Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Betsy Graseck, Analyst
- Brian Kleinhanzl, Analyst
- Glenn Schorr, Analyst
- John E. McDonald, Analyst
- Ken Usdin, Analyst
- Matthew D. O'Connor, Analyst
- Mike Mayo, Analyst
- Vivek Juneja, Analyst

Presentation

Operator

Good day, everyone, and welcome to today's Bank of America 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. 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, Investor Relations. Please go ahead.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Thank you, Katherine. Thanks for joining the call to review our first quarter results. By now, I hope everybody has had a chance to review the earnings release documents that are available on the Investor Relations section of the bankofamerica.com website. For the many years I've been in IR, I've always joined the other speakers in the same room as we presented earnings. But this quarter, we like all of you are practicing following safe physical distancing protocols and we are joining this morning from different locations. So first I'll turn the call over to our CEO, Brian Moynihan, for some opening remarks. And then I'll ask Paul Donofrio, our CFO, to cover the quarter briefly before turning back to Brian to moderate a question session. So, hopefully this will make the session go a little bit smoother. Before I turn the call over to Brian, let me remind you we may make forward-looking statements during this call. For further information on forward-looking comments, please refer to either our earnings release documents, our website, or our SEC filings.

Over to you, Brian.

Brian Moynihan {BIO 1517608 <GO>}

Thank you, Lee. And good morning to all of you and thank you for joining us to review our results. It has been an eventful quarter, but I hope all of you are safe and your families are well during this war on the COVID virus. As you think about our quarter, our decade-plus long discipline of responsible growth result in us strengthening our balance sheet and making investments in technology and people and talent over the decade has helped us prepare for this environment. Today we're going to do three things with you. First, I'm going to provide a couple of high level thoughts on the quarter. Second, I'm going to make sure you know how we're supporting our teammates, our customers, our communities, and delivering for you our shareholders during this crisis. And third, Paul will cover the results in more detail. I'll start this discussion by covering the chart on Slide 2 along with the comments on Slide 3 which go with the chart.

Given the volatility in the last couple of months and the global slowdown, I'm proud of Bank of America and our team's results. I want to thank my 209,000 teammates across our Company for all of their efforts this quarter both in frontline roles and support functions. It's been a companywide effort to continue to serve our customers well during these times. As I've said many times, we're in a war against the COVID-19 and at Bank of America, we're doing our part to help fight the effects of that war. We do that by living our purpose, we're helping people manage their financial lives through this crisis. My teammates know they're playing a critical role for their clients whether the people -- whether companies of all ticket sizes and institutional investors. Their role is to help keep the economy moving as best we can during this healthcare crisis.

There was -- we have seen major disruption in the financial markets that affected every line of business as customers moved to stay at home status through voluntary/involuntary measures. In the United States and around the world, governments are responding with historic measures in a very short period of time. Central banks, governments, and others have responded to provide tremendous liquidity in the -- to keep the markets functioning and to protect individuals and businesses at an historic scale. The banking industry continues to play a vital role. We're well capitalized with strong liquidity and we have helped transmit the benefits of these programs as well as our own measures in the economy and market. So, let's cover our first quarter performance. In the first quarter of 2020, Bank of America produced $4 billion of after-tax earnings. This includes building our loan loss reserve by $3.6 billion over charge-offs and that's due to the economic deterioration of the global economy as a result of the virus.

Earnings per share were $0.40. Earnings were down $3.3 billion from last year. This was led by the reserve build. I think it's useful to draw your attention to the pre-tax pre-provision income line as we believe it helps illustrate the underlying earnings power of the Company to support the credit costs that are inevitable in a downturn. We produced

$9.3 billion of pre-tax pre-provision income in the first quarter of 2020. That was down 5% from the first quarter of 2019. That is relatively strong given the changes in interest rates that have occurred, the wide new credit spreads, and other changes across the past 12 months particularly in the last quarter or so. During this period, we maintained our strong balance sheet. Global Markets clients' needs for liquidity temporarily increased our balance sheet during the quarter by as much as $130 billion from year-end. But through the efforts of Tom Montag and team, we ended the quarter marginally up.

Small business originations not from any of the special programs were $2.4 billion during this quarter showing support for that segment of the economy. We also met our larger commercial borrowing customers' demands with commercial loans increasing $67 billion as clients drew down against their unfunded commitments and new commitments were made. In addition to these funding which reduced commitments, we also had requests for new commitments. Remember some of the commitments that we're making are for clients like grocers, healthcare companies, and others who need liquidity because of the rising demand for their services during this time. At the same time, we returned $7.9 billion in capital to our shareholders and as you know during the quarter, we voluntarily chose to suspend the buyback portion of those distributions to share capital for expected customer growth.

We did all of that and our Common Equity Tier 1 ratio of 10.8% still finished 130 basis points above our 9.5% minimum. From our liquidity standpoint, we ended the period with $700 billion in liquidity increasing $120 billion from year-end. Driving that increase was deposits increasing $149 billion, far exceeding our $67 billion expansion in our loan portfolio. Moving away from the balance sheet and on to earnings, a couple of highlights I'd point out. NII finished a bit better than expected at $12.3 billion on an FTE basis, flat with fourth quarter. Capital markets revenue was strong. Sales and trading revenues excluding DVA were up 22% year-over-year and investment banking fees were up 10% year-over-year. We had a record quarter in Fab Gallo's equities trading business. Our non-interest expense was a touch better than expected as well at $13.5 billion. Net charge-offs remained low at a little more than $1 billion, up $163 million from last quarter driven by an uptick in Commercial.

Obviously returns for the quarter moved lower given the reserve build return on tangible common equity was 8.3%. Let's turn to Slide 4. Just as important as our financial results this quarter is what we're doing to take care of our teammates and to help clients and communities impacted by the virus. We do this not only because it's the right thing to do, but also in the end it will benefit you the shareholders. Many of our teammates are on the frontlines of this effort including daily engagement with clients whether it's in our financial centers which remain open, financial advisors guiding our clients through the turbulent times, or the cap and liquidity we're providing to companies across the businesses. Being able to do all these great things to support clients, our first priority since the crisis was to address the health and safety of our teammates. We've taken a teammates-centric view of our efforts because it's the right thing to do and we need these teammates do a great job for the clients.

We've taken extensive measures in our business continuity work to prevent teammate exposure to the buyers. We've established multiple locations for important work of our trading operations and call center platforms and otherwise enabled social distancing by moving more than 150,000 people to work from home. That means ensuring that they have appropriate tools and resources and we have the appropriate control protocols for them to do their day-to-day work. To give you a sense of scale, we have deployed about 90,000 laptops in the last 60 days across the Company. We moved quickly to share social distancing in our facilities that are still open, installed additional protective barriers in all our branches, thinned outstanding operations environments, and posted healthcare professionals in our facilities to help anybody. We're also taking measure to help employees better handle the stresses in their personal lives. You can see some highlight here.

One example has been our increased childcare support. We allowed teammates to hire relatives and others so they can work given school and daycare outages. Our life event services team provides teammates with personalized support resources tools and access to benefits and we're providing special compensation to teammates in the financial centers, operation centers, and call centers. We also hired 2,000 teammates in March to continue to increase the staffing we need especially in the consumer related areas to handle our clients' needs. And we announced that there would be no layoffs during 2020 of our teammates. Our previous announced $20 an hour minimum compensation is now in effect and reflected in the numbers you're seeing across the Company. And we confirmed our commitment to bring on 3,000 young kids from summer jobs -- for summer jobs and starting their first job whether graduated from college or graduate school.

