be there. And so, that's been our strategy. And yes, we put some to work, and it turned out to be -- in aftermath, it's a good thing. But I think, frankly, I'd rather have a higher rate structure to be better for long-term earnings of the company, but I'll let Paul talk about redeploying.

A - Paul Donofrio {BIO 1533743 <GO>}

Yes. I mean I don't know what specifics you're looking for, but I would echo from Brian's comments. I think we've been very balanced. We -- if you look at the results compared to other banks, we've maintained our NII for the last few quarters here. We called the bottom in the third quarter. But at the same time we were doing that, we still are reserving significant liquidity. So we have a lot of dry powder as we sit here today, and more deposits are coming.

Q - Matt O'Connor

So should we just think about it, loans plus securities will basically equal deposits? So, if the loan growth is modest you keep growing deposits, sort of flowed [ph] in the securities kind of regardless of rates?

A - Brian Moynihan {BIO 1517608 <GO>}

Yes. Got to take out. We do have to keep straight cash, obviously, that we show you. But that's generally the way to think about it. And the debate is -- remember, we hedged a lot of the stuff that we bought just to protect ourselves a little bit. But that's the simple way to think about it. In the bank side balance sheet, that's a simple way to think about. Obviously, the securities firm is different.

A - Paul Donofrio {BIO 1533743 <GO>}

We -- I'll just reiterate. Like you said, we're going to get deposits. It's going to fund loan growth. Whatever left over will probably go in securities, but then we still have a bunch of excess liquidity. So that can be deployed as well, either in the near term or long term, depending on how we balance liquidity against capital and earnings.

A - Brian Moynihan {BIO 1517608 <GO>}

And actually, going back to Glenn's question, Matt, one of the things we can't take advantage of is our extreme efficiency in the consumer business with the rate structure. And so, I think they got down and they are pushing towards 120 basis points of deposits, because they're growing -- core checking customers at a more rapid pace than we've grown in a while. So consistently quarter after quarter after quarter, that's going to stick to our ribs. You don't pay anything for it. And as rates rise, it will drive the efficiency, but we just haven't had a chance to take advantage of, frankly, because of the rate structure.

Q - Matt O'Connor

Okay. Got it. That's helpful. Thank you.

Operator

We'll take our next question from Mike Mayo with Wells Fargo. Please go ahead.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. I'm stuck on slide 17 with the digital usage. So, I guess, you have a record number of digital users, 70%. You have highlighted digital sales of 26% year-over-year. Where aspirationally do you want that to go? And what can be the impact on head count and expenses? And it's the same question I asked before. You have best-in-class digital cost of deposits in the consumer, it's the lowest in the industry, but doesn't translate to the overall firm. So I'm just trying to connect the dots from your great digital usage to better efficiency and also get some sense of your aspirations on the digital side.

A - Brian Moynihan {BIO 1517608 <GO>}

So Mike, the last question is sort of that question, which is, the consumer side doesn't get the advantage until the -- you get some rate structure on the short end, especially. And so, all of that investment, though, it'd be like we're having the same conversation we had in '16 before rates rose or -- when that's going to pay off and then exploded and paid off. And we expect it to happen again as the economy normalizes. And we are taking good advantage, as you well know, prior to the pandemic.

And so, let me back up on digital products and usage. The key strategies we've been engaged on beyond consumer. And Paul hit some of the wealth management pieces, you can see them. And so, when we're talking about the digital things, we're actually showing by each segment. So the growth in the wealth management side, both for external usage, i.e., customers and internal is extremely important in using Erica internally as a method of artificial intelligence-based natural language processing that helps make people more efficient in the commercial segment of wealth management.

So we don't have -- our aspiration is just to follow and push the clients at the same time, and that always has a benefit. And that's why over the last decade we're down 40,000 people in the retail network to give you a sense. And where it goes, we have some internal plans, we have an idea, but we are sort of -- we don't go out and say that, because frankly, it happens piece by piece by piece. And honestly, $2,500 -- 2,500 FTE reduction in the quarter is in part due to the consumer efficiencies kicking back in once they got through PPP processing and things like that.

A - Paul Donofrio {BIO 1533743 <GO>}

And that reduction in head count, you ought to also factor in the increase in head count in the front office. So, we're getting a reduction overall if you go back pre-pandemic or if you look at this quarter. But at the same time, you're seeing a mix shift. We're adding more people out there talking to customers across the platform, and we have less people in support, in the back office.

Q - Mike Mayo {BIO 1494617 <GO>}

Okay. Just one follow-up on that aspirational question. When you stripped out, and you don't normalize everything, rates and everything else you want to do, how much more do you think you can lower unit costs over the next several years? And what would be the main technology driver for that?

