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. [Operator Instructions] Please note today's call is being recorded.

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

Lee McEntire

Good morning. Thanks for joining the call to review our second quarter results. I trust everybody has had a chance to review our earnings release documents. They're available on the Investor Relations section of the bankofamerica.com website.

I'm going to first turn the call over to our CEO, Brian Moynihan for some opening comments, and then ask Paul Donofrio, our CFO to cover some other elements of the quarter.

Before I turn the call over to Brian, just let me remind you that we may make forward-looking statements during the call. And for further information on those forward-looking comments, please refer to either our earnings release documents, our website or our SEC filings.

So with that, let me turn it over to you Brian. Thanks.

Brian Moynihan

Thank you, Lee, and thank all of you for joining us for our results. As I step back and thought about talking to you this quarter, I thought back to our discussion of last quarter's results. In mid-April, as we were talking, we sat in the depths of the COVID-19 crisis. We saw -- we're seeing a rise in virus cases.

We completed a massive move in our company and companies around the world to work from home. We're closing branches for safety and other facilities. We had 1 million customers that had already approached us by mid-April asking for assistance in terms of paying their loans. We've seen a massive amount of commercial line draws in mid-March to mid-April and loan requests out of panic and the need to create instant liquidity. And as the -- we saw a flood of deposits looking for a safe haven at the same time.

Yet at that time, the core economic projections were still catching up to the worsening predictions of the future and the reality of the health officials' projections of the virus path and the reality of shut down and state-at-home orders. And now we're a quarter later. In some areas, the cases are still rising and some areas are rising less. Economic predictions have been revised and the forward path has deteriorated from last quarter.

Baseline projections now extend the length of the recessionary environment into 2022 deep into 2022. We provide substantial additional reserves for expected future credit losses this quarter to reflect that and that has impacted our earnings.

On the other hand, there has been some encouraging signs. Consumer spending activity has vastly improved since April. Spending by Bank of America consumers during 2019 was a total of $3 trillion, so it's a sizable sample of U.S. activity.

For the month of April that spending was down 26% compared to April of 2019. However, for the month of June that spending was relatively flat to 2019. And so far through the first couple of weeks of July, we're seeing that total spending actually be above what it was last year.

Customers and businesses have adapted to a new environment. Some have reopened and yes some have also been reclosed or limited again. We expect this start-stop to be the base case as we look ahead.

At present, core operating assumptions for making our credit projections and our reserving by the unemployment stays elevated and ends this year at around 10%. And it remains at 9% in the first half of 2021 and 7.5% at the end of 2021.

In that provision setting scenario mix, it takes some time until late 2022 or early 2023 for the aggregate GDP level to get to the same size, it was heading into 2020. So it will be a bit of work to get out -- to get back to that level.

The central banks around the world led by actions of the Fed provided unprecedented liquidity in the financial system. The U.S. government has also provided direct payments through unemployment supplements EIP, the PPP program and many other things to help American citizens weather the storm.

Due to all that, the number of things are in fact different from our last quarter conversation. Panic borrowing has dissipated as it marks to provide a financing source for many companies to extend their maturities. Most companies have stabilized their operations.

Draw rates and middle market lines of credit are back to levels that they were mid last year. In the smaller business segment they are actually down as companies do not need the liquidity. But many companies may not like where they are in terms of revenue growth they have stabilized.

Consumers have benefited from direct stimulus and deferrals on loan payments from banks, such that delinquencies are far lower than what would be predicted in an 11% unemployment scenario. Consumers have more money in their accounts. For those that received the PPP, the small business that received it at Bank of America, we estimate that the money has been spent out of the PPP proceeds at only 35% level so far. So 65%'s left to be distributed from those companies to their employees and other vendors.

Coronavirus assistance requests have fallen, the consumer what we call CAP program the week of request for the last few weeks are down 98% from where they were in mid-April. The question we all get asked then is when will the storm end? That is and has always been a health care question, not an economic one. So our job continues to be prepared for whatever the economic scenario ahead brings. And how do you get prepared? Well, it's too late to start in the second quarter 2020.

We did that through our adamant team decade-long effort to drive responsible growth in our company. Portfolio is in great shape heading into this year. And in the second quarter, we reviewed our commercial loan portfolios at a customer level across our businesses.

Our risk ratings are up to date. We're moving credit quickly to criticize our NPL designations. We've also gone through every credit to assess the needs that they'll have to borrow in the near-term for liquidity and business prospects.

