Q3 2020 Earnings Call

Company Participants

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

Other Participants

- Betsy Graseck, Analyst
- Charles Peabody, Analyst
- Glenn Schorr, Analyst
- James Mitchell, Analyst
- John McDonald, Analyst
- Kenneth Usdin, Analyst
- Matthew O'Connor, Analyst
- Mike Mayo, Analyst

Presentation

Operator

Good day and welcome to the Bank of America Third Quarter Earnings Announcement. Currently all phone lines are in a listen-only mode. Later there will be an opportunity to ask questions during the question-and-answer session. (Operator Instructions) Please be advised today's program may be recorded.

It is now my pleasure to turn the program over to your host, Lee McEntire.

Lee McEntire {BIO 6651246 <GO>}

Good morning. Welcome and thank you for joining the call to review the third quarter results. I trust everybody has had a chance to review our earnings release documents as usual. They're available including the earnings presentation that we'll be referring to during the call on the Investor Relations section of the bankofamerica.com website.

I'm going to first turn the call over to the CEO, Brian Moynihan for some opening comments and then ask Paul Donofrio, our CFO to cover some other elements. Before I turn the call over to Brian and Paul let me just remind you we may make forward-looking statements and refer to non-GAAP financial measures during the call just regarding various elements of our financials. And forward-looking statements are based on management's current expectations and assumptions and they are subject to risks and uncertainties particularly as we continue to operate in this pandemic period.

Factors that may cause these results to materially differ from expectations are detailed in our earnings materials in the SEC filings that are available on the website. Information about our non-GAAP financial measures including reconciliations to US GAAP can also be found in our earnings materials available on the website.

So with that take it away Brian.

Brian Moynihan {BIO 1517608 <GO>}

Thank you, Lee, and thank all of you for joining and I hope all of you are staying safe. We're going to begin on slide two. And today before Paul takes you through the detail on the financials, I thought I'd give you some thoughts on the first three quarters of 2020 and how we are driving for you here at Bank of America.

As an opening comment, the economy in the market this year have been defined more by than anything else by the impact of the global healthcare crisis. This has created a sinuous paths for the recovery. As we have said earlier on here at Bank of America and what our data continues to suggest is that we are seeing a return to the fundamentals of a generally sound underlying economy, but we won't get there until we fully address the health care crisis and its associated effects.

These effects have been lessened by the monetary and fiscal policies and by the core health of the US consumer given those policies. There are three key themes that I'd like to comment on. One is the economy generally. What we've seen our data and the impact of the projected path on economies earnings and -- in the company's earnings and prospects going forward.

The second is, how do we continue to think about manage the risk resulting from the economic downturn in the subsequent beginnings of the recovery and the third is how we are making progress. Given all that backdrop on our corporate strategies. Before I touch on these items. Just a brief summary of the quarter.

Overall solid performance give the operating backdrop we face. We earned around $5 billion after tax of $0.51 per share. We ended the quarter with a capital ratio of 11% versus 9.5% minimum. For the third period of this pandemic we've earned more than twice our dividends attesting to the strong balance sheet security of this company.

The operating environment continues to acquire more operational excellence and ever before. It requires delivery immediate technology capabilities across our franchise from our group of talented teammates. It also has to deliver a customer experience that can be redefined on a daily basis. It also has to meet customer demands which ebb and flow given the daily events.

It has required extra cost do the right thing to protect our teammates, our clients in our franchise, all are processing higher transaction levels and dealing with the volatility in a high volumes that come from it. It requires our gross work on delivery on a day-to-day basis.

This results in expense that remains elevated this quarter as expenses from COVID. However, our disciplined expense management remains well intact. We have turned the corner in these COVID cost as we see forward in the fourth quarter, we see the cost coming back down the company, that is evidenced by the drop this quarter of 3,000 in our headcount on a quarter-to-quarter basis and Paul will talk more about the path going forward in a minute.

So let's start with the economy and its impact on our company. We saw another partial restoration in the US economy. We saw that in our outside data and we saw it in the large base of spending our customers. As you think through the current quarters. In the first quarter, our customer spending was impacted as we hit March after a strong start to the year. However, for the quarter, our customers still spent more than they did in the first quarter of '19.

The second quarter saw the worst of the crisis in terms of spending. It was a 30% drop in GDP in the spending fell deeply in April that started to recover stimulus PPP and other monetary policy kicked in, in May and June and also the re-openings began. In the third quarter, we've seen a full restoration of spending by Bank of America customers when compared to last year.

Overall, the customer payment levels in September 2020 were larger than September 2019. Year-to-date across $2.3 trillion in spending at Bank of America customers have spent more than they did last year.

You can see that in slide 26 in the appendix. This has occurred even in the some of the summer 2020 stimulus programs have run their course. Our own Bank of America economic experts predict a sharp rebound in third quarter GDP of around 30%. So simply put, we're back to 97% plus where we were in terms of GDP size. So what are we seeing as we've turned in October, the spending by our consumers is still solid about 10% ahead of last year.

Deposits remain elevated and continue to grow in Consumer Banking and Global Wealth Management. In Global Banking deposits are flattish. I think as customers continue to make choices about the liquidity. We are seeing loan demand stabilize and it may -- we may have in a trough in September. In commercial utilization, rates have come down below pre-pandemic levels last year as the economy continues to growing forward, we believe we will see some demand recover over the next few quarters.

In consumer lending card balances appear to be stabilizing credit spending continues to grow and we are growing at new accounts within our consumer card businesses, new accounts are growing in our auto lending business and our mortgage business is stable.

So this view of loan demand and more stability of balances, the ability to redeploy some of the cash balances given the now length your stability of customer deposits we lead us to believe that the third quarter was a trough quarter for NII and Paul will cover more of that later.

The second topic I want to touch about is going to slide three on the risks. We continue to remain focused on all the risks whether market and trading risk credit operational reputation risk given the incredible volumes unusual working conditions of all in. Going back to the first quarter volatility, the concern was obviously market risk. We've handled this market risk well and again for this quarter the team made trading profits on every single day.

Our capital levels of liquidity are historically high levels as I stated before and liquidity stands at over $860 billion. Credit risk is the current focus in this quarter and you can see the highlights of that on slide three. Charge-offs declined for the quarter. Reserve build this quarter was on the commercial side. Mostly that's due to the specified industries that are facing still not being fully open in the length of time it may be till they reopen.

Consumer card release reserves for example. We believe we are staying ahead of the commercial risk by aggressively reviewing our portfolios of the last two quarters in each quarter we done 100% review of all the middle market and business banking portfolio is to ensure we have strong internal ratings integrity and focus on the ability to pay as well as just having liquidity.