A - Brian Moynihan {BIO 1517608 <GO>}

There are basically three ways. One -- but it's all going to show up in head count. And so we expect -- the consumer cost of deposits has gone from 350 basis points, probably 10, 12 years ago to 120. And so, we'd expect to keep driving that down, and that's going to be driven by everything we just talked about.

When you get to revenue-related compensation of wealth management business, that's up $0.5 billion from this quarter in '19 probably or something like that. And that's a good thing, because we make money. But that will be more driven by its production capabilities and things like that.

So there's basically buildings and how many do you need and how many people -- that's driven by how many people. And how much you pay our teammates who are talented to drive the business, that's driven by how many people. And we just had a -- we had been working our way down in head count, and it then grows because of all the work we had to do around the pandemic-related programs. But now it's dropped by 1% in the quarter, and that's where it pays back.

Q - Mike Mayo {BIO 1494617 <GO>}

Great. All right. Thank you.

Operator

Our next question is from Betsy Graseck with Morgan Stanley. Your line is open.

A - Brian Moynihan {BIO 1517608 <GO>}

Good morning, Betsy.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning. Great slide on slide 5. I really love it. Thanks for all the detail. I just wanted to dig in on card a little bit. There's been some discussion around how spend is up a lot, as you indicated as well and how much of that spend is likely to be translating into revolving versus transactor. You're giving us the daily clearly. We can see that here on the slide. But it would be helpful to understand what you're seeing in the guts of the machine. And is -- has revolver started to pick up? Or does this loan growth that you show on the slide reflect just the increased spend in transactor paydown rates are similar to what they've been over the past few months?

A - Brian Moynihan {BIO 1517608 <GO>}

So, the revolver piece did start to -- start to move forward, but it is down, obviously, significant pre-pandemic. The transactor piece is higher. You want people to use the card to get revenue, and you saw that in the fee line to get revenue from the usage and obviously get revenue from the loans. The loans are obviously the better part of the equation.

But, Betsy, you have to realize, we have about -- round numbers, the same number of cards outstanding. There's $20-odd billion less balances, which people didn't get any different. They just have more of a cash and so they paid off their credit cards, which is a completely responsible thing for them to do. And when they can get out and spend more money, which is starting to happen, I think you'll see them use these lines short-term purchases. So I don't think -- yes, the pay rate is up, but I don't think it's a fundamental difference of behavior, it's just the opportunity to use the cards for -- activity has been limited coming into this quarter when you finally saw things open.

So we'll see where it goes, but it's -- the good news is, it's going in a different direction. It had been leading up an entry point about slide 5. And the good news is, the people are high credit quality. So that means that the risk-adjusted margin, i.e., the margin from cards minus the charge-offs is actually closer than what people think, because the card charge-offs would drop by $300 million to $400 million a quarter.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay. Brian, that's -- yes. No, that's great. That leads into the follow-up, which is relating to your reserve ratio on card. I think the way we're calculating it is around 8.5% or 8.8% at this stage. And give us a sense as to how you're thinking about that trajectory here, given that the environment has been improving. What should we expect on reserves going forward?

A - Paul Donofrio {BIO 1533743 <GO>}

Well, I'll answer the question this way. If you go to CECL Day 1, I think it was 6 points something, right, 6.98%. So that gives you a sense of a different environment with a different sort of economic outlook at that moment.

Obviously, as we grow loans -- card loans, which we're talking about doing, that's going to eat into some of that excess reserves. But I think between whatever you want to model on loan growth and whatever you want to think about in terms of just getting back to CECL Day 1, you could kind of come up with whatever -- with an answer.

Q - Betsy Graseck {BIO 4799503 <GO>}

All right. And just could you even be below CECL Day 1 because the environment is so good right now?

A - Brian Moynihan {BIO 1517608 <GO>}

You could easily be blow CECL Day 1. I mean, it's -- as you know, it just depends at the moment you're setting your reserve, what your mix is, what are your card balance is, and what is your view of the future. And our view of the future is a more benign environment than it was in our CECL Day 1, then by definition, you'd end up with lower reserves.

A - Paul Donofrio {BIO 1533743 <GO>}

And that's the point at page 6, Betsy, it really goes to your question on card specifically.

Q - Betsy Graseck {BIO 4799503 <GO>}

Okay. Thanks very much.

Operator

Our next question comes from Steven Chubak with Wolfe Research. Please go ahead.

Q - Steven Chubak {BIO 18457976 <GO>}

Hi. Good morning.

A - Paul Donofrio {BIO 1533743 <GO>}

Good morning, Steve.