Taking care of the employees is the right thing to do. It enables them each to play an important role they must provide as critical providers of services to help the economy keep rolling through the virus. We're doing that in many ways. In addition to keeping our financial center open and the many things I mentioned earlier, we're doing more for our clients through these times. Customers who are struggling to make their payments are calling the bank with deferral request on loans and fees and waiver fees as it -- and other disruptive events that we've done for hurricanes, earthquakes, tornados, and other things over time. We work with them. Since this humanitarian crisis began, we've received more than 1 million requests for assistance through early April. We've seen the volume of the deferrals, however, reduce since the peak a week or two ago and we'll see where it goes next.

We provide a chart on the material beginning on Slide 5 about the deferrals. As you can see in our case, the largest number of requests has come from cardholders. But as a percentage of loans, we have the most requests from our small business clients. These clients at the heart of the governmental programs and are also at the heart of businesses that were shut down due to the stay at home orders by governments. One of the things that's different about this business for us is it lends to doctors, dentists, and others. They have deferred payments until they can reopen their practices. We are a leading lender to them and you'll see those recover as they go back to business. Our mortgage requests remain relatively low in volume and some of our customers -- for all our customers, we've also suspended foreclosures or repossessions of autos which may have been pending.

Our affluent clients are also looking for our Company in these turbulent times. We've been there for clients with both upgraded systems and capabilities to allow them to trade, a centralized investment office supplementing 20,000 advisors capabilities to talk to the clients and give advice and counsel. Client engagement during the quarter was up two-thirds from last year even as these advisors work from home. For small business clients, we built the first digital platform for the PPP program and we launched it 12 days ago. The team is working hard to drive over 300,000 requests for funding through the process so that we can get those loans funded. As stated earlier, our regular way small business support was over $2 billion in the quarter. For larger clients, we provided $67 billion in access to unfunded commitments. Imagine the speed and capacity that our team did to absorb the requests so quickly and get them funded over the course of the quarter.

These commitments are a much needed liquidity bridge for many clients especially in light of the rapid changes that occurred in March in the commercial paper markets and in the debt markets. As those markets opened up, we also saw strong debt capital markets issuance to support clients. In fact March ended up being the busiest month ever for US high grade market with approximately $260 billion of total issuances. The previous record was $171 billion and we led the market. April has continued this busy pace and it's been good to see that access is expanding to high yield clients. For our institutional trading clients, we have provided an operationally sound system with improving speeds of trading. On a single day we added $1.7 trillion in payment value. Again the investments made over the past years to our trading platforms delivered more speed and capacity to make that possible and all doing will remain at maintaining good controls.

The clients we serve in that business had severe -- witnessed severe volatility in markets and we are providing them with liquidity when they need it. Since the month-end spike, you can see that Tom -- since the mid-month spike, Tom and the team managed the balance sheet into the place we needed to be at the end of the quarter. Lastly to assure communities around the US where we live and work got some assistance before the government money came to help, we announced a $100 million donation to fight -- to help fight the virus outcomes and supply vital support across those communities. Our market presence and other leaders are playing a vital role in this critical action. We've also increased our capital to this community development financial institutions by $250 million on top of our industry leading $1.5 billion commitment to these institutions. As we've discussed each quarter and frequently over the last decade. we've transformed our Company so we could serve clients consistently across all areas.

We've added a slide in the appendix to remind you how much the Company has improved its balance sheet position and risk profile since the last crisis. It's not the stress testing that illustrates our preparedness, but we're now being tested in the new environment. We didn't know what economic challenge might cause us to have to demonstrate this resilience and that challenge is upon us now. I remain very proud of what my teammates have accomplished across every dimension to help us be ready and I'm proud of the part they're playing to help the world win this war against this virus. An area that we focused on also is consumer spending. We've seen a shift in consumer payments and this is on slide -- begins on Slide 6. Overall a couple of months ago in a healthy US economy, payments were running at a high single digit, in fact in some cases a low double-digit percentage increase of the same period prior of 2020 January and February versus 2019 January and February.

And in fact that would have shown that the economy this quarter probably is going to grow faster than people expect. That changed as the virus spread and you can see that impact here on Slide 6. We saw a severe immediate decline in discretionary payments for travel, leisure, and other things that you've read about and entertainment that you expected. This was followed immediately by large increases in payments for necessities around groceries and staples like health supplies, et cetera. Then as large cities and states began to move to voluntary and mandated stay at home status orders, we saw large declines in debit and credit card spending into other categories. At the same time, we've also noted a stabilizing going on in the level of payments in other areas like ACH, cash wires, and P2P payments. The broader measure is the black line in the chart. As you can see overall payments have declined, but remained at high single-digit pace year-over-year moving down from double-digit pace to around 8%.

The total movement in the US has been pulled down by a significant decline in card spending, which is more than up has been affected by the travel, entertainment, and other related areas and retail areas and that's gone from 7% to 8% to only 2% increases in the month of March and has fallen at the negative territory in April. The overall spending, however, of all types of spending in our customers seems to have stabilized in the last few weeks. During mid-April, we're seeing spending running about a low $50 billion average level compared to $60 billion average level before the crisis, that's per week spending. We'll see how that plays out through this quarter and that stability may provide insight to the level of economy activity and the shutdown status. Our digital banking capabilities have helped with both customer service and sales so our financial center visits are down and sales are down because of that. We've seen consumer digital logins remain steady as people manage their financial lives on a digital basis.

Digital sales are down, but they are now running about 50% of the total sales. Our loan production for cars mortgage and other products has fallen week by week. For the first two weeks of April comparing that to the February average levels, we're seeing them down 55% for card origination, 40% for mortgage, and 60% for autos. Again we're watching to see these stabilize at some level of activity even given the shutdown economy and we'll keep watching that as states, cities, and the federal government focuses on reopening the economy. On Slide 7, you can see the chart showing the commercial line draw velocity in deposits in March. In total we saw $67 billion increase in commercial loans due to draws from commercial clients in the month of March. 45% of these fundings came from large commercial clients, 40% from -- were from large corporate banking customers, and remainder spread across other businesses.

As for the asset quality of what we funded; 92% of these were collateralized and were made to investment grade clients and less than $100 million were made to clients as loans became non-performing. The draws were well diversified by industry and were largely driven by US borrowers. From a capital standpoint, we're already risk weighting these commitments at 50% under standardized capital so the additional impact to CET1 for these draws was roughly 25 basis points for the quarter. The draw activity was pretty normal through the first week of March, but ramped up in the second week before peaking in the third week of the month. The requests have come down in every one of the last three weeks. And as we've seen we turn into April, draw requests and new credit requests have mitigated at these levels.

We're seeing clients' attentions turn from securing liquidity to more structured view of their capital position and their needs to better understand how they will prosper and fare in the COVID-19 impacted business model. We observed earlier that commercial paper market froze in the middle of the quarter as new rounds of virus where some clients were unable to access the CP markets. As the Fed announced the programs, we saw that market stabilize and over time here we've seen it lengthen out so draws can be for long periods of time. It's worth noting since we have one of the premiered global treasury services platforms in the world, we saw many of those draws come back in our balance sheet as deposits. For the 75% of loan draws were not used for other paydowns ended up as deposits with our Company. In addition at the bottom of the slide, you can see the growth in deposits by every line of business.

Global Banking deposits rose $94 billion, which is unusual for sure. We also saw a $32 billion increase in commercial -- consumer deposits with 65% of that being checking. That has been our normal. In fact it is the 28th quarter of the last 29 that we've had year-over-year growth of $20 billion or more in consumer banking deposits. Wealth management deposits reflect a flight to cash in the first quarter, but have been stabilizing last year as you can see in the charts Paul will show you later

So with that, let me turn it over to Paul.