You can see an increase in the criticized exposure that comes from those views and remains. It is more focused on the certain industries and Paul will touch on that. In the first couple of weeks, we've seen the criticized assets come back down on some of those clients to refinance. Meanwhile overall non-performing loans remain around $4.5 billion with commercial basically flat to last quarter and consumer growing around $200 million.

Overall the balance of nonperforming loans remains at a modest 48 basis points to loans. This is a testimony to the decade of responsible growth this company is engaging. Importantly deferrals, the deferral story, which we talked about the last couple of quarters is largely over. We only have 100,000 customers remaining on deferral at the end of September.

Of the $9 billion in total consumer balances that remain on deferral $7.5 billion of mortgage loans. There was a well secured and low loan to value and among other many other positive attributes including 25% to 30% of them are in the Wealth Management business.

All are accounted for in our reserves based on expected losses that might come. Interesting both card delinquencies and mortgage delinquencies are down in terms of dollar amount 10% year-over-year. Having said all this around credit, we don't expect to see a meaningful increase in net charge-offs to mid next year and we expect that the reserve builds are behind us, which means the P&L impact of those losses should be in our financials already.

So then the question becomes after managing the risk is how we've been investing in the company at the same time and that you can see as you move to slide four. Through our continued investments in technology, we continue to prove our platforms across the board drive operational excellence, invest in the future, all of our growing core customer client households throughout the quarter and our commercial businesses, we are now actively prospect again having done the review as I spoke about early fully assessing the credit quality existing clients and then focusing our production work on the prospects we know we can get around the country.

And our consumer business that we continue to grow net core checking households by about 900,000 year-over-year and a $100 billion plus in checking balances. We saw a strong growth in Merrill Edge in our consumer customer investment platform by $40 billion in assets year-over-year.

We've seen depth penetration and digital engagement across the whole consumer business and our Wealth Management business even as we our advisors work from home, our private bankers and financial advisors grew households again this quarter. In fact we reached a record new client balances of $3 trillion.

We also continued our investments in our market expansion during the third -- market expansion in the crisis, we added 30 new financial centers in the quarter and continue to offset that number with closures that were pre-planned before the pandemic, but here we continue to change the company is in the digital capabilities. Not only in consumer, but across the board every business. This digital enablement is a trifecta, a better customer engagement and client delight deeper penetration of products and services and operating efficiency.

And with the rollout of a new industry feature like this week's life plan announcement where we now have 500,000 customers have already filled out of life plan financial plan over the last couple of weeks. You can see these digital engagement highlights on slide four. This quarter we had 2.3 billion in total digital logins in our consumer business.

Erica is up to 16 million users, Zelle is at 12 million users. Importantly you see at the bottom of the list, the digital engagement our wealth management customers through that digital platform Merrill Edge and private banker again proving that we're a high touch and high-tech. This ranges from how we provide advice and personal reserves to how these -- our clients have interacted with us to do things like just deposit checks and that was up dramatically over the quarter as our advisory clients embraced our new digital capabilities.

The middle -- in the middle of the page you see the statistics for our commercial business for our product called CashPro and CashPro mobile. This makes our client plays easier and saves them operating costs and here we -- in the CashPro area, we've rolled out a bunch of new features and user interfaces and capabilities last week to allow companies and company treasurers to better manage their money around the world and all kinds of currencies and all kinds of environments.

So in summary $5 billion in after-tax earnings and a solid quarter progress on the economic recovery progress on the risk, but most importantly underlying that business strong growth in the business side, in the customer side of the business, which is what we do and we'll continue to do it perpetuity.

With that let me turn it over to Paul.

Paul Donofrio {BIO 1533743 <GO>}

Thanks, Brian. I'm starting on slide five and six together and most period my earnings remarks are focused on year-over-year comparisons, but this quarter many of my comments will be directed towards comparisons against Q2 '20 as most investors we speak with are more interested in our progress quarter-over-quarter as we work sequentially through this health crisis and given COVID has made year-over-year comparisons less relevant.

Q3 net income of -- excuse me $4.9 billion or $0.51 per share compares to $3.5 billion or $0.37 in Q2. The earnings improvement was driven by lower provision expense as we modestly added to the reserves for credit losses in Q3 compared to the more significant increase in reserves in Q2. Versus Q2 the lower provision expense was mostly offset by lower NII and higher cost of litigation and cost of the COVID environment. Lower rates and loan balances caused NII compression, which I will discuss in a moment.

The linked-quarter decline in non-interest income was driven by the more robust trading and IV environment in Q2 as well as a $700 million gain on the sale of mortgages recorded in Q2. While down linked-quarter fees from capital markets in both market making and investment banking were solidly up year-over-year at $1.8 billion investment banking fees with the second best quarter in the company's history. Brian noted progress in activity levels across many of our businesses and that showed up an increased levels of fees, which helped to mitigate the linked-quarter decline in capital markets revenue.

Q3 saw card income and service charges move higher for more heavily from the more heavily impacted Q2 levels. We also experienced higher asset management fees as the market improved and we grew net new households again this quarter.

Turning to expenses. They were higher in Q3 than Q2 driven by three things. First, we built litigation reserves for litigation with respect to some older matters. Second, we had an increase in COVID related costs. And third this is the first quarter in which we recorded merchant servicing expense.

It is important to point out that the increase from recording merchant servicing expense and even some of the increase in COVID related costs were associated with increases in report revenue, which obviously helps defray their impact on profits. And with respect to the linked-quarter change in pre-tax pre-provision income, I would also point out that the $1.3 billion of the decline was driven by two more abnormal items. The prior period loan sale gain of $700 million and this quarter's elevated litigation expense of about $600 million.

In addition given a reversal and UK tax policy, our results included $700 million positive adjustment to our tax expense as we revalued our UK deferred tax asset that had been previously written down. Our ROTCE was 10% and ROA was 71 basis points.

Moving to the balance sheet on slide seven, we ended the quarter little changed from Q2 at $2.7 trillion in total assets. The main point I want to make about the balance sheet is the redeployment of some of our excess liquidity out of cash and reverse repo and into securities. Cash and reverse repo declined by about $112 billion from Q2, while security levels rose by a similar amount.