Q - Steven Chubak {BIO 18457976 <GO>}

So Paul, it was certainly encouraging to hear that there's still a path to the $1 billion improvement in the NII exit rate that you cited, just given some of the long-end pressure since you gave that guidance. I was hoping you could just help us unpack some of the component pieces, given it's a meaningful step-up versus what we saw in the most recent quarter. And maybe just thinking about it in three buckets: loan growth, liquidity deployment and premium am being the third. Assuming no change in the forward, like how can we underwrite that path to the $1 billion increase off the current base?

A - Paul Donofrio {BIO 1533743 <GO>}

So I would say that it's about half loan growth. Well, first, back out, we have an extra day, okay. Back that out. And as we sit here today, it would be roughly half loan growth and half amort reduction -- premium amort reduction.

Having said that, it's a challenge -- given that the fact that rates have fallen, it's a challenge. It's hard to get there. And so, we've got -- we've always had the opportunity to deploy a little more liquidity as we think about this going forward.

Q - Steven Chubak {BIO 18457976 <GO>}

I understood, at least the premium am ultimately will come, it's just a question of timing there so. But I understand that, that could at least impact where it shakes out by the end of the year.

And the other thing I wanted to get a better sense of, Paul, is just on the capital comments that you made earlier. You noted that you're at 11.5%, 200 bps above your minimum. Just curious if you can give us some sense as to where you plan on operating on a steady-state basis. How much cushion you want to retain? And just given the strength of your excess capital position, how should we be thinking about the pace or cadence of the buyback for the next four quarters?

A - Paul Donofrio {BIO 1533743 <GO>}

Well, obviously, we're allowed to do it. That's a change, and at a level that allows us to move capital off the balance sheet that is constrained by the average of earnings, which was through this quarter. So it will move up.

But I think we try to operate 50 basis points above the minimum (inaudible) target because there's volatility. So our SLR of 5.9 has got 90 basis points of cushion in it. And we want to operate 50 basis points there, the 9.5 to 10, et cetera. So you should expect us, not immediately, to be moving towards that over time. And then as this goes through the periods, the question will be what's the ultimate decent level that we have to maintain in the future and things like that.

So -- but we can move at pace now, and we couldn't before, because you was constrained to your dividends plus your buybacks could only equal your earnings. And we were a company that went into this crisis with a lot more excess capital. And we're a company that came out this crisis with a lot more excess capital. And there were CCAR exams during this crisis. We had the lowest losses and stayed below the 250 SCB. So off we go. But that constraint -- you got to go the lowest constraint and add 50 basis points, and you should expect us to stay above that. But right now, that's a lot of excess cash.

Q - Steven Chubak {BIO 18457976 <GO>}

And if I could just squeeze in one more. Sorry, I just got a bunch of questions on the Global Markets loan growth, which was a pretty eye-popping number. I was hoping you can just unpack the opportunity that you're seeing within that segment? And whether there's further runway for continued growth just given how significant of an uptick we saw in the most recent quarter?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes. Sure. So we did -- that activity -- the loan growth was led by Global Markets, but we did see it across the platform, including middle market and other areas. In Global Markets, we just look for opportunities to use some of our liquidity in more constructive way than maybe buying more securities. And it was across a number of different types of opportunities and clients. But about, I would say, $6 billion-ish of it went into our decision to hold some CLOs in loan form.

Now we concentrated those holdings in AAA and AA tranches instead of distributing the securities to investors. And we think that activity is very consistent with our plans to allocate more balance sheet to customers in Global Markets. Having said all that, I know people will concentrate on CLO exposure. Our CLO exposure is still extremely low relative to our peers.

Q - Steven Chubak {BIO 18457976 <GO>}

Fair enough. Thanks for accommodating the additional question.

Operator

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

Q - Ken Usdin {BIO 3363625 <GO>}

Thanks. Good morning. If I can just further on the commercial loan topics, as you start to see a little bit better demand aside from PPP across -- whether it's corporate which you just talked about, commercial, small business, what's your sense from the customer base of where it's potentially coming back the most and where the most holdbacks are because customers still have tons of excess liquidity to get through before they borrow?

A - Paul Donofrio {BIO 1533743 <GO>}

Well, look, if you look at Global Banking this quarter, middle market was driven by food products, commercial services and suppliers and diversified wholesalers. Obviously, you still got some industries that are affected by the pandemic, and so they really haven't started to recover yet.

If you look at our commercial-committed exposures, by the way, they grew $30 billion quarter-over-quarter. We're now above the $1 trillion pre-pandemic level. So people are getting ready to borrow more. As Brian noted, the revolver utilization is still at historic lows, but we're going to -- we would expect that to move up as the economy improves.