Paul M. Donofrio {BIO 1533743 <GO>}

Thanks, Brian. Good morning, everyone. I'm beginning on Slide 8 with the balance sheet. Overall compared to the end of Q4, the balance sheet expanded $186 billion driven by an increase in deposits of $149 billion. Deposit growth in excess of our loan growth was invested primarily in cash and cash equivalents. As Brian mentioned, the team did an incredible job of not only providing our global markets clients needed liquidity from a mid-March spike, but also reducing those levels by the end of the quarter. Shareholders' equity of $265 billion was stable with year-end, but included some offsetting factors. AOCI increased $6.5 billion reflecting several factors, but was driven by a $4.8 billion improvement in the valuation of AFS debt securities. Offsetting this increase to equity were two items, share repurchases and common dividends of $7.9 billion exceeded our $4 billion of earnings given the reserve build this quarter.

And as a reminder, we booked a reduction in equity on January 1 by adopting CECL. Now with respect to CECL, we elected the five-year transition option made available under the Fed rule to delay any capital effects of CECL until 2022. The January 1 reserve build plus Q1's $3.6 billion build equate to a total increase in the reserve of $6.9 billion since year-end. Assuming no regulatory relief including the original relief planned for day one adoption, our CET1 ratio would be 22 basis points lower than we reported. The relief received in late March accounted for 12 basis points of the 22 basis points. As you know, a portion of the CET1 impact of future reserve increases or decreases during the emergency period will also be delayed until 2022. Beginning in Q1 of 2022, we will begin phasing in the 22 basis point reduction for these impacts in equal quarterly amounts through 2025. With respect to our CET1, our CET1 standardized ratio declined 40 basis points to 10.8% driven by a $70 billion increase in RWA.

Increases in counterparty risk in global markets and increased loan revolver draws in Global Banking drove the RWA increase. Lastly, our TLAC ratios remain comfortably above our requirement. Given the time constraints and Brian's points earlier on ending deposits, I will skip the discussion on average deposits on Slide 8 and move to Slide 9. Earlier Brian also discussed our loan growth near the end of the quarter, which was driven by revolver draws. Some of that growth affected the growth of average loans presented on Slide 10. Q2 should further reflect this late quarter growth. Year-over-year average growth has been consistently in the mid single-digit range and early Q1 trends were similar to that. Note the significant increases across consumer and GWIM, which was driven by residential mortgage given continued low interest rates. This quarter we originated $19 billion in first mortgage loans retaining 94% on our books.

We continue to see good follow through on a large pipeline, but apps are down in the past couple of weeks. I would also note credit card balances. Average credit card loans were down a bit more than the typical seasonality given the drop-off in consumer spending late in the quarter while customer payment rates continued at a fairly steady pace. Given the significant drop in card spending, we expect card balances to decline further in Q2. Okay. Turning to Slide 11 and net interest income. On a GAAP non-FTE basis, NII in Q1 was $12.1 billion; $12.3 billion on an FTE basis and was relatively flat compared to Q4 '19. One less day of interest and lower asset yields driven by lower rates negatively impacted NII this quarter. Two primary things offset these negative impacts. First, we saw good loan and deposit growth. Second, lower rates reduced the cost of our long-term debt and improved our funding cost in global markets.

The lower rates also allowed us to price our deposits more efficiently in Wealth Management and Global Banking. Before I discuss our forward view of NII, I want to emphasize that future NII results will be influenced by interest rates as well as loan and deposit balances, which will likely be highly influenced by the virus' impact on the economy. Both of these drivers have been volatile and may continue to be. In terms of the forward guidance, as you know, interest rates dropped significantly over the past 90 days. On the short end one-month LIBOR which impacts variable rate loan pricing as well as longer-term rates which impact mortgage and mortgage related assets have both dropped nearly 80 basis points on a spot basis. As you think about our NII for the rest of the year, I would point you to the asset sensitivity disclosure for our banking book at 12/31 before we experienced these rate declines.

Banking book sensitivity from an instantaneous parallel drop of 100 basis points in rate at that time was estimated to reduce NII by $6.5 billion over the following 12 months. Since these rates moved less than 100 basis points, the change in NII over the next 12 months is likely to be less than $6.5 billion. I would also note some additional items to consider that are expected to mitigate some of that decline. First, we have grown both loan to deposit significantly more than what would have been assumed in that asset sensitivity at year-end. Second, our deposit pricing actions have been pretty swift. And last, the asset sensitivity of the banking book does not include the benefits to NII of the trading book, which is a little liability sensitive. With that said, we would expect the largest decline in NII over the balance of 2020 to impact Q2 as the bulk of the repricing of our variable rate loans should happen fairly quickly.

Considering all these factors, particularly the virus' impact on the economy and interest rates, we believe NII could approach $11 billion in Q2 and then begin to stabilize with loan and deposit growth mitigating the negative impacts of longer-term asset repricing. Turning to Slide 12 and expenses. At $13.5 billion this quarter, expenses were up 2%. They were 2% higher than Q1 '19 as increased investments throughout 2019 in people, real estate, and technology initiatives were partially offset by savings from operational excellence initiatives. Compared to Q4 '19, expense increased roughly $250 million reflecting nearly $400 million in seasonally elevated payroll tax expense. With respect to our outlook, we are still assessing the impacts both positive and negative that the virus has had on the Company's expenses and as such are not in a position to provide any updates to our previous expectation that expense would be in the mid $53 billion range this year.

As a reminder, that mid $53 billion number was before considering the dissolution of our BAM's JV and surrounding actions. With respect to impacts of the pandemic, on the one hand there are many costs that decline such as travel, meeting costs, lodging, conferences, and lower power cost for unused facilities. Incentives will align with financial performance and market levels. But on the other hand, as you heard Brian mention earlier, there are costs associated with protecting, supporting, and rewarding our employees during this health crisis including spending -- suspending headcount reductions related to COVID for the rest of 2020. We also have cost from the setup operation and cleaning of backup facilities for trading and other activities. This would include the cost of computers and other supplies and expenses to reposition 150,000 associates to work from home. Okay.

Turning to asset quality on Slide 13. Our underwriting standards have been responsible and strong for years now and we expect this strength to differentiate us as we advance through this health crisis. For years now, we have been focused on client selection and getting paid appropriately for the risk we take. As you all know, what really impacts banks in recession is not the loans put on your books during stress, but rather the quality of your portfolio booked during the years leading up to stress. One Independent indicator of the relative quality of our balance sheet is the federal reserve's annual CCAR stress test. Our net charge-off ratio under those stress tests has been lower than peers in six of the last seven years and our consistent focus on asset quality has been reflected in our results for many years now. Adjusted for the recoveries of loan sales in some periods as described before, we have reported net charge-offs between $900 million and $1 billion for many quarters.

Total net charge-offs this quarter were $1.1 billion or 46 basis points of average loans. Net charge-offs rose $163 million from Q4 driven by commercial losses with the largest contribution coming from energy exposure. We saw a small seasonal increase in card losses. Provision expense was $4.8 billion. Our reserve build of $3.6 billion reflects the expected increase in life of loan losses given the weaker current and expected economic conditions as a result of the virus. On Slide 14 we break out the credit quality metrics for both consumer and commercial portfolios. Q1 is too early to see any significant effects of COVID on net charge-offs. However, there were a couple of leading indicators of deteriorating asset quality in our commercial portfolio due to the virus as both NPLs and reservable criticized exposures increased. On the consumer front, COVID's effect on asset quality were less observable. This is likely due to deferral offers extended to consumer borrowers.