This will help offset NII compression from lower reinvestment rates in coming quarters. The only other notable point on the balance sheet was the decline in loans driven by customer pay downs. Shareholders' equity has increased $3.2 billion as earnings were more than twice the amount of dividends paid. With respect to regulatory ratios importantly this quarter we received approval of our updated model to calculate operational risk RWA, which resulted in a $128 billion reduction in our advanced RWA. Decline in loans drove RWA even lower under the advanced approach. The improvement in RWA and capital improved our CET1 ratio under advanced from 11.4% to 12.7%. The decline in loans improved RWA under standardized as well, but given the larger decline in our CET ratio under the advanced approach standardize became our governing approach again this quarter.

Our CET1 ratio under the standardized approach improved to 11.9%, which is 240 basis points above our minimum requirement and translates into a $35 billion capital cushion above that requirement. Our TLAC ratios also increased and remained comfortably above our requirements. Before leaving the balance sheet, I want to point out a couple of things with respect to loan and deposit trends. The charts on slide eight and nine show a five-year trend as we wanted to give you a longer perspective on the growth of loans and deposits that incorporated more normal environment given the near-term disruption caused by the pandemic.

Overall year-over-year total loans grew 1% and the lines of business grew 3%, commercial loans rose $67 billion in Q1 and then declined in each of the next two quarters. Year-over-year average Global Banking loans are only down 1%. In consumer banking, loans grew 5% year-over-year as a decline in higher yielding card loans was more than offset by the addition of PPP loans and residential mortgages. In terms of the past -- forward a few perspective. First our middle market utilization rate a year ago was 41% and has now declined to 37%. Business banking has gone from 39% to 33%. We believe these rates are bottoming and should begin to move higher over the next few quarters if the economy continues to grind forward.

With respect to credit cards spending and cash volumes declined materially during the first half of the year driving balance is lower. The good news is that credit card spending continued to gradually improve in Q3, but remains significantly above pre-pandemic levels in certain categories such as travel and entertainment. Outside of PPP loans where government forgiveness will drive declines. We remain optimistic but the larger loan declines in the past couple of quarters are behind us.

Absent of resurgence in COVID cases further impacting the economy. On slide nine, we provide the same trend by line of business for deposits. Brian already made a number of points on deposits and you can see the tremendous year-over-year growth in every line of business. I will just add that in each line of business, rate paid on deposits is at or below the rate paid to customers in 2015 before the Fed began raising rates. So we think our strong deposit growth reflects our customer's overall experience with us.

Turning to slide 10 and net interest income. On a GAAP non-FTE basis, NII in Q3 was $10.1 billion, $10.24 billion on an FTE basis. Net interest income declined $719 million from Q2 '20 and $2.1 billion from Q3 '19. The drop from Q2 was driven by lower loan balances and decline in interest rates across the yield curve, which was more pronounced on an average basis on a spot basis. Given the decline in mortgage rates during the quarter, we saw an extraordinary level of mortgage prepayments. This resulted in higher bond premium write-offs and drove a little more than half of the decline in NII for Q2.

Compared to Q2, the increase in prepayments was negatively impacted the yield on our securities by 30 basis points and the overall net yield on the company by six basis points. The lower long-term rates also continue to impact the reinvestment of maturing securities lowering our NII and yield. The other primary driver of the linked-quarter decline in NII was the lower commercial and credit card balances previously noted.

While lower shorten rates did reduce the cost of both deposits and long-term debt. This funding of decline was mitigated by yields on variable rate loans also repricing lower. We also want to point out that we saw a modest benefit in Q3 from the redeployment of some of our excess liquidity into securities. This should aid NII more in subsequent quarters. Given the sharp decline in NII, the net interest yield declined by 15 basis points from Q2. On the bottom right we show the drivers of this net interest yield decline.

I already noted the bond premium impact and you can see the other drivers on the chart. In terms of forward NII guidance, there are a couple of caveats worth emphasizing such as rates not will be lower than Q3 levels and the economy not taking a big step backwards from negative COVID development which could drive low demand lower again. Having said that we believe Q3 will likely be the bottom for NII and we are optimistic it will move higher in 2020. Let me provide a few thoughts on why we feel good about NII moving forward.

First commercial loan utilization rates are at historically low levels and with the economy expected to slowly going forward, we are optimistic that over the next quarter or two you could see C&I loan demand to start picking up. As Brian noted, we are also seeing spending on credit cards slowly picking up. So with stable customer repayment rates, we could see a seasonal lift in card balances as well.

At the very least we are not expecting the continued large declines seen over the past two quarters in outstanding commercial or card loans. In addition some combination of refinancing target and stabilization of long and rates should result in less bond premium write-offs then currently impacting NII. And lastly, as I mentioned, the deployment of cash to higher-yielding securities will aid NII in the future.

We believe these factors taken together in the near-term will mitigate the ongoing negative effects of NII on higher yielding assets maturing or paying off and being replaced with lower yielding ones. Turning to slide 11 and expenses, expenses this quarter were 14.4 billion, which are $1 billion higher than Q2.

First about $600 million of the increase is from elevated litigation expense. The remaining increase is split between higher COVID costs and merchant processing expenses, which are not higher, but just accounted for differently this quarter following the JV dissolution.

The elevation in our net COVID expense was driven by costs associated with processing unprecedented levels of claims for uninsurance for unemployment insurance through our commercial card product and continued cost of supporting PPP loans. Both of these activities have revenue benefits, which helped offset some of the costs.

With respect to expense in Q4, we don't expect to have a similar amount of litigation expense and we don't expect a repeat of the Q3 activity with respect to processing unemployment insurance claims. Therefore we believe absent other unexpected changes our Q4 expense number should be in the neighborhood of around $13.7 billion.

Turning to asset quality. On slide 12, our total net charge-offs this quarter were $972 million or 40 basis points of average loans. While net charge-offs benefit from government stimulus and loan deferral programs, it also reflected years of adherence to our responsible growth model. The $174 million decline in net charge-offs was driven by lower credit card losses.

The loss rate on credit card declined to 249 basis points of average loans. Provision expense of $1.4 billion driven by a $417 million net reserve build for the quarter. While total reserves grew modestly from Q2. Total loan balances declined $44 billion increasing our allowance as a percentage of loans to leases to 2.1%. I would also note the coverage ratio for every loan category increased from Q2 with credit card now just north of 11% total commercial loans at 1.8% and CRE at 3.7%.

In terms of the process and key variables with respect to setting our reserve, which is something everyone seems to have great interest in. We continue to include a multiple of downside scenarios. The weighting of these scenarios produced an outlook that GDP could return to its 4Q '19 level sometime in late 2022. The weighting also produced an unemployment assumption of nearly 9% as we exit Q4 '20 and 7% a year later. So our unemployment assumptions for the end of 2020 is higher than the current unemployment and the time to return to positive GDP improved compared to last quarter.