And then in Global Markets, as I mentioned, there were lots of opportunities in mortgage warehouse lending, subscription facilities, asset-backed securitizations. There is lots of opportunities there to put more balance sheet to work.

Q - Ken Usdin {BIO 3363625 <GO>}

Thanks, Paul. And as a follow-up on that point about the utility being low, but customers are readying themselves. I think as an industry, we've been waiting for that for a couple of quarters now. What's that trigger point where you think that we'll start to see or it'll cause the line uses to actually start moving? And it's been flat for now a good few quarters as we ready for it.

A - Paul Donofrio {BIO 1533743 <GO>}

I think it's going to be inventory build across various industries.

A - Brian Moynihan {BIO 1517608 <GO>}

And we're seeing trade finance kick up.

A - Paul Donofrio {BIO 1533743 <GO>}

Yes.

A - Brian Moynihan {BIO 1517608 <GO>}

The trade finance flows and the trade flows that we have, have been kicking up and kicking up, which means at some point, the people building inventories to meet the customer demand as we talked.

A - Paul Donofrio {BIO 1533743 <GO>}

Some of that inventory building has been hampered by trucking and ocean liner, and just getting logistics. So I think working out some kinks there, you could start to see it.

Q - Ken Usdin {BIO 3363625 <GO>}

And do you have any line of sight when you talk to your customers about any easing up of those supply chain constraints as we anticipate that?

A - Brian Moynihan {BIO 1517608 <GO>}

Getting better, but still I've learned a lot more about ports than I ever thought I'd learn from our customers. It's getting better, but it's going to take a while. I mean everybody talked about the chip that's well talked about, well known, but you're talking about basics. And so it's getting better. But it really comes down to the operations of ports efficiently and the impact of virus on employees in those ports and having people to work and unload the ships and things like that. So it's a pretty drilled out sort of analysis they have, but the reality is, it's still constraining, but it's getting incrementally better, but it will take another six months to kind of -- most are saying, they're saying at the end of the year, it'll all be better. And we'll see that.

A - Paul Donofrio {BIO 1533743 <GO>}

As you think about the loan growth and you start modeling it, just remember with -- revolver utilization is down close to 10%, that's $45 billion of --

A - Brian Moynihan {BIO 1517608 <GO>}

From last year.

A - Paul Donofrio {BIO 1533743 <GO>}

That's $45 billion of loans, just for us.

Q - Ken Usdin {BIO 3363625 <GO>}

Right. Yes, right. That's the opportunity set. It's just how quickly could that be a loaded spring. Right. Okay, thank you very much.

Operator

Our next question is from Gerard Cassidy with RBC. Please go ahead.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Good morning, guys. How are you?

A - Brian Moynihan {BIO 1517608 <GO>}

Hi, Gerard. How are you?

Q - Gerard Cassidy {BIO 1505265 <GO>}

Good. Paul, can you share with us, when I look at your average earning balance sheet in your supplement and you give us the yield of the average earning assets, and I think it declined to a 179 basis points.

Can you share with us what's the difference between what you're reporting and what you're putting on each quarter of new earning assets? Is there a 20-basis point difference? 10 basis points difference? And if we assume rates don't change, when does that gap disappear? Because what you're putting on is equal to what you're actually earning.

A - Paul Donofrio {BIO 1533743 <GO>}

Yes. Well, again, I mean -- I'll talk about when we take our liquidity, which again, we've got a lot of excess liquidity, and we deploy that into a security, right? We're picking up -- well, in the second quarter, we picked up on a blended basis between mortgages and treasuries, which were roughly 50-50 purchases. We picked up about 170 basis points relative to cash.

But when you look at a security that's rolling off and being replaced, the rolling off it's 250, and ended up being replaced at 210. Now you could do the same math -- I did it with securities. You could do the same math with a loan. Pick your loan category, whether it's a card or a commercial loan or, it's going to just depend on the yields.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. And coming back, I think you pointed out that the asset sensitivity of the balance sheet is still intact, 100 basis point parallel shift is -- leads to about an $8 billion increase in net interest revenue. Can you share with us what weighs more heavily on that number? Is it the short end of the curve going up? Is it 70% of that increase comes from the short end going up versus the long end?

A - Paul Donofrio {BIO 1533743 <GO>}

Correct. It's approximately 70% for the short end.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Very good. Okay. Appreciate it. Thank you.

Operator

And we'll go to Charles Peabody with Portales. Your line is open.