Moving forward, we believe deferrals coupled with government stimulus for individuals and small businesses should aid in minimizing future losses. Having said that, given the rise in unemployment claims we do expect consumer losses to increase later this year and potentially into 2021. Turning to Slide 15. This table provides a full picture of our allowance increase since 12/31/19 including the 1/1/20 implementation of CECL as well as this quarter's build given the worsening economic conditions. As you can see, our allowance including reserve for unfunded commitments was $10.2 billion at year-end and now stands at $17.1 billion. That is nearly a $7 billion increase or 67% since year-end. Note that we ended Q1 with an allowance to loan and leases of 1.51%. I would also note the increase in the coverage ratio for credit card increased to 8.25% and the coverage ratios for US commercial and commercial real estate increased to 1.11% and 2.16%, respectively.

These ratios reflect our underwriting standard over the past 10 years as well as our loan mix with a large concentration of secured consumer loans. We size the increase to our allowance in the quarter by weighting a number of different scenarios, all of which assumed a recession of various depth and longevity including an assumption of some tail risk similar to what is in the severely adverse scenarios. A weighting of these scenarios produced a recessionary outlook, which includes a marked drop in GDP in Q2. Growth recovers slowly from there with negative growth rates in GDP extending well into 2021. Obviously there are many unknowns including how government's fiscal and monetary actions will impact the outcome and how our own deferral programs will impact losses or perhaps the biggest unknown is how long, how long economic activity and conditions will be significantly impacted by the virus. Okay.

Turning to the business segments and starting with Consumer Banking on Slide 16. Consumer Banking earned $1.8 billion. Results were impacted by COVID-19 through lower rates, higher provision expense, and modest fee reductions. As you know, banking is considered an essential service and across the country we have kept more than 75% of our financial centers open. In addition, we've added personnel to service calls and manage digital interactions not only with respect to existing products and services, but also on small business applications through the payback -- the Paycheck Protection Program. Many of these additional personnel are working from home. While net income declined 45% from Q1 '19, It's worth noting that pre-tax pre-provision income declined 12%. Revenue decline driven by lower interest rates as well as the impact of COVID-19. Aside from the higher provision cost, consumer fees also reflected modestly lower consumer spending and fee waivers beginning late in the quarter.

We continued to invest in the franchise driving expenses up 3% year-over-year. We added new and renovated financial centers, salespeople, and increased minimum wages plus the additional associates added to service calls I just mentioned. The expense from these investments continue to be mitigated by process improvements, digitization, and technology improvements. Investments supported continued growth in loans as well as deposits. As a result, our cost of deposits declined to 150 basis points. Client momentum continued as we saw average deposits increase $40 billion from Q1 '19. Average loans increased 8% and we continue to add consumer investment accounts and saw solid flows into our Merrill Edge platform. Let's skip Slide 18 as I think I covered much of the trends on Slide 17 already. The ability of our customers to connect through digital banking has never been more important,

As you can see on Slide 18, all aspects of digital engagement continued to increase with one-third of sales now processed through digital channels and as you heard, that moved higher in the last few weeks of the quarter. We learned a lot from our digital auto and mortgage experiences and what we learned enabled us to quickly launch a digital pathway for our small businesses to apply for loans in the Paycheck Protection Program. Turning to Wealth -- turning to Global Wealth & Investment Management on Slide 19. Here again we saw lower rates and COVID-19 related credit cost impact an otherwise solid quarter. Note the impact of lower market levels in March. Those impacts did not impact Q1 AUM fees as March fees were calculated based upon market levels at the end of February. Merrill Lynch and the Private Bank both continued to grow clients as well as remain a provider of choice for affluent clients.

Net income of $866 million was down 17% from Q1 '19, but here again pre-tax pre-provision income was down a more modest 4%. Revenue grew 2% year-over-year as a strong increase in AUM fees and brokerage fees were partially offset by a decline in NII as a result of lower interest rates. Expenses increased from revenue related incentives as well as investments we made in the past 12 months in sales professionals, technology, and our brand. Okay. Let's skip Slide 20 and move to Global Banking on Slide 21. The early impacts of COVID-19 were more evident in this segment. First, LIBOR fell rapidly in March impacting loan yields. At the same time, revolver draws didn't happen until late in the quarter and will likely be more fully reflected in Q2 averages of loans and NII. Lastly, COVID related credit costs are higher in this segment as the reserve build was more heavily weighted to commercial loans. The business earned $136 million, which included adding $1.9 billion to the allowance for credit losses.

On a pre-tax pre-provision income basis, results declined 21% driven by lower interest rates and by roughly $450 million of net markdowns in the value of loans and underwritten commitments recorded at fair value in our capital markets books and FPL books. On the positive side, in Q1 we were able to improve our investment banking revenue and market share. We generated $1.4 billion in investment banking fees this quarter, a 10% increase year-over-year. In fact despite a 20% year-over-year decline in the volume investment banking transactions across all banks, we processed 9% more transactions in Q1 than the previous year. Growth in investment banking fees, loans, and deposits reflected not only what we believe to be a flight to quality in uncertain times, but also the addition of hundreds of bankers over the past few years increasing and improving client coverage.

Turning to Slide 22. Brian covered the most important points around loan and deposit growth. I just want to reiterate one point. We believe companies viewed us as a safe haven in this period of stress. Quarter-over-quarter on an ending basis, deposits increased $94 billion while loans increased $58 billion. Not only were we able to capture as deposits the bulk of the cash that customers drew on the revolvers that wasn't used to pay down debt or for other purposes, we were also able to attract billions more in additional deposits even as pricing deposits lower with falling rates. Turning to Slide 23. As in Consumer and GWIM, our digital capabilities are more important and useful than ever enabling clients to work from home and seamlessly manage their treasury needs and it's no surprise that in this environment we continue to see increased use of these capabilities.

Switching to Global Markets on Slide 24. As I usually do. I will talk about results excluding DVA. Despite the volatility experienced in the quarter, Global Markets produced $1.5 billion of earnings in Q1, a 34% increase year-over-year. Year-over-year revenue was up 15% from both higher sales and trading results and improved investment banking fees. Expense was up a more modest 2% year-over-year on higher related revenue related costs. Within revenue, sales and trading improved 22% year-over-year driven by a 39% improvement in equities and a 13% increase in FICC in a significantly more volatile market environment when compared to Q1 last year. FICC revenue reflected better trading performance across macro products offsetting weaker performance in credit sensitive products resulting from widening credit spreads which impacted asset prices. Equity revenue of $1.7 billion was a record for the Company.

All right, skipping Slide 25 and moving to All Other on Slide 26. All Other reported a loss of $492 million. The loss reflects approximately $500 million for several valuation reductions including marks on derivative positions and certain non-core securities, which were impacted by wider spreads toward the end of the quarter. Our effective tax rate this quarter was 11.5%. It included the impact of a fairly normal level of tax credits from our commitment to sustainable energy products and other ESG efforts, many of which are taxed advantage. Applying this fairly normal level of tax credits against a lower pre-tax earnings base resulted in a lower tax rate. It's just math. For the full year, I would expect the ETR to be in the range of 14% to 15%.

Okay. With that, I think we'll open it up to questions.

Questions And Answers

Operator

(Operator Instructions). We'll take our first question today from Betsy Graseck with Morgan Stanley. Please go ahead, your line is open.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hi, good morning. Thank you very much for all the detail insight, in particular your slide that talked about the percentage of folks who have been asking for deferrals is extremely interesting as well as the detail on the reserving analysis. My question has to do with how you thought about that reserving analysis. I know we've been through stress test here for 10 years now and it would just be helpful to understand how you decided to size this very significant increase in the reserve and how you think it trajects from here.

A - Brian Moynihan {BIO 1517608 <GO>}

Right. Paul, why don't you hit that?