At the end of the day, we build commercial reserves for exposures to industries more heavily impacted by COVID and left reserve coverage in other areas nearly unchanged as we felt despite the macro improvement there is still too much uncertainty around unemployment expiration of stimulus the duration of the pandemic to reduce total reserve.

On slide 13, we break our credit quality metrics for both our consumer and commercial portfolios. On the consumer front COVID effects on asset quality continued to remain benign, consumer net charge-offs declined $170 million driven by a decline in credit excuse me in card losses. 30-day delinquencies and NPLs rose from very low levels as deferrals ended and began to enter those metrics.

As Brian noted consumer deferrals have materially declined with only $9 billion remaining, which are mostly consumer real estate related and have strong collateral values. Credit card deferrals have declined from more than $7 billion at the end of Q2 to around $400 million now and more than 80% of the accounts with deferrals that have expired have made their first payment.

Commercial net charge-offs were flat with Q2, but included higher commercial real estate losses primarily related to mall exposures, which were offset by lower C&I-related losses. Overall, given the environment, the asset quality of our commercial book remains solid with 88% of exposures excluding small business either investment grade or collateralized.

Our reservable criticized exposure metric continues to be the most heavily impacted by COVID and increased this quarter by $10 billion from Q2. It should be no surprise to you that exposures in the hotel and airline industries led that increase. However it's also worth noting that our commercial NPLs, which are lower rated than criticized are still only $2.2 billion flat compared to Q2 and remained low at only 42 basis points of loans.

With respect to real estate -- commercial real estate excuse me which is an area of focus given COVID potential impact on the sector. We feel very good about our exposure and reserve coverage. Today outstanding loans for commercial real estate are $63 billion, which represents 7% of total loans for Bank of America and less than 25% of total equity. These percentages are very low compared to the broader industry.

90% of these loans are either investment grade or secured by collateral. We have a diverse mix of exposure led by office space at about a quarter of CRE, the CRE portfolio multifamily retail hotels each just north of 10% of our CRE exposure and our exposure is also regionally diverse with only one area of the country representing more than 20% of the CRE loan book.

Currently, we have a little more than 400 million in this book on NPL status and year-to-date we have seen less than $200 million in net charge-offs and we hold nearly 3.7% of allowance against these loans. I'll just take just a moment to go a little deeper on our exposure to hotels as an example of our measured approach over the years.

Within CRE we have about $7 billion outstanding loans related to hotel properties that is less than 1% of overall loans with respect to asset quality of these loans 85% of them are collateralized with many having pre-COVID LTVs around 50% to 55% that can weather a meaningful price decline.

And whilst 60% of these loans are classified as we reservable criticized only $120 million our NPLs. Okay, turning to the business segments and starting with Consumer Banking on slide 14. In the interest of time I will keep my comments brief on the lines of business and just hit the highlights on the slides we normally provide. In the first half of the year compared to our other segments Consumer Banking was the most heavily impacted by COVID as it bore the brunt of revenue disruption from lower rates and lower consumer spending as well as the need for customer systems.

It also bore a large dislocation in credit costs not because of realized losses, but instead from establishing reserves for losses, which are projected to materialize over the coming quarters. In Q3, we did not add reserves and you can see the improvement in profits versus Q2. I would also note that expected credit losses have yet to materialize. In fact we saw reserves and net charge-offs declined from Q2.

We also saw improvement in consumer fees as activity and account growth improved and we saw less demand for customer assistance through fee waivers. We also believe this quarter maybe the turning point with respect to COVID expense. As COVID cost decline we expect to see the benefit of a more digitally engaged customer base. We are in $2.1 billion in consumer banking in Q3 versus roughly $100 million in Q2, but remained well below last year's results as NII fees and expenses have all been pressured by the pandemic.

It is worth pointing out that both our rates paid and cost of deposits declined as deposits grew and we handled more transactions, but we're more productive as a result of digital processing. Client momentum in this business continued to show strength around deposits and investment funds while loan growth continued to be impacted by declines in credit cards.

Let's skip to Wealth Management on slide 17 and 18 and I will refer to both of those pages as I speak. Here again, the impact of lower rates on a larger deposit book resulted in lower NII, impacting otherwise solid quarter with positive AUM flows, market appreciation and solid deposit and loan growth. Net income of $749 million was down 32% from Q3 '19 driven by decline in revenue as well as higher non-interest expense.

Net income improved from Q2 on lower provision expense as reserve building subsided. With respect to revenue, lower NII more than offset improvement in asset management fees. Expenses increased in comparisons against both periods driven by revenue related expense and investments in our sales force.

Merrill Lynch and the private bank both continue to grow clients as we remained a provider of choice for affluent clients as relative to the great work of our advisors to provide advice and guidance in these challenging times, year-to-date we've added nearly 17,000 net new households in Merrill Lynch and more than 14,00 net new relationships in the private bank.

Client balances rose to a record $3.1 trillion up 6% year-over-year driven by the rebound markets as well as positive client flows. Let's move to our Global Banking results on slide 19. Global Banking results continued to reflect COVID related impacts above lower interest rates and higher credit costs in the quarter, mitigating these impacts the business continued to produce strong investment banking results, the business earned $926 million in Q3, which included adding $555 million to credit reserves, net income declined $1.2 billion from Q3 '19 split relatively evenly between lower revenue and higher credit costs.

The decline in revenue was driven by lower NII as a result of lower rates. Within non-interest income taxed advances leasing revenue was lower while IBPs rose. As I mentioned investment banking fees for the company were $1.8 billion and they were up 15% year-over-year. An increase in non-interest expense year-over-year primarily reflected investments in the platform including our merchant services business, while average deposits are up nicely year-over-year, average deposit levels declined from Q2 as we continue to lower rates and some customers chose other uses for the liquidity.

Rate paid on deposits are now lower than the level seen at the end of 2015 just before rates began to rise. Average loans year-over-year were modestly lower reflecting the pay down noted earlier, but it's worth noting that we have seen positive trends on spreads albeit at lower origination levels.

Switching to Global Markets on slide 22. Results reflect solid year-over-year improvement in revenue from sales and trading, but also the expected decline from the robust levels of Q2. In addition, this quarter we saw an increase in both revenue and expense associated with processing an unprecedented level of claims for unemployment insurance.

This is another important activity during this pandemic period whereby we get money in the hands of those who need it on behalf of the states. Unfortunately the cost as in many other COVID driven activities were quite a bit higher than the fees received.