Q - Charles Peabody {BIO 2346511 <GO>}

Yes. I wanted to focus on your card operations for two reasons: one, it's the area where there seems to be some visibility to loan growth; and two, because it I think generates about 20% of your bottom line, so it's a significant mover.

If I'm using your line of business data correctly, cards as a line of business are on pace to generate somewhere between $1.8 billion a quarter. So somewhere between -- well, close to $8 billion a year. Am I right in that assumption?

A - Brian Moynihan {BIO 1517608 <GO>}

If you're talking about interest income, yeah. If you look at the supplement page 8, the $1.876 billion is the card interest income for the second quarter of '21. But that's --

Q - Charles Peabody {BIO 2346511 <GO>}

I was using your -- the net income.

A - Brian Moynihan {BIO 1517608 <GO>}

Well, the net income -- we don't have a card segment launch. Yeah, we don't report a card segment, because it goes there, it goes in the fee line, it goes in the -- and there is expense --

Q - Charles Peabody {BIO 2346511 <GO>}

But if you look at your line of business reporting, you do have a consumer lending versus deposit. And the consumer lending is primarily cards, if I understand it correctly.

A - Brian Moynihan {BIO 1517608 <GO>}

No. It's got mortgage loans and auto loans and -- yeah, it's all lending products. So let's -- if you got a fifth question, we get --

Q - Charles Peabody {BIO 2346511 <GO>}

Okay. The question is, if I assume 2019 kind of data in terms of margins, in terms of gross yield, and I assume high single-digit growth in loans in 2022, because of the substantial reserve release this year versus what probably will be less next year, I see a fairly substantial decline in your card business as a line of business, as a profit business. And so I'm trying to get a sense, am I right that there's a delay. Even when the balances pick up, there's a delay to the improved profitability of that product line?

A - Brian Moynihan {BIO 1517608 <GO>}

Because there's less reserve -- last year, it was hurt by reserve build. This year it benefit by reserve releases. Then next year -- that benefit comes out. That's the company's (inaudible).

Q - Charles Peabody {BIO 2346511 <GO>}

And not only that, but you have to reserve as you're putting on loans, and so you get less benefit day 1 versus day 100?

A - Paul Donofrio {BIO 1533743 <GO>}

Yeah. But remember we've got -- I think it was -- somebody asked an earlier question before. We reserved on loans now 200 basis points higher than where we were CECL day 1. So as loans grow, you can eat into that reserve.

Q - Charles Peabody {BIO 2346511 <GO>}

Right. And I estimated, you probably have about $1 billion to $1.5 billion of excess reserves in your cards if you go back to Day 1 CECL. And so, you're going to bleed some of that back in over the second half of this year, which means you have maybe $0.5 billion to $1 billion next year.

A - Lee McEntire {BIO 6651246 <GO>}

Hey, Charlie, this is Lee. So why don't we take this offline, and you and I can go through this afterwards. I see where you're headed, but --

Q - Charles Peabody {BIO 2346511 <GO>}

Okay. I'll share my model with you, Lee, because I think it's an important hole that has to be filled next year.

A - Lee McEntire {BIO 6651246 <GO>}

Yes. What I'd also just add, though, just while everybody is on the line is, just remember, our charge-offs are running significantly lower in addition to -- forget about all the reserving (inaudible).

Q - Charles Peabody {BIO 2346511 <GO>}

Yes, Absolutely.

A - Lee McEntire {BIO 6651246 <GO>}

Yes. Okay. I'll get with you after this call.

Q - Charles Peabody {BIO 2346511 <GO>}

All right. Thanks.

Operator

And it appears we have no further questions. I'll return the floor to Brian Moynihan for closing remarks.

A - Brian Moynihan {BIO 1517608 <GO>}

So thank you all for joining us. Once again, in the quarter, our customers are seeing good growth opportunities in a recovering economy. Deposits continue to grow, $80 billion in the quarter. Loan balances stabilized and grew on a period-end basis for the quarter, even overcoming the PPP runoff. Asset quality is at 25-year percentage loss lows, not just dollar amount.

The solid earnings continued this quarter. The important thing is we're seeing increased activity by our customer base, whether it's sales of all the different products, whether it's the reopening the branches and more appointments that lead to sales, whether it's our face-to-face meetings or commercial businesses. So that holds us in good stead and helps answer the question about how NII grows in the second half of the year.

And so -- and then on top of all of that, this quarter is the first quarter in many that we've been able to -- forever that we've been able to go back and actually use excess capital based on our earnings power and our Board's discretion. So you should expect us to get back in the share buyback game.

So thank you, and we will return that capital to you. And we look forward to talking next quarter.

Operator

We'll conclude today's program. Thanks for your participation. You may now disconnect.