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

Yes, sure. So, I mean let me ask the last part -- answer the last part first. We put a reserve on our balance sheet that we think reflects the information that we had at the end of Q1. And so in terms of what's going to happen in the future, that reserve is going to go up or down based upon the facts and circumstances in our view of the future when we get to the end of Q2. I think when you think about reserves, you've got to really focus on loan mix and the quality of the portfolio and then you have the added variable under CECL of everybody coming up with a view of the future. We sized our reserve build in Q1 by weighting a number of economic scenarios, all of which assumed a recession of various depth and longevity and that included assuming some tail risk similar to what's in the severely adverse scenarios.

So when we weighted the scenarios, that produced clearly a recessionary outlook, which included a significant drop in GDP in the second quarter with negative GDP growth rates extending well into 2021. We also considered the impact of various groups of credits and stressed industries and while small relative to the impact of scenario weighting, we incrementally factored that analysis into the sizing of our reserve build. Obviously there are many unknowns including how government fiscal and monetary actions will impact the outcome, but we tried to consider that as well. We also had to consider how our own deferral programs will impact losses. But perhaps the biggest unknown is how long economic activities and conditions will be significantly impacted by the virus.

A - Brian Moynihan {BIO 1517608 <GO>}

So Betsy, I might add a couple of things. If you sort of benchmark, this has nothing to do with setting out under GAAP, but just sort of okay now you have it, let's look at it. I think we're about 65% of the last year's Fed supervisory severely adverse total losses type of numbers. That's one way to think about it. As you -- and another thing to think about is the construct of the portfolios. Those of you like yourself who have been around the company a lot, I look back and started saying sort of are we sure how much different we are and people forget things that -- won't meet a lot of the people on the phone. The Gold Option Program, which was a restructuring of card debt that went on in the mid-2000s. There was -- it started going into the crisis in 2008 time frames at $25 billion. Eight quarters later or six quarters later or something like that, it's down to $12 billion. Half of that was charge-off. There's none of that around.

And so it's not only the FICO scores and all the things that you have, it's also that there's pieces of the portfolio cost us a lot in the last crisis aren't there. But let me -- and that's just how we position the portfolio. So even some of the industries which people -- we are focused on as a credit grantor and you're focused on as an analyst are relatively 1% in this industry or that is -- so the list of sort of concerning industries; entertainment, travel, things like that; we have low exposures to because of diversity and mix of portfolio. You touched on the deferrals, let me just give you a couple of perspectives on that. One, on that small business as I've mentioned earlier, the reason why it's high is doc -- there's a lot of doctors and dentists in there and you would expect that they would pay. But to give you a sense before the deferral, 95%, 97%, 98% of these people were current under all the measures and so they're not people who were struggling.

They are people who currently just needed a hiatus due to the change. The FICO scores for 90%-plus of that mortgage deferrals, of 95%-plus or the -- on the cards again about 90%, 85% I guess are 600 or better. So, the average FICO is almost 700 of a deferral. So, you'd expect that people who have deferred are doing it as matter of convenience and will get back into the -- back in the flow once they kind of reopen. And so -- and the LTVs and mortgages again, 95% or 190% [ph], only 5% or 10% are really the FHA VA of the deferral program in there. And that 95% or better, all the rest of it's low -- 75% of it's below 80% LTV and stuff. So, these are core people who've had a change or were going to -- we'd expect to start to perform. So we'll see how it plays out, but it's very different I think than past deferral status that we have.

Q - Betsy Graseck {BIO 4799503 <GO>}

It's a very impressive reserve ratio and in addition, your CET1 stayed relatively high this quarter as well. I just wanted to ask a follow-up, Brian, around how you're thinking about the dividend. It's been a question that many investors have been asking and maybe you can give us a sense as to how you think through that question.

A - Brian Moynihan {BIO 1517608 <GO>}

Let me just -- Lee is correct, I mean it's 65% of the adverse not severely adverse I think is what Lee is telling me. We're in two different locations so usually he can wave at me when I made a mistake. But in terms of the dividend, we kept the dividend payout ratio below 30% of the sort of normalized earnings level and we did it for reason that we -- one of our operating principles, we want to maintain the dividend and given what we know, we done twice the dividend this quarter at $0.40 versus an $0.18 payout ratio and we expect that to continue. And that shows you that the 100 plus basis points -- 130 basis points of excess capital, we've tested it lots of ways as you might expect. As we talk to our Board about capital management, as we talk to our Board about dividends; at any given time, we're showing them severely adverse cases, adverse cases, and thinking through the pre-tax PPNR capability of withstanding different reserve builds and outcomes. And so that's what we're doing, we plan to keep it going.

Q - Betsy Graseck {BIO 4799503 <GO>}

Thank you.

Operator

We'll go now to John McDonald with Autonomous Research. Please go ahead.

Q - John E. McDonald {BIO 21440002 <GO>}

Yes, hi. just a quick follow-up on that. Paul, I know you mentioned in terms of the macro assumptions, it's a weighted average. But what you described as kind of a 2Q deep dive in GDP and then continuing negative for the rest of the year. Is that kind of the central case and is there any more details you could provide on that as just we compare different banks and what macro assumptions are embedded into the reserve? It's helpful to know the kind of maybe the central case of assumptions. Thank you.

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

Yes. I mean just to be clear what I said was it's a significant drop in GDP in the second quarter and then negative GDP growth to extend well into 2021, I think approaching all the way to the end of the year. So, we view it as a recessionary outlook. We wouldn't describe it any other way. None of the scenarios that we're looking at are anything other than a recession and again we've captured sort of the tail risk of a severely adverse situation. In terms of providing -- yes, go ahead.

Q - John E. McDonald {BIO 21440002 <GO>}

No, no. Go ahead, please.

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

I was going to say in terms of providing specifics on one variable or another, I mean you've got a lot of variables that go into these models; many, many, many, many variables. And so, we really believe that to provide that level of detail could be a little misleading. Unless you have the full context of all the factors that we considered when we set the allowance, picking one or the other and starting to compare here or there just to us I think would be misleading. Plus very importantly the impact of all those multiple inputs that go into the process will be different from each bank depending upon the bank's loan mix and very importantly the quality of the loan portfolio that they've been putting on the books for years. I think Brian just sort of talked about it, but I'll say it again. We've been very focused on prime and super prime customer borrowers for many years now so the impacts to us of all those inputs is going to be different And I guess that's all the information I would want to give you about like one input or another. Just hopefully that helps you in terms of how we think about it.

Q - John E. McDonald {BIO 21440002 <GO>}

And the reference point to CCAR is helpful too. It sounds like what you've provided for built into the reserve is about 60% of the cumulative losses from the Fed's adverse in 2019.

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

Yes. Again as Brian said, that's more of an output not an input, right. We are developing scenarios based upon the information we had at the end of the quarter. But it is interesting and maybe helpful for all of you in terms of comparing reserves to really think about the loan mix, the quality of the portfolio, and then of course what people assumed about the future. But in terms of the loan mix and the quality of the portfolio, there is an independent view out there. There's an independent view every year. And so if you look at our losses in the severely adverse -- the Fed's stress test, our losses under the severely adverse or our losses under the adverse and then you look at our reserve and you divide by those losses, you're going to get percentages that are in the range or better than what you're seeing across the industry.

Q - John E. McDonald {BIO 21440002 <GO>}

Okay, got it. Thank you.

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

And remember, those tests basically are an independent way to evaluate the quality of somebody's portfolio and the mix of somebody's portfolio. So, we think again -- we didn't size it that way, but we think that's an interesting way for you to kind of get some sort of independent perspective on allowances.

Q - John E. McDonald {BIO 21440002 <GO>}

I think it's helpful for us to compare across banks that way. Thank you.

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

You still have the issue though by the way that every bank is going to have a -- this is the first quarter we're all doing CECL and everybody is going to develop their own view of the future and there's no evidence right now that you can point to of asset degradation. There's a little bit of NPLs, there's a little bit of reserve criticized. So, we're all doing this based upon just our view of the future based upon all those inputs that we use in our models.