We expect both to reduce substantially next quarter. As I usually do, I will speak about the segment's results excluding DVA. This quarter net DVA was a loss of $160 million. So Global Markets produced $945 million of earnings in Q3, modestly higher in Q3 '19, year-over-year revenue was up 13% on improved investment banking fees, higher sales and trading, and the fees for processing unemployment claims.

The expense increase was driven by higher claims process costs as well as higher brokerage clearing and execution costs associated with higher activity in Asia. Sales and trading contributed $3.3 billion to revenue increasing 4% year-over-year driven by a 6% improvement in equities and a 3% improvement in FICC. The improvement in FICC results was driven by performance in mortgage and FX, while the strength in equities was driven by client activity in Asia.

Finally on slide 24, we show all other, which reported a profit of $296 million compared to Q3 '19 the improvement in net income is driven primarily by the prior year $2.1 billion pre-tax impairment charge associated with our merchant servicing JV compared to Q2 '20 -- reflects the $700 million tax adjustment associated with our UK deferred tax asset. The tax expense improvement versus linked-quarter was mostly offset by 2Q $700 million gain from the sale of mortgages and higher litigation expense in Q3.

In Q3, the tax rate reflected the benefit of the tax adjustments as well as the ongoing benefit of tax advantaged investments. In Q4 absent unusual items we expect the effective tax rate to be around 10%, reflecting the impact of tax credits relative to pre-tax income. And just a reminder these tax-advantaged investments, which are driven by our commitment to ESG also result in pre-tax partnership losses booked and consolidated other income and these partnership losses are normally seasonally high in Q4.

Okay. With that let's jump to Q&A.

Questions And Answers

Operator

(Operator Instructions) And we can take our first question from Glenn Schorr with Evercore. Your line is open.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi. Thanks very much. So you've historically been incredibly stable and trading and again you are -- this quarter but I guess I have a question to rehash on during times like this you have some peers that will have bigger spikes and then they will come back to answer that other times. And I'm just curious if you could talk about you're steady, but you're not seeing the same spikes, is that your risk tolerance, is it a CCAR stress testing thing, is it a mix of business and is it conscious meaning are you investing to close some gaps just a bit curious if you could talk about that from the market's perspective? Thanks.

A - Paul Donofrio {BIO 1533743 <GO>}

Sure. Well, look, again our sales and trading results were solid with total revenue up 4% year-over-year, equities is up 6%. FICC is up 2%. We had no days with trading losses again this quarter. If you kind of look at, I don't really like to talk about competitors, but every competitor is going to have a different business mix. And many of our competitors, I will say, take more risk. In one quarter or another, clearly that can create some differences in relative performance.

We don't really focus that much on individual quarters, but instead we look at the results over longer time periods. And as noted, sales and trading is up 22% year-to-date. I would also note that we're gaining share, we think, in equities and other parts of our market business. And we've gained -- we certainly have gained share in investment banking. And there has been quarters where we've done better, I mean, than some of our peers. Go back to Q1 wherein you'll see an equities where we basically did better than all of our peers. So we're staying focused on the meeting the long term. We're investing in the business, and we are taking share.

Q - Glenn Schorr {BIO 1881019 <GO>}

Fair enough. Maybe just one follow-up on you noted obviously loan demand stabilized trough quarter for NII don't expect to add reserves deferrals mostly over and you have a $35 billion capital cushion. I'm curious what you feel is a more natural number at some point we'll get off buyback suspension. So what's a more natural number for your capital cushion and what might be your intentions on what to do with that excess because it feels like organic growth. You're going to make more money than you can silence organic growth for a while.

A - Brian Moynihan {BIO 1517608 <GO>}

Well, that's a good list to work with in terms of signing the things. And yes, we are generating twice our dividend or more have been for every quarter even when you put up the reserves, even while the rate structure hit. So trough quarter for NII last quarter, expenses coming down, built the reserves. We'd expect that we'll get through the stress test and then we'll start to go into capital redeployment as we did before. And our general goal is to run about 100 basis points over the minimum. So for us, that's 10.5%, which is another reason why the mix of business is so important to us that you referenced earlier is, remember, we had a stress capital buffer that was 2.5%, and we didn't use all of it. But -- so, we've got plenty of cushion here from a operational basis in terms of the ability to use capital management once we're free and clear.

Q - Glenn Schorr {BIO 1881019 <GO>}

Thanks, Brian.

Operator

And we can move next to Jim Mitchell with Seaport Global. Your line is open.

Q - James Mitchell {BIO 1972127 <GO>}

Hey, good morning. Maybe one for Brian. Given the pressure in the industry and your scale advantages. Do you see is there an opportunity here to kind of pressure advantage a little bit and try to accelerate market share and sort of what that might mean for expenses if you did?

A - Brian Moynihan {BIO 1517608 <GO>}

Yes, well, I think we've been able to push market share. So if you look at the FDIC data, I think we are up 60 basis points or 70 basis points in aggregate deposit market share, June 30 to June 30. And everybody had to benefit for the monetary policy. But what we watch is where the market share is going to stick to the rig. So think about it in terms of adding commercial bankers, which we've added, think about it in terms of entering new markets and branches this year.

We've entered a several new markets, if you look at the deposit. And these markets that we've been open a while, they are $50 million per branch, moving to $100 million per branch. And think about the Wealth Management business adding financial advisors. So we just keep driving that total. And if you think about, we have $1.7 trillion in deposits, $800 billion plus in consumer, but a lot of other people forget that we also have a personal business in GWIM with $200 billion, $250 billion plus in deposits. So we have pressed our advantage.

And then, in consumer, those who've been around the Company, we've repositioned the consumer business from 60% primary checking to 90% plus and that's a million new checking accounts year-to-year. They're 800,000, 900,000 something like that in a year where we've been shut down for a couple of quarters, from some of the activity at the branches and that strong performance we're pressing at all time. The magic has been we've been able to manage our expenses between $13 billion and $13.5 billion a quarter. Now you got to add the merchant to it to the $13.7 billion Paul did, and to invest at that rate.

And that's -- look at that page four on the digital growth, it's just -- it's very strong. Our Zelle is, I think, we're 30% all the Zelle transactions, Erica moves. And then life plan this quarter, we put out a new product that you can do your own financial plan and 0.5 million customers in a couple of weeks. So across the board and each element of the franchise, investing $3 billion in technology. So we're pressing advantage organically every day and you're seeing that come out. Our deposit market share across the board has grown. And our loan share, where we compete has continued to grow. And our GTS business has continued to grow. And as Paul said, our investment banking has grown, and we'll keep on driving it.