On our consumer books, we also benefit from the decade-long improvement in our underwriting standards. We remain consistent. And since the buyers' surprising unemployment-related matters, we pared our consumer risk appetite.

A key difference in our company now versus the last crisis is the unsecured card portfolio is basically half of what it was going into the Great Recession and with better asset quality. Another example of difference is our commercial real estate, especially the far less exposure, especially in the construction area. We saw recent stress tests prove this out again, as we had the lowest losses in among the large firms. For the seventh of the eight past -- for the seventh out of the eight -- past eight stress test the Fed has run.

We've also improved our fortress balance sheet even from year-end to today, all this amidst this crisis. We have built liquidity. Our liquidity at the end of the quarter was up $800 billion on average. It is significantly up from year-end. We've doubled our credit reserves to $21 billion from where they stood at year-end.

We've built our capital levels resulting in a common equity Tier 1 ratio at the end of the quarter of 11.4% versus 11.2% at year-end. And we're 190 basis points above our regulatory minimum. And as we disclosed to you after the stress test we have room with -- even within a stressed capital buffer, as we're floored at the 2.5% level despite the 2% actual calculation.

We earned $7.5 billion year-to-date even as we built those reserves and we returned $10 billion of capital to you in the first half. By the way charge-offs in the quarter were stable and the ratio remained low at 45 basis points this quarter and our NPL has only increased modestly in this environment despite scouring the portfolio for rating changes.

Quarterly expenses of $13.4 billion remained in a tight four-year long range of $13 billion to $13.5 billion with little exception even as we continued our investments over the period and incurred higher COVID operating expenses.

During the crisis, we also haven't lost our way on our strategic programs. During the first half, we have driven our promise as the digital leader across all our businesses. Our capabilities have enabled smooth transitions for our companies and our institutional investors and our people who we work with as customers, whether they're working from home or sheltering in place to transact their financial business, whatever way they want to. Where this goes we will see.

Our raw data has provided some signs of cautious optimism. We emphasize cautious here. We aren't in the reactive state here. We are being diligent and we're making sure we keep our company strong. In any regard, we are ready for whatever happens because of the last decade of hard work on responsible growth.

Most importantly, we're ready because we have 212,000 talented teammates who work with me every day to come and do a great job for the customers, communities and our shareholders.

So let's drop into quarter two results. We're going to do slide two and slide three together, and I'd ask you to refer to that combination. The commentary on three talks about the charts on slide two. This quarter we showed the balance in our company. While our more credit-sensitive businesses saw lower earnings due to provisions and lower rates impacted our fast-growing deposit-intensive businesses, our position as a top capital markets platform for issuers and institutional investors allows us to produce solid overall results. Markets served as an anchor to windward for the company.

In the second quarter, we produced $3.5 billion of net income. This concluded building our loan loss reserve by $4 billion, due to a total provision expense of $5.1 billion. Earnings were $0.37 per share. Earnings are down $3.8 billion from the second quarter of last year driven primarily by our reserve build.

As I did last quarter, I think it's useful to draw your attention to the pre-tax pre-provision income number. We believe that number helps assess the earnings power of the company to support credit costs in a downturn.

We produced $8.9 billion of pre-tax pre-provision income, which was down 9% from quarter two 2019, given the changes in interest rates in the growth of deposits and the impact it has in our company, the forgiveness in fees we've made to help accommodate our consumer customers in time of stress and the overall lower economic activity of record drops in this quarter. It shows pretty remarkable resilience. In fact it's just below the average of pre-tax pre-provision income for the level of the past four quarters.

The 3% year-over-year decline in revenue was driven by lower NII. NII fell to $11 billion this quarter. This bearing the brunt of the significant first quarter rate cuts for the entire quarter.

Mitigating the revenue decline from NII was strong Global Markets results. Sales and trading revenues excluding DVA of $4.4 billion were up 35% year-over-year. Investment Banking fees of $2.2 billion were a record and grew 57% year-on-year. In aggregate, we saw a $1.9 billion improvement in sales and trading investment banking year-over-year.

Most importantly and we think about profit in this company, our Global Markets team produced $1.9 billion in after-tax profit as a separate segment. Our non-interest expense was $13.4 billion as I said earlier and it is rough -- included roughly $400 million in net impact of expenses and savings related to COVID-19. Our return on tangible common equity was 8%.