Q - John E. McDonald {BIO 21440002 <GO>}

Got it.

Operator

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

Q - Mike Mayo {BIO 1494617 <GO>}

Hey Paul, same question. Maybe more specifically, how much more could the reserve -- same answer. Well, just how much -- I mean how much more could the reserve get built in the second quarter and when you define a significant drop in GDP, you define significant? I mean look you -- I mean the stock pre-market looks like it's going to open down 6% or 7% if my numbers are right and you just guided for better NII and you earned your dividend at least 2 times up to 4 times depending how you compute it. Your book value grew, you have good capital ratios, you have the balance sheet strength to take the additional charges so why not just take it for like the worst case that you're allowed to do so and communicate that and say all right, your capital still fine. So, you had one of your peers kind of telegraph that. You seem to be hesitant to do so given all the different variables I understand. But can you give us any -- a little bit more guidance for reserve builds say in the second quarter or the third quarter?

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

Yes, sure. And again like you said, we have liquidity, we have the capital. On our reserve build if you look at independent perspectives from the Fed or other sources, our reserve build as a percentage of future losses under multiple scenarios that they publish is higher or in the range of our competitors. So, that's a lot of information for you right there. In terms of the -- your question about hey, what's the likely reserve build in the future? If we thought we were going to have to add more reserve build in the future, we would have put it into this quarter. That's how the rules work, you reserve for your expected lifetime losses. So, our reserve build reflects what we think as of the end of this quarter we're going to have to have in losses for the life of the assets on our books. Now when we get to the end of the second quarter we may have a different view of the future and so we may release reserves or we may increase reserves. The quality of our loan book won't change that much because that doesn't change that much in the quarter. The mix doesn't change that much because that doesn't change in the quarter. We've built this loan book based upon years and years of underwriting standards. And so it will go down -- the reserve will go down in the second quarter or go up in the second quarter, but it will be based upon a change in our outlook on the future.

Q - Mike Mayo {BIO 1494617 <GO>}

Got it. If I can follow with Brian then, I mean clearly the biggest input is when does the economy come back online. And Brian, you and your firm have as many touch points nationally as anybody. There must be some underlying thought process that goes into the reserve build and the losses about when the economy comes back online. Kind of what's your base case, best case bad scenario? What are you seeing? What are your thoughts?

A - Brian Moynihan {BIO 1517608 <GO>}

Well, one thing that is different, Mike, and you all know is the plenary authority embedded in governors, the mayors, and the President to tell us what to do is overriding here. So, we could have a view of what can happen. But given the healthcare crisis as opposed to demand changes and things that would be out in general economic flow or credit risk because commercial real estate got overvalued are things that we've dealt with in our lifetimes as you've dealt with, but this is just different. So, we have to remind ourselves always this is going to come down to solving this healthcare crisis number one. Just to give you some facts of where we stand and will see this play out. As I said earlier, if you look at sort of the weekly flow of payments across all the means meaning cash taken out of the ATMs and spent through checks written through ACH wires and credit and debit card, that was around $65 billion a week in January and February and now it's running 50 -- like $51 billion, $52 billion average for the last couple of weeks, but you're seeing that rate of decline flatten at this point.

And if you go in and look at geographies based on the data we see, we've seen it sort of flatten. So, you're seeing what might be a relatively -- and that's after the unemployment claims have been filed and we're seeing the unemployment come into the accounts, you're seeing a rate of -- the rate of decline sort of flatten. And as you look at it and sort of compare it to the rate of decline year-over-year by week and things like that in different types of industries, they've gotten to the bottom in some, travel or entertainment; you've gotten to more sustainable maybe in drug stores and grocery stores; and you sort of see the economy running at that level. And so that imply whatever the 10 over 16% -- 15%, 16% decline. That will hold on -- we'll watch. But right now that seems to be holding on. Lot of the places have been shut down longer and we'll see that play out as it goes forward to see if that starts to grow from there. Remember gas prices are down a lot and gas usage is down a lot. That impacts those numbers also.

So, we're looking for those signs. I'm not saying we have anything yet, we're looking for those signs. We're also looking for how the unemployment affects our customer base. And so we've seen as households that we have as unemployment one of the participants in the household. We have a lot of dual earning households. 75% of the households that we have who receives unemployment also has someone receiving a regular paycheck still. And so those types of things will be interesting to see play out. Is that a change in behavior in terms of what people spend on versus a real crisis in the household because of one wage earner at work. We'll figure that out. So we're seeing balances and households especially among the moderately affluent and up grow in terms of checking account balances because people are spending less and storing cash. We've seen in the wealth management side people can delay paying their taxes. So, all these factors will play in.

It's just a little premature to call anything, Mike. And so that's the factors we're looking at as we look at not only to your point about how you said potential losses based on our customer base and their behavior and what happens to them, but also based on our view of the economy opening up and frankly our advice to people who want as to what parts of the economy could have a faster impact with less -- they are healthcare experts with less risk of people congregating versus others that might help support a reopening or get activity. Go back to the dentist or something like that. If you can put dentists back to work, that will open a part of the economy that is usually not closed down for these things and it's a relatively few number of people in a given space a given time. So, I'll leave it to the healthcare experts to make those judgments. But all that's going to come together. As we move through the quarter, we'll try to give you better insight; but right now that's what we're seeing.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. So, that's why you say reserves could go up or they could be released, you just don't know yet.

A - Brian Moynihan {BIO 1517608 <GO>}

Yes. I mean it's just that's people are -- yes, we all want to see what the end is. You included, Mike, we did too about the questions we got to wait for some time to pass to have a feel of them.

Q - Mike Mayo {BIO 1494617 <GO>}

Thank you.

Operator

Our next question comes from Glenn Schorr with Evercore ISI. Please go ahead.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thanks very much. Maybe one more quickie on allowance and reserves. When I look at the healthy reserve on card, it makes sense given the macro backdrop we're looking at in unemployment and time of the linear relationship with unemployment and card. If you look at US commercial and non-US commercial in and around 1%, that's obviously a lot more than we've had lately but not necessarily the worst thing you could predict given the world we're looking at. So I guess my question is when you talk about the quality and the mix of business and all the things that you gave us, is the what I consider the not as severe reserve on the commercial side a function of not knowing the timing, the mix of business, or is it where you sit in the capital stack meaning even if some of those companies run into issues, your historical experience in the last bunch of years has been actually really, really good. So I know it's probably all of those, but I'm just trying to see if you could talk towards that on the commercial side.

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

Look, we've got 2.16% on commercial real estate. Given how we have run our commercial real estate business over the last 10 years especially relative to others, we feel that's up from 1.6% at January 1. We've got 1.11% on US commercial. Those commercial losses, they just don't run as high because of collateral and other protections we have in the structure. So, we feel pretty good. If you look at all of -- if you look at total commercial, we're at 1.16%. So, we feel good about where we are. And again it's when you sort of add all that up and you just look at it relative to the losses that people are projecting including the Fed whether it's an adverse scenario or it's an adverse scenario, you're going of come out with percentages that are pretty healthy on an absolute basis and relative to our peers.

A - Brian Moynihan {BIO 1517608 <GO>}

Hey Glenn, I'd add one thing. Let's go back to the beginning on the pre-tax PPNR which we all learned at the last crisis. But with that earnings power to absorb pay as you go losses on the consumer side in terms of card charge-offs and things like that or building reserves and then going through on the commercial side which is what happens typically. That earnings power is I think what we feel has us in good stead in terms of the ability to absorb whatever circumstances play out here and still with more liquidity than the start of the year, more capital than we need 130 basis points more capital, and a PPNR volume that lets us drive through it. And if you think about that PPNR when you look at the stress test and stuff, we are running a lot higher than the stress test assume because they assume there's market losses and things like that which we didn't experience even in the most volatile periods of time in the market's history. And so I think as you play this out that whether we can all talk about the reserve of X or Y or Z per thing which is what you are all focused on and should be focused on. The reality is how much earnings capacity I have to keep generating capital and keep generating earnings that you can offset whatever comes at you and that's what we feel good about.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thank you, both.