Q - James Mitchell {BIO 1972127 <GO>}

That's helpful. And so you feel comfortable that you can still I mean add the $200 million to the 13 to 13.5 or 13 to 13.7 you still feel comfortable doing all that and keeping expenses in that range?

A - Brian Moynihan {BIO 1517608 <GO>}

Yes, it just -- that's just operational excellence platform. If you look at whatever page that was, look at all those quarters and you go back even before that, it's been and think of all the investment we are making, I think that's three years that we show you maybe. So think of $10 billion -- $9 billion to $10 billion in technology development, code development, new initiatives in that period of time and expenses stayed relatively flat.

Think about redeploying probably 300 to 400 or 500 new branches across that decade -- across that three years to four years in markets we've never been. Think about refurbishing. I think, we've done 300 branches or 400 branches this year so far. Yeah, we've opened in the new markets, etc. So just this quarter, just this little quarter, we opened 13 branches in new markets. So we're pressing our advantage. And the Board asked me and I -- we'd have the discussions with our major shareholders. Could you press it harder and there is a -- and the answer is, if I talk to marketing people, sure they want to spend more money on marketing, but I think we spend enough to do the trick and drive it and drive it in a way that stick to the ribs.

Q - James Mitchell {BIO 1972127 <GO>}

Okay, great. Thanks.

Operator

And we can move next to Betsy Graseck with Morgan Stanley, your line is open.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hey, good morning, sir. Thanks for the time. I wanted to take in a little bit on the point you're making, Paul, earlier about the cash and the redeployment into securities. And I just wanted to get a sense as to 4Q, how much of a NIM uplift do you think you're going to get from that? And then, you know, what percentage of cash have you used already? What is going to be guiding you on how much more to use here? And is there a limit for how much cash you're willing to redeploy into securities?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, sure. So in the third quarter, we deployed about $100 billion of our cash into mortgage-backed securities and treasuries over the third quarter. And on a weighted average basis between the treasuries and mortgage-backed securities, that probably produced a lift relative to cash for about close to 1 percentage point from what we deployed. You didn't see a lot of that come through in Q3 because of the timing of those purchases throughout the quarter.

You'll see more of that impact in Q4. With respect to future deployment, we have some firepower left. I hesitate to give you a number, but call it maybe another $100 billion-ish. I'm not telling you we're going to deploy all of that in the fourth quarter. We're continuing to assess deposits and we'll likely continue to deploy more cash -- very likely to deploy more cash into securities moving forward. But no answer right yet exactly how much. The size and the pace of that will be influenced by a number of judgments, including things like loan demand and customer deposit behavior, and we'll also balance the mix of purchases as we assess the trade-offs between capital, liquidity and earnings.

Q - Betsy Graseck {BIO 4799503 <GO>}

And the one percentage point you're talking about is a yield lift on the portfolio versus cash?

A - Paul Donofrio {BIO 1533743 <GO>}

No. That is if you compare what we're buying mortgage-backed securities, treasury to what we were earning in cash or repo. The pickup in yield on that investment is a little less than 1%.

Q - Betsy Graseck {BIO 4799503 <GO>}

Yes, okay. I got it. All right. And then maybe if you could speak a little bit to both yourself and Brian to the discussion around the C&I loan utilization and I get that we're at a historic low or close to the lows in utilization, but what is it that you're seeing in your customer discussions that gives you an expectation that you could see that start to lift in 4Q and into '21?

A - Brian Moynihan {BIO 1517608 <GO>}

So what we see is it just isn't -- hasn't been going down, it kind of ran down throughout second quarter and the first quarter. We have panic (inaudible) people drawing the lines and then it ran down. And so some of these companies are making more cash flow than they have ever made. And so what you're starting to see is a couple of things. One is, in areas like, autos, retail, dealers and stuff, the inventories are going to have to build.

They're also going to have nothing to sell, so they'll build those backup. You're seeing it in suppliers of parts and things. They're building their inventories that are seeing more final demand on the products that sustain, and that's the key. So it's more just talking to people and saying that, frankly, that they brought it down about as far as they can from sort of the day-to-day operational basis. When you start to think of $50 million under revenue companies run in the numbers that Paul gave you, which is what we call business banking, they can't get it much lower than that because they're paying their payrolls and doing other things. And so they're going to start to build back up as they start to expand to meet their client demands.

And so that's what gives us the confidence in the conversation we had -- that we've had with them, and talking to them and these deep reviews we've done. It's been clear that they are feeling better that the core demand from May to June to July to August to September picks up. The only big question when you're -- when we're wrong on all this in terms of loan balance is really in the high-end and who has access to markets and how deep that goes in the middle markets, which we make fees on the investment banking side, but that can move the loan balances around as you well know, Betsy.

Q - Betsy Graseck {BIO 4799503 <GO>}

Yes. I got it. Okay, that's helpful. Thanks very much.

Operator

And we can move next to Mike Mayo with Wells Fargo. Your line is open.

A - Brian Moynihan {BIO 1517608 <GO>}

Hi, Mike.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. This is a follow-up to you guys pressing the advantage. I mean this is good news, bad news. Good news is you're growing household, your deposit, the corporation upon 1/4 year-over-year, your digital banking is growing. So that's great and your award is your NII got crushed, right. So it's a short-term versus long term trade off. So if you look at an environment with full rate for longer as you acquire these customers have you changed your assumptions for a lifetime value because I assume you eventually want to monetize the benefit of the relationship, but it's just not happening yet?

A - Brian Moynihan {BIO 1517608 <GO>}

So I think, Mike, you have to think about it two ways. One is for the new customers coming on bringing, it's a $100 billion in incremental checking deposits year-over-year. That is money coming on. It basically zero that you can redeploy, as Paul said. So there is a value to that incrementally to the Company. The question is, when you have that quick fall down in rates that we had, you have to kind of get underneath that come out the other side, as you well know.

But look, the value of the deposit franchise represented having the core household relationship and that's where you see the things move forward. So what are we seeing? We are seeing a rebound in our auto lending. We are seeing a rebound in our card lining. Those are coming, because we have the core relationships that are digitally inactive. 50% of the sales are coming digitally and that helps us grow. And then you think about just on the consumer, look -- if you look at page 15 on the investment side, you're seeing that build up by $40 billion year-over-year, $20 billion linked-quarter. So that materialize the balance. And the good news is, if you look at the fee structure across the platforms and the different things, you are seeing the fees start to come back up, which is just core activity.