Let's go to slide 4. Here we note the continuation and expansion of the programs to support our teammates and clients initiated last quarter. In quarter one, we established broad measures to promote the health and safety of our teammates that helped limit their exposure to COVID. In quarter two, we continue to expand in those efforts and have remained mostly in the work-from-home posture with less than 15% of our employees in offices of financial centers or call centers around the world.

We continue to provide ongoing access to comprehensive benefits and resources such as enhanced backup childcare and adult care services among the many other supplements and incentives for frontline associates. And all those costs are in the numbers you're seeing this quarter. And we honor our commitments to hire the 2,800 students for summer jobs and permanent jobs coming out of college.

Taking care of employees is the right thing to do and enables each of them to play the important role they must as providers of critical services for the U.S. economy and the worldwide economy.

In addition to keeping our financial centers open to serve clients continuously through the crisis, we continue to offer assistance in our commercial consumer and small business clients affected by COVID. These actions included payment deferrals, refund of certain consumer fees, pausing of certain foreclosure sales, and repossessions of cars, evictions, and other matters.

One noteworthy path was the PPP, the Paycheck Protection Program. We all -- we originated the largest number of loans in that program at 334,000-plus small business clients receiving loan providing funding of $25 billion.

We also supported the communities we live in. After announcement of the -- in quarter one to donate $100 million to fight the immediate effects of the pandemic, we announced a new initiative in quarter two.

We recognized there are communities and certain people that have been disproportionately impacted by this healthcare crisis and the elevated racial tensions that existed for years in this country. We announced a $1 billion four-year commitment to advance issues of race quality, economic opportunity, and healthcare initiatives.

Our market presence and other leaders throughout the country are busy working to play their vital role in helping us plan how we deploy those critical funds to these critical actions. I'm proud of how my teammates serve their customers and clients during this COVID crisis, but I'm even prouder how they're playing a part more generally to help.

On page five we discuss the deferrals. This systems program -- the customer systems program as we call it CAP for our clients to provide easy access to request loan deferrals and ease their immediate financial burdens.

Request built quickly peaking in the first week of April at 415,000 requests in a single week. They started dropping from that point and have continued to drop. By mid-May the request fell in the last three weeks we've been consistently 98% below that peak.

In total, we processed 1.8 million consumer deferrals with about 1.7 million of those remaining as we end our July. This represents $30 billion of consumer balance with payments on deferral. The largest numbers of process deferrals as you can see are credit cardholders. Another area of concentrated request is the practice solution group and small business.

Let me provide a little deeper insight into these categories. You can see it on the lower right-hand part of the slide. On credit card 85% of the deferrals were initiated in late March early April and has died down since then. 95% that initiated were current on their payments when the deferral was requested. More than 60% of the active card deferrals have made at least one payment since going on deferral, one-third have made every payment every month.

As we look forward if there are no other major changes in consumer spending habits or major macro deterioration, we'd expect card deferrals to decline significantly in quarter three given the expiration in these payment observations.

Importantly, our credit reserving that you see in our P&L today reflects the individual credit characteristics of all these deferred borrowers and a higher risk they propose. Small business is where we saw the highest percentage of accounts requesting assistance.

As you may recall, last quarter, we talked about this. These requests came from our business practice solutions group. These are mostly dentists and doctors who were shut down during the crisis, but now are open. As that -- they reopen our internal survey shows that 80% of these borrowers as of a few weeks ago were all back to work with steady revenue.

In our contacts with the accounts 90% indicated no elevated level of continued distress and informed us they'll need not to continue their deferral. And while not in this chart our deferrals for commercial accounts amounted roughly 2% of our loans being 1% of those are unsecured through -- and through conversations with these borrowers, we'd not expect many of these to request a second deferral.

Now, moving on to page -- slide six for consumer spending. After a significant slowdown in consumer spending in April we began to see signs of improvement beginning in May. And while still early we have seen momentum in early July.

Chart on slide six shows a seven-day moving average of payments and compares after the same week last year. There are three lines representing credit, debit, and total spending. Again credit is about 12%, debit is about the same amount, and total spending it's obviously the $3 trillion I talked about before.

Overall, in the first couple of months of the year at -- in a healthy U.S. economy, payments were running as high single-digit percentage pace ahead of the same period in 2019. That changed as the pandemic spread and the economy shutdown.

We saw a severe decline across all payment touch points particularly in discretionary spending on categories like travel, leisure, and entertainment, which drives credit card spending to lower levels than other forms of payment including debit card.

This was followed by a large increase in payments for necessities around groceries and staples like health supplies. But as you can see those payments are made largely with debit cards or cash.