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

If you study that portfolio, remember it's mostly investment grade. And if you look at it the other way around if you looked at the amount of loans or revolvers that we have in leverage finance, private equity sponsored leverage loans for example, that's less than 1% of total exposures. We don't have any CLO exposures because we don't put any of that in our ALM portfolio. We've got a fraction -- tiny bit in global markets for trading purposes.

So, that commercial portfolio is relatively high grade.

Q - Glenn Schorr {BIO 1881019 <GO>}

Great detail, I appreciate it. Thank you.

Operator

We'll go now to Vivek Juneja with JPMorgan. Please go ahead.

Q - Vivek Juneja {BIO 1505553 <GO>}

Just...

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

Hello. You're still there, Vivek, with us?

Operator

Vivek, we are not able to hear you at this time. Please check the mute function on your phone.

A - Brian Moynihan {BIO 1517608 <GO>}

Operator, let's move on to the next. We'll pick him up later.

Operator

We'll go now to Matt O'Connor with Deutsche Bank. Please go ahead.

Q - Matthew D. O'Connor

Good morning. The NII guidance obviously helpful and coming off a much better than expected 1Q. Just wondering if you can give a little more detail in terms of I assume some of the sharp drop is higher bond premium amortization, lower trading, and then obviously kind of core NIM pressure is how I think about the three buckets. I don't know if that's right or you want to parse it differently, but any additional color would be helpful. Thanks.

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

Yes. I mean we did see bond premium amortization in Q1 was -- is always sort of seasonally low or lower. We do expect an increase in Q2 given the decline in rates in Q1.

You got to remember that prepayment generally lag moves in NII or they perceive moves in -- the rate moves perceive the NII impact by six to eight weeks. What else did you ask.

Q - Matthew D. O'Connor

I assume trading benefit 1Q is being factored in and then just kind of call it core NIM pressure from the rate environment is the third bucket.

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

Yes. Trading definitely we are liability sensitive in global markets, but it's not a huge impact and it can bounce around quarter-to-quarter depending upon the type of assets that they're booking and whether they bought them at par or above or below par. That influences whether profits show up or revenue shows up in NII or shows up in market-making or similar activity. So, that's why we don't give guidance on it because it can change pretty rapidly depending on what they're buying and selling for clients in global markets. But right now it was a little bit liability sensitive and did help a little bit in Q1 and it will probably help a little bit in Q2.

Q - Matthew D. O'Connor

Okay. And then as we think about the balance sheet growth component, obviously 2Q average balances will benefit from the run up on a period-end in 1Q. But I would think as you kind of look to the back half this year and beyond, some of those line drawdowns in commercial start to get paid off so that maybe it's tougher to grow the balance sheet or at least tougher to grow loans. Is that the right way to think about it?

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

Yes. I mean there's no question that commercial revolver lines which spiked in March will start to pay down once economic conditions start to improve, but obviously the timing of that is very uncertain so I think we're just going to have to wait and see. Clearly we're going to see some carryover from these draws in Q2 and we may see a very significant amount stay with us for some time. We'll just have to wait and see. Obviously deposit balances also benefit NII because you don't necessarily have to make a loan, you can earn on those deposit balances and they are way up as well and they may be with us for a little while. We'll just have to wait and see.

Q - Matthew D. O'Connor

Okay. And then just last quickie...

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

Just so you know, our NII guidance -- I'm not going to get into the details. But our NII guidance of course assume some sort of run-off. We're making some sort of guesses at this point about what the run-off would be in both loans and deposits.

Q - Matthew D. O'Connor

Yes, understood. And then just lastly, a quick one on the spread of the commercial line drawdown, any rough numbers on that? I'm often asked that question.

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

Yes, sure. The spread on the drawdowns will be no different than what they were pre-crisis because they're just drawdowns, they're existing arrangements. We worked with some clients to adjust the liquidity we were giving them. There were a few new loans in there that were at higher spreads, but most of the spreads were the same as were spreads pre-crisis. So, you're not going to get a spread benefit on those draws.

Q - Matthew D. O'Connor

Maybe like a LIBOR plus 150 basis points or 200 basis points?

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

Well, given the quality of our loan book, I wouldn't go as high as LIBOR plus 150 basis points.

Q - Matthew D. O'Connor

Got it, okay. That's helpful. Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

In terms of who drew?

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

Yes, in terms of who true, yes.

A - Brian Moynihan {BIO 1517608 <GO>}

But one thing just to back up, there will be a transitory impact we should all hope of these draws and stuff and that means more stability to the market, more reopening of the economy. So -- but what doesn't -- isn't transitory is the good core work that went on in our consumer business, our wealth management businesses, in the treasury services, the core growth levels. That will continue through even if the deposits that people have built part go back into other forms or get used up. And so I think that that's going to be the trick for a little while. We're all going to be occupied with the pace of those loans dropping off et cetera, but the reality is over the long term we're going to be based more on the way that underlying has performed going into this and frankly the amount of activity can continue in the underlying business given this -- the COVID virus situation. And we -- our officers are making contact, our wealth managers were continuing to add accounts in various businesses not at the rate that you were before, but because just necessarily there's not face to face meetings taking place. But you're seeing the wealth management contacts are up, you're seeing even the referrals between the lines of businesses continue. It's just at a lower rate because of the necessities of face to face meeting limitations, but those will come back as soon as we get back in action.

Operator

We'll go now to Brian Kleinhanzl with KBW. Please go ahead.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Yes. Good morning. Quick question. I know you commented on the consumer deferrals that you were seeing, but what's kind of been the trends on the corporate side as well and kind of what's been the inbound with regards to using some of these government programs from your clients out there?

A - Brian Moynihan {BIO 1517608 <GO>}

We -- in terms of the government programs.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Correct.

A - Brian Moynihan {BIO 1517608 <GO>}

We've had -- 12 days ago we started taking applications in the PPP program. We've had hundreds of thousands applications. We're processing them in accordance with the guidance that was given by Treasury to get the work done and then submit them. Thousands have been through the SBA and have a number and we have thousands -- many thousands in the hands of clients that are signing promissory notes and we're funding them. So, that is still I think for the whole industry the real impact, economic, and the money traveling out is coming -- will come over the next period of time here. Today we received the first major distribution of the direct payments in terms of the $1,200 stimulus payment types. We're seeing now the unemployment benefits, the extra $600 type thing coming through and the benefit structures we're -- in programs.

We're seeing both as we service the state as a provider of prepaid card types card access to those programs and we see in our accounts. So, those programs are just barely hitting the general consumer, general business, et cetera for us or for the industry. Our industry peers are all in the same condition. And so they will provide -- the stimulus they'll provide is actually going to be from now on not from now backwards because this is a program that didn't exist literally three weeks ago. Only started two weeks -- 12 days ago and several hundred thousand people have applied for them. We are processing through as fast we can and it's around 10,000, 12,000 on the more commercial banking side of it.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Just a separate question, I know you built a big qualitative reserve now with CECL. But kind of what are your expectations with regards to how the charge-offs will roll through given all the deferrals that are going on forbearance which could push potential charge-offs out to a year or more. Are you really kind of looking that you may not see much of an uptick this year and this really could be a 2021 before you start to see meaningful degradation in the charge-offs? Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

So, the total amounts as you saw on Page 5 of the balance of deferrals. So if you go the inverse of that, 95% and we see -- of the cards are not deferred and they'll pay us and stuff. So, I think the question is what really happens to your point. So, we deferred somebody who is a 750 FICO who temporarily thought lost their job or thought they were going to lose their job or thought income and just wanted a month. That will come back and so I think the losses will shake out into the fall because just the methodology is remember it's still 180 days that you have to roll through all the buckets and stuff. So we'll see it play out, but it's going to be delayed. But remember because the CECL you're providing for your expected outcome under that delay and Paul gave you the parameters of what we talked about already.