So you only have $200 million -- $225 million in total quarterly deposit interest cost. So it can only go from $225 million to zero. There is not much left, and it was $1.6 billion, I think, last year this quarter. So we brought that down and now we just got to grow the volume back out. You're seeing that start to happen and that's what gives Paul comfort some of the core projections. And it's the depth of relationship, it's not any single product, as you well know.

And we are pressing the advantage, because frankly, even in a low rate environment, more core deposit customers, more core checking accounts and deposit in addition to our wealth management business and GWIM, more GTS business will make more money. You make a twist of rates in a given quarter, but just think back we had this discussion in mid 2013, '14, '15 you saw the earnings come up even before the rates move.

Q - Mike Mayo {BIO 1494617 <GO>}

Other ways too, yes, we know the simple linchpin to a customer relationship. It's just getting value today for that relationship and you are mentioning the different products. Is there a way to think about charging more fees or something if you have a low rate environment like this again it's getting your money's worth more. All the effort you put into gathered these new households?

A - Brian Moynihan {BIO 1517608 <GO>}

Yes. Well, I think not penalty fees. Clearly, Mike, that just is a bad customer experience because the other thing is the attrition rate and the book has dropped very low because of the high quality customer experience our team delivers in it gives you the permission to do more with them. So the penalty fees, I think, are not the way to go, but core account fees for the structures are there. And -- but the reality is most of the -- our preferred book which is 80% of the consumer deposits by definition is way above any minimum requirement for fees. And so you're -- you've got the volume, you're getting 80% of the consumer deposit in a book with only about 20% of the customers. So you make it up in your expenses and your operating capacity there and that's what -- that's how you ultimately make it up even in the low rate environment as just this year. We have 4,300 branches in the franchise, Mike. In 1999, we had 4,800 just to give you a sense.

A - Paul Donofrio {BIO 1533743 <GO>}

And I think Mike you deepen with them, you deepen with them and loans you deepen with them in Wealth Management we're making progress in all the various.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Thank you.

Operator

And we can move next to Matt O'Connor with Deutsche Bank. Your line is open.

Q - Matthew O'Connor

Good morning. I wanted to follow up on expenses. You talked about $13.7 billion in the fourth quarter and I just wanted to just trying to figure out. Is that still an elevated number from COVID and because if you annualize it and yes the 1Q seasonal bump you know you're kind of call it mid $55 billion range for next year, which feels high, but I want to give you guys a chance to address that.

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, I think, the $13.7 billion roughly $13.7 billion for 4Q that probably includes net COVID expenses of $300 million to $400 million.

Q - Matthew O'Connor

Okay. And as you think about the timing of that $300 million to $400 million coming off, I guess, it can be tricky. What are you assuming at this point?

A - Paul Donofrio {BIO 1533743 <GO>}

$300 million to $400 million, right. I mean $300 million to $400 million per quarter. I mean, in the fourth quarter, it was higher this quarter. But in the fourth quarter kind of baked into that number is $300 million to $400 million of net COVID expenses. So that will come off over '21, and we'll get more of it at the end of the year than we were in the beginning of the year. But it will, I don't know, ratably come down. I can't -- I would expect maybe half of that to be in per quarter to be in that on a full-year basis.

Q - Matthew O'Connor

Okay. And then separately following up on net interest income. You talk about moving higher in 2021. I assume that's on a linked-quarter basis and obviously there's some data out in the first quarter, but maybe just elaborate a bit on the outlook for net interest income for next year based on the assumptions that you have?

A - Paul Donofrio {BIO 1533743 <GO>}

Sure. Look, we are not providing any specific guidance, but I'll give you a few thoughts for next year. Obviously, the lower reinvestment yields are expect to continue and that's going to impact NII. But that headwind, early in the year, should be offset by the deployment of the cash into securities. And then by the middle of the year, we're hopeful that loan growth will be a tailwind as the economy recovers. So we think NII should move forward and up from here.

Q - Matthew O'Connor

So if I work on that math and think about again to adjust for the day count and some of those kind of nuances, was your expectation be that net interest income dollars in 3Q of next year be higher than this year?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes. I mean 3Q to 3Q?

Q - Matthew O'Connor

Yes.

A - Paul Donofrio {BIO 1533743 <GO>}

I'd have to think about. I'd have to look at that, I mean, certainly higher than, yes, I would say I would expect 3Q next year to be higher than 3Q this year, yes.

Q - Matthew O'Connor

Okay, that makes sense. All right. Thank you.

Operator

And we can move next to John McDonald with Autonomous Research. Your line is now open.

Q - John McDonald {BIO 21440002 <GO>}

Hi. Paul two NII question just near term. So it sounds like you might be expecting a little bit of lift net of all the factors you talked about in NII in the fourth quarter are kind of flattish up a little. Just kind of what's the near-term outlook on NII?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes. So the near-term outlook is, as I said, it's going to be, we think at least flat and we're optimistic, it's going to be up. So we think we're at the low 0.3 for NII. We've got the ones of reinvestment on securities and we've got the lower average loan balances given where we're ending this quarter on loan balances, but we think those headwinds are going to be offset by the deployment of the excess cash that we've done and we'll probably continue to do in the fourth quarter. So for at least flat and optimistic up.

Q - John McDonald {BIO 21440002 <GO>}

Okay. And how -- when you think about redeploying cash rates are still very low today. What -- how do you balance the risk of locking in low yields and duration risk against looking to protect NII and thinking loan growth might come back, you expressed some optimism there?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, it's a very good question. We are always balancing liquidity, capital and earnings. I want to go into a lot of detail, but we are maintaining the asset sensitivity of the company with these purchases.

Q - John McDonald {BIO 21440002 <GO>}

Okay. And then one nitpick here in the other income category you know there's a net loss in non-interest income minus $250 million. So you mentioned tax-advantaged investments and other things. Is that kind of what we should expect going forward and you're getting the benefit in the tax rate, but this other income kind of runs at a little bit of a losses or there's some other issues there?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, no, I think that I would expect that I think other income is going to bounce around quarter-to-quarter, but it should on average be down a couple of hundred million given as you said the investment in our renewable energy products and other ESG efforts which create partnership losses.

Q - John McDonald {BIO 21440002 <GO>}

Okay. So that's kind of a new run rate for that?

A - Paul Donofrio {BIO 1533743 <GO>}

And remember in the fourth quarter those partnership losses are always higher. So think maybe a couple of hundred million higher.