As states began to reopen over the past couple of months, we saw an improvement in spending levels as customers became more active buying fuel and spending on home projects and eating out. Much of that improvement isn't paid through debit usage as customers saw the stimulus payments and other assistance in their checking accounts.

On a monthly basis comparing spending to the prior year's month April 2020 was down 26% from April 2019. May was down 13% from May 2019. And as I said earlier, June returned to basically flat.

Well, you have seen as some spending leveling off on a weekly basis as COVID cases rose recently in hotspots around the country causing municipalities or states to pause further on further phases of reopening or impose more restrictions. But even with that, July is actually running ahead of last year and is much higher during the shutdown periods of early April and May.

It appears consumers are demonstrating they're quickly adapting to the environment by changing shopping habits and moving back and forth between physical and online as needed and are doing the same in delivery and takeout restaurants as restrictions change. We continue to monitor this behavior every day and except -- and expect that there'll be starts and stops as you see the ebbs and flows of cases and people's and government's reactions to them and also until we learn to operate in this new normal.

Let us go to lending activity on page 7 -- slide 7. Here we see that the borrowing credit shows modest growth beyond the commercial activity involving loans and paydowns. We've seen some modest recovery in some consumer lab loan applications which all troughed in April.

As you can see during the quarter, total loans declined $52 billion from the end of quarter one, but there are several dynamics worth mentioning including the sale of $9 billion of mortgage loans. Within commercial, excluding PPP activity, loans grew $5 billion year-to-date as clients paid down $62 billion of the $67 billion loan growth in quarter one.

While this isn't good for the balance sheet and loan growth, it is a good sign as many borrowers in quarter one accessed emergency or panic borrowing to get liquidity but has since paid those funds back or they've accessed capital markets and termed out the financing many of which we were able to assist in helping them do.

As I said earlier, revolver usage has returned to levels in our middle market business about where it was last year and is lower than those levels in our business -- banking business. Consumer lending shows solid residential mortgage build -- growth but a decline in credit card during the spending levels I described earlier. The point is, there are a lot of COVID-related activity, but underneath that while soft, there were some underlying demands for loans in the first half of the year.

Mortgage apps continued to be solid despite conservative price in credit at Bank of America. We've also seen auto loan apps fight their way back to the levels they were pre-crisis as dealers have opened and people have bought cars.

And last I would note that we continue to supply capital to these customers. Our total commitments have been consistent to our commercial customers. And they've remained above $1 trillion throughout all these periods. And year-to-date, we've approved nearly $160 billion in new and expanded commercial commitments for our customers to help them weather the storm.

On deposits, we talk about those on slide 8. We see an impressive client activity and that activity has continued during the quarter, across every single line of business. Since the end of 2019, total deposits have risen $284 billion to more than $1.7 trillion. It is also worth noting that the disciplined pricing of rates paid moved from 44 basis points paid to the customer to nine basis points as short rates decline.

Consumer deposits grew $123 billion or 17%. 69% of the growth has been in checking further cementing our position as the leading core transactional bank for American consumers. Global Banking deposits have risen $118 billion or 31%. Our Wealth Management deposits were up $29 billion or 11%. Continue to -- customers continue to value our company as of course a partner.

Importantly in -- on slide 9 we'll talk about this. It's the last thing I'll mention before I turn it over to Paul to go more in-depth on numbers is our clients' digital usage. Our customers value the year as a continuous investment in innovation as they found an ever-increasing need for our digital capabilities in the COVID environment. Providing this proves once again that we are a digital bank and a physical bank. In consumer there are many examples and I'll touch on a few.

Digital log-ins were 2.3 billion log-ins in the quarter and have increased 20% in the past 12 months. The average log-ins per user is also up 14%, demonstrating engagement in quantity of users and depth of use by those users. More customers discover these convenience and safety in opening accounts digitally as the number of units sold digitally increased 20% since last year representing 47% of sales.

We added over 1 million new mobile check deposit users with a surprising 22% of those being baby boomers or seniors who have been traditionally harder to engage digitally. This engagement efforts of keeping our physical centers and call centers running have our customer satisfaction running at all-times high at Bank of America.

On the commercial side we've seen an equally impressive growth in our users and usage as commercial users have the need for similar conveniences whether in a work-from-home mode. And Wealth Management in addition to convenient online banking capability and increased engagement, we utilize WebEx and other methods to have secure video conference applications to engage with our clients which result in household growth in our Wealth Management business even during the crisis. Digital log-ins across Merrill clients were up more than 100% year-over-year. And 39% of checks, deposit were digitally versus less than 25% last year.