So the question is that's what we're putting up at the end of the first quarter and we get to the second quarter, we'll put it up in the third quarter. All based on what we think the credit cost will be of that portfolio over the cycle that's ahead of us. Down into the trough and then back out the other side in a very slow manner as Paul described. And then the real question will be sort of people's behavior given these government programs and the amount of extra cash going in and then on the employment -- the PPP program is to employ people and pay people. You get two paid weeks of pay to pay them out and so we'll see how that all meet out to the underlying people. But so I think it's premature, but I think it will delay charge-offs, but our reserve at any given moment will reflect what we think will ultimately happen to those customers not when it will happen.

Q - Brian Kleinhanzl {BIO 15228405 <GO>}

Okay. Thanks.

Operator

And we'll go now to Ken Usdin with Jefferies. Please go ahead.

Q - Ken Usdin {BIO 3363625 <GO>}

Hey, thanks a lot. Hey Paul, just got a couple of follow-ups on the NII front for you. With LIBOR expanding versus Fed funds and the TED spread still wide which typically happens obviously in times of stress, how are you expecting that to traject as you talk about your $11 billion number and just your expectation for rates in the long end of the curve?

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

Yes. So we're basically factoring in a tightening between LIBOR and Fed funds over the year, but we're also factoring in some loan and deposit growth offsetting that and then of course we've got securities and other assets maturing that we're going to replace at a lower yield. If all that's factored into our perspective that we think with loan and deposit growth, we can -- you'll see NII kind of at that $11 billion level give or take roughly through the end of the year.

Q - Ken Usdin {BIO 3363625 <GO>}

So when you -- with all the cash that's sitting on the balance sheet and like you said earlier you're expecting some tapering of that, how -- what is the asset liability decision about what to invest and what you're putting it in? And so like what's the kind of go to investment rate versus what's coming off?

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

Well, right now that liquidity -- that excess liquidity that all came flooding in is in cash and we'll have to think about what we want to do that -- with that excess liquidity as it becomes clearer kind of how long it's going to stick around. If -- right now if you just look at what's in our securities portfolio and compare it to the yields available to reinvest, they'd be 50 basis points lower. But all that's kind of factored into our guidance.

Q - Ken Usdin {BIO 3363625 <GO>}

Right. And one more question on the deposit side. Can you just talk about across the businesses what you're seeing from customers in terms of money coming out of the markets and whether it's sitting in money market mutual funds, in wealth management, or whether it's moved on to the balance sheet and just kind of how that ties into your ability to reprice deposits? Thanks.

A - Brian Moynihan {BIO 1517608 <GO>}

Just to start on that. Just generally customers put more cash and you saw that in wealth management deposits being up $19 billion. So that reflects not only the moving money, but also the reallocation in our models and things like that. So, you've seen that. We've seen them stabilize. My guess is two-thirds of that was more what you're speaking about, a third or so was sort of the core growth building up that we saw coming into the tail end of last year into the quarter maybe a little less than that. But a lot of it was moving. It will move back in the markets based on the allocations and methods and in terms of deposit flow into the markets. And then on the money funds, the allocations were reflected there is because of the prime money funds versus the government money funds. There was a lot of instability around that towards the quarter. So, I think this will all settle out and you'll see it return to more normal when people are thinking about that. So, you'll see less volume growth and the balance sheet deposit driven in wealth management.

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

I'm not sure what else I would add to that. Obviously we brought deposit pricing down in Q1, you can see that in the average by product. They're going to come down further just based upon pricing actions that we've already taken that are just now rolling -- going to start rolling into those average deposit pricing across the different types of products. In terms of growth, we obviously saw very strong growth in Q1. There's a lot of moving pieces there so it's hard to give guidance on growth from here. I just would emphasize what Brian emphasized earlier that the underlying spike in deposits. If you look beneath that underlying spike, we still saw solid core organic growth across all our LOBs in January and February.

And in terms of the second quarter with respect to consumer, you're going to have government stimulus and delayed tax payments. That's going to be a tailwind. GWIM clients, we'll just have to see they shifted out of investments into deposits. We're going to have to see how that plays out over time. And in Global Banking, we already discussed the large deposit inflows in March. Ending deposits grew $94 billion quarter-over-quarter. As the market stabilizes and economic activity returns, we do expect some component of those deposit balances to flow out over time as clients pay down their lines, pay out their bills, and redeploy liquidity. So we've kind of factored all that in, but at this point there's a lot of uncertainty.

Q - Ken Usdin {BIO 3363625 <GO>}

Yes, understood. Thanks a lot.

Operator

And we'll take our final question today from Vivek Juneja with JPMorgan. Please go ahead.

Q - Vivek Juneja {BIO 1505553 <GO>}

Sorry about that earlier. But let me just jump in and not hold everybody up that much. In your loan drawdowns, you said 90% investment grade. What percent -- what percentage of those were BBB- and what are you thinking as you reserve how many of those are more vulnerable or more at risk of downgrades?

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

Well over 90% were investment grade or secured. I don't have how many were BBB- in front of me.

Q - Vivek Juneja {BIO 1505553 <GO>}

Okay, And going back to I know just looking at the reserve belt, sorry to go back to that, but it is the question of the day. On your -- you've talked about GDP staying negative well into 2021. Can you give some color on what you're thinking in terms of unemployment, how high do you see in your weighted average in 2021?

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

No. As I said before, we're not really providing level -- that level of detail because we think comparisons on this input versus that input work when there's 30 or 40 inputs in the models. It's going to be misleading unless you have a full context of all factors.

Q - Vivek Juneja {BIO 1505553 <GO>}

Right, okay. Another one in small business, the deferrals that you've seen so far probably going to rise. What are you thinking in terms of as you've done your reserving, what percentage of those ultimately may not make it at this point? What is the extent?

A - Brian Moynihan {BIO 1517608 <GO>}

If you were listening earlier...

Q - Vivek Juneja {BIO 1505553 <GO>}

I have been trying, Brian. Too many calls this morning, all at the same time.

A - Brian Moynihan {BIO 1517608 <GO>}

That's alright. A substantial part of the small business are in a thing called practice solution, which are doctors and dentists and things like that, and you expect once they open a practice they'll pay because they don't want to lose their equipment practice. So, it's a little different than a general small business that they have and that's why that number is elevated just because of who -- the dominance of that portfolio as a percentage of the total. So, we expect a lot of it will come back and we'll play that -- see that play out as parts of the economy reopen.

Thank you, Vivek. And we're going to move to close here because we've got an endpoint at 10. So, let me just close quickly. Thank you all of you for your time this morning. Number one, please keep your families and yourselves safe as we go through the rest of this health crisis. Simply put, we earned $4 billion. We added substantially to our reserves based on our view at the end of the quarter. Our capital ratio is 130 basis points over our minimums. The liquidity is increased during the quarter. But importantly we drove responsible growth, supported our teammates, our clients, and our communities, and delivered I think for the shareholders too given the circumstances that were going on. As we look forward, we'll continue to keep you apprised of what we're seeing in our client base due to our purview. And as we see that, we'll continue to try to keep people informed to help people understand how the Company and economy might operate given the stay at home orders. Thank you for your time and we will talk to you next quarter.

Operator

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