Q - John McDonald {BIO 21440002 <GO>}

Okay. More than the 250 this quarter?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, but we get the benefit in the tax line throughout the year.

Q - John McDonald {BIO 21440002 <GO>}

Yes, 10% for the fourth quarter. And do you have an idea of like tax rate for annual basis going forward with this new arrangement?

A - Paul Donofrio {BIO 1533743 <GO>}

I don't have an expectation for next year to share with you, but the fourth quarter absent unusual items 10%.

Q - John McDonald {BIO 21440002 <GO>}

Okay, thank you.

A - Paul Donofrio {BIO 1533743 <GO>}

And I would just remind everybody that these tax-advantaged investments are things we're doing to help society. We're talking about low-income housing. We're talking about wind and solar. These are things that are part of our ESG effort.

A - Brian Moynihan {BIO 1517608 <GO>}

Yes, we are a militaristic company, but on the other hand, we're also doing it because it's a good business for us and helps us generate the benefits, net of the cost losses are positive, the company's earnings.

Q - John McDonald {BIO 21440002 <GO>}

Got it. Thanks.

Operator

And we can move next to Ken Usdin with Jefferies. Your line is open.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Thanks. Good morning, guys. I was wondering if you could elaborate a little bit more on just your expectations for just how the loss cycle is going to evolve. Paul, I believe you mentioned that you wouldn't expect losses to really start moving up until mid-year next year. And, you know, as we start to evaluate whether or not and how much stimulus we get versus what we've already gotten baked in the cake, just how are you expecting to see both the consumer and the commercial side project us as we move forward? Thanks.

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, sure. So look regarding the charge-offs I think we've covered it. But in consumer given the lack of significant delinquencies we've seen so far even on those customers who have come off deferral and given the fact the net charge-offs don't occur without bankruptcy until 100 days past due is just not likely we're going to see consumer net charge-offs will show up until kind of mid 2020 -- mid '21.

A - Brian Moynihan {BIO 1517608 <GO>}

Yes. If you go back and think about it, what we thought was going to happen, third quarter this year pushed out. Going back to the first quarter, we looked at and the second quarter we looked at, we pushed out further. The third quarter, we pushed out further. So it just keeps pushing out based on the -- frankly the characteristics of our consumers are stronger than the characteristics generally in the United States and the characteristic in

United States are -- their consumers are doing better because of all the things you mentioned. Then the unemployment statistic would indicate in models and so it's just pushed it out, but it's now into the second half of next year.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Yes. And I guess I'm just trying to wonder. Sorry, go ahead.

A - Brian Moynihan {BIO 1517608 <GO>}

Remember the near-term path of charge-offs is going to be driven by delinquency roll and things like that. What's delinquent the end of this quarter, and as Paul said, the 30-day delinquencies are down year-over-year and mortgages and cards and things like that. It's down as a percent and down as a dollar amount and down as a percent of smaller balance. So it's the credit quality has been strong.

Q - Kenneth Usdin {BIO 3363625 <GO>}

Yes. And you made the point about not being quite clear yet on if it should release reserves just given the uncertainties. I guess how much is future stimulus a part of that equation? What do you look forward to kind of get that comfort zone that you can say, I know, you said the builds are done, but just in terms of starting to utilize and feel comfortable that you can let even more of those reserves kind of flow back into capital.

A - Brian Moynihan {BIO 1517608 <GO>}

There were a -- so a stimulus plan would help the unemployed, the businesses are still struggling to get their business capacity -- get their business utilization up. Those obvious business as you all know, and then states and towns, so they don't have further reduction in budgets and/or schools and other things, the hospitals, all these people have been heavily affected. Stimulus affecting those would help all these speed up the pace of the estimates coming down, quite frankly. Right now there has been -- right now, there's -- it's not baked in as Paul said earlier, but it's stimulus coming in would move us further and you see the reserves come out further, because the lifetime expectation loss would be lower. It's kind of the way it works less.

Q - Kenneth Usdin {BIO 3363625 <GO>}

All right. Thanks very much.

Operator

And we will move next to Charles Peabody with Portales. Your line is open.

Q - Charles Peabody {BIO 2346511 <GO>}

Two quick questions and your guidance on no more reserve build. I'm trying to make sure I understand that because you've also talked about the possibility of loan growth. So at the very least you'll cover charge-offs, but we also provide for loan growth?

A - Brian Moynihan {BIO 1517608 <GO>}

We would but just think about a couple of percentage of loan growth, given the level of reserving wouldn't change it dramatically. So if we had fast loan growth, which I don't think the economy is going to support in the near term, we have to grow faster, but that would be a high quality problem to have to build reserves for loan growth.

Q - Charles Peabody {BIO 2346511 <GO>}

Sure,. And then the second question is, can you give us some color on the pipeline for investment banking what that looks like versus the second quarter or the year-ago fourth quarter?

A - Paul Donofrio {BIO 1533743 <GO>}

Yes, the pipeline looks solid for investment banking. Again, the second quarter was a record quarter for us. And the third quarter was the second best quarter for us. So investment banking is normally down sequentially, third quarter, the fourth quarter. I don't think you can expect to see the same type of volume in the fourth quarter that we saw in the second quarter or perhaps the third quarter, but the pipeline looks solid. And we're even seeing some M&A pickup and at least from a discussion standpoint.

A - Brian Moynihan {BIO 1517608 <GO>}

And Tom Montag and I have been very pleased with the work that Matthew Koder has done with that team over the last year and a half or so since he took over and just driving great coverage, driving great connectivity to our middle market business in the fees they're continuing to grow. And so they've done a -- he's done a very good job with the management team in that business, and we'd expect them to keep making progress.

A - Paul Donofrio {BIO 1533743 <GO>}

Yes. We've gone from just a middle market alone, we've gone from fourth to second in a year with 9.5% market share. We talked about market share gains earlier.

Q - Charles Peabody {BIO 2346511 <GO>}

Great. Thank you.

Operator

And this does conclude the question-and-answer session. I would like to turn the program over to Brian Moynihan for any closing remarks.

A - Brian Moynihan {BIO 1517608 <GO>}

So, number one, thank you all for joining us and your interest in our company. Second, a solid quarter of $5 billion plus in earnings, nearly $5 billion in earnings, $0.51 a share, good business progress across the board in terms of client activity and client household growth and also we saw the economy continue to progress in terms of our customer spending and continue to see that continue into October. So nearly $5 billion in earnings, solid, very strong capital, very strong liquidity, continuing our responsible growth mantra. Thank you.

Operator

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