If you look on side 10, this looks at the more active consumer segment. A lot of you focus on single-purpose payment providers. I want to draw your attention to the top right chart for Zelle to illuminate how much money is moving through our customers through that system. We now have 11 million customers actively using Zelle every month, adding three million in just the past 12 months alone. And you can see in the chart we nearly doubled the volume of transactions every year for the past four years to now more than 117 million transactions in the quarter.

And that volume has resulted nearly doubling the dollars used to $32 billion in transfers during this quarter. That's impressive gains given the fact that total payment volumes have dropped. And Zelle is free to our industry's clients and benefits our shareholders through lower costs. Above all it's better for our customers.

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

Paul Donofrio

Thank you, Brian. I'm going to start on slide 11 with the balance sheet. Our balance sheet ended the quarter at $2.7 trillion in total assets increasing $122 billion since the end of Q1, driven by a surge in deposits.

During Q2, deposits grew by $135 billion, while loans declined by $52 billion as commercial borrowers repaid much of their lines. Excess liquidity continued to be invested predominantly in cash and cash equivalents. Shareholders' equity increased modestly as earnings exceeded distributions to shareholders.

With respect to regulatory ratios for the past two years our CET1 ratio under the standardized approach has been binding, but this quarter the ratio under the advanced approach is lower and therefore binding. Our CET1 ratio under the standardized approach improved 80 basis points linked quarter to 11.6%, primarily driven by an $86 billion decline in RWA. This RWA decline was mainly driven by commercial loan paydowns, as well as lower credit card balances.

In addition, we earlier adopted the Standardized Approach for Counterparty Credit Risk aka SA-CCR for derivatives. Our CET1 ratio under the advanced approach improved to 11.4% as RWA under advanced declined modestly.

Also this quarter, we received our preliminary Stress Capital Buffer or SCB from the Federal Reserve pursuant to our CCAR results. Our stress depletion was approximately 150 basis points and including the dividend add-on, our SCB was a little under 2%.

However, as you know SCBs are floored at 2.5%. So our minimum standardized and advanced CET1 requirement is 9.5% and remained unchanged. The capital cushion above our 9.5% CET1 minimum was $28 billion at quarter end. The CET1 ratio under the advanced approach became our binding ratio primarily due to the impact on RWA of the migration of corporate credit risk ratings under the advanced approach. Our TLAC ratios increased and remained comfortably above our minimum requirements.

Turning to slide 12, net interest income. On a GAAP non-FTE basis, NII in Q2 was $10.8 billion, $11 billion on an FTE basis. Net interest income declined $1.3 billion for both Q1 2020 as well as Q2 2019.

As we noted on our Q1 call and experienced this quarter, NII fell to roughly $11 billion this quarter as variable rate assets repriced lower following a more than 100 basis point decline in average one month LIBOR from Q1.

Other notable NII headwinds in the quarter include roughly $300 million of higher premium amortization on our asset backed securities given the lower rate environment and a decline in higher yielding credit card balances. These negative impacts were partially offset by deposit growth coupled with lower deposit pricing.

The addition of PPP loans in the quarter was marginally -- it also marginally aided NII as did lower Global Market funding costs. Given the sharp decline in NII coupled with the increase in the balance sheet, driven by deposit growth, net interest yields declined notably quarter-over-quarter by 46 basis points.

Looking at the bottom-right chart, the largest driver of that decline was lower interest rates quarter-over-quarter. Another large impact was the increase in deposits, which is modestly helping NII but diluting net interest yield given that most of the excess funding in Q2 was invested in cash or cash equivalents, earning only 10 or 15 basis points.

We continue to assess uncertainty with respect to the duration of these deposits. Two other elements diluted net interest yield. They are the higher level of premium amortization; and the lower balances of high-yielding credit cards.

In terms of forward NII guidance, we believe the largest impact from the interest rate declines occurred in Q2 as expected. As we enter Q3, we face a headwind from the paydowns of commercial loans, which could reduce NII by a couple of hundred million dollars.

And as a reminder, NII will be impacted by the long end of the curve as our securities portfolio continues to re-price lower. Beyond Q3, NII stability absent material changes from the economic conditions will be dependent on asset growth and/or redeployment of deposits into higher yielding securities rather than cash.

Beyond NII as Brian mentioned, the balance and diversity of our revenue streams combined with strong expense management has supported pre-tax pre-provision income despite the unprecedented decline in interest rates.

I would also just remind you that short-term rates were near zero in 2014 and 2015 before rates rose. In those years, we produced solid profits. Plus today we have $150 billion in higher loan balances and $500 billion in higher deposit balances with -- which will benefit NII versus those periods.

Turning to slide 13 and expenses. At $13.4 billion, this quarter expenses were modestly lower than Q1 2020. For three years now, despite investments in areas such as technology, sales professionals, marketing, philanthropy, new or renovated financial centers, expanded benefits, and increased minimum wage.

We have managed expenses well and have operated in a tight range of $13 billion to $13.5 billion in expense each quarter outside of the impairment charge taken in Q3 2019. This quarter was no exception, even with the added costs related to COVID-19.

In Q2, we estimate that COVID-related spending versus COVID-related savings netted to an increase in expense, totaling $400 million. We will be working hard to reduce this cost as we move through this crisis, while at the same time ensuring that our customers and employees are safe. The higher cost of COVID was mostly offset by the absence of elevated payroll tax when comparing total noninterest expense to Q1.

With respect to expenses beyond Q2, please note that on July 1, we began accounting for merchant services provided directly to our customers versus through a joint venture. Accordingly, again in Q3, we will record revenue and expense for these operations separately as opposed to netting them under the equity method of accounting.

As a result, we expect the expense for this business to add roughly $200 million per quarter to our expense run rate. Additional revenue for merchant services in the near term should be roughly $100 million a quarter, improving as the economy recovers and operations become even more fully integrated driving increased value for clients.

We are excited to integrate merchant services into our lines of business. Merchant services is an important product for many of our clients, from small businesses to large multinationals who rely on accepting credit and debit cards for significant portions of their revenue. As such, it is core to transactional banking and working capital management.

Because our LOBs enjoy leading market share across both consumers and businesses, we can innovate, connect and provide services that add value across the spectrum of payment users, including offering innovations in expedited settlement, enhanced authorization, lease cost routing, liquidity management, credit FX data analytics and many other products. Our new proprietary platform is flexible, resilient and enables us to grow and facilitate the evolution of the payment ecosystem as the marketplace evolves.

Turning to asset quality on slide 14. Our underwriting standards have been responsible and strong for many years now, and we expect this fact to benefit us as we advance through this health crisis. 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 this year's stress test was once again the lowest of our peers and has been the lowest in seven of the last eight years. Total net charge-offs this quarter were $1.1 billion or 45 basis points of average loans. Net charge-offs rose $24 million from Q1 with an uptick in commercial losses mostly offset by lower consumer losses.

Provision expense was $5.1 billion. Our reserve build of $4 billion reflects a weaker economic outlook since the end of Q1, which impacted expected future losses. While we saw increases in commercial reservable criticized exposures, impacted by the virus, overall credit thus far has been better than expected as NPLs only rose modestly versus our expectations.

As the economy reopened, we saw lower deferral requests, better payment trends from the stressed borrowers, a slower pace of commercial downgrades towards the end of the quarter and faster payments of line draws than we anticipated.

On slide 15, we break out our credit quality metrics for both our consumer and commercial portfolios. On the consumer front, COVID effects on asset quality remained benign. This is driven by deferrals extended to consumer borrowers, coupled with government stimulus for individuals and small businesses.

Consumer net charge-offs declined $138 million, which is partially attributable to a deferral which should be -- which should provide a better chance of recovery with stimulus and other assistance. In commercial, we saw $162 million increase in net charge-offs with concentrations in commercial real estate and energy.

Our commercial loan book excluding small business ended the quarter at 88% investment-grade or collateralized. One could see COVID impact more clearly and reservable criticized exposures, which increased $9 billion from Q1. This increase was driven not surprisingly by exposures to cruise lines, restaurants, real estate and retailing.

Turning to Slide 16. This table provides a full picture of our allowance build since year-end 2019. As you can see our allowance including the reserve for unfunded commitments was $10 billion at year-end and has doubled to more than $21 billion, while our overall loan balances are relatively flat.

Note that we ended Q2 with an allowance to loans and leases of 2%. I would also note that coverage ratio for credit card increased to 11%, total commercial loans increased to 1.6% and CRE rose to 11.5% -- excuse me, 3.5%.

These ratios reflect our loan mix with consumer concentrated in secured loans with consistent-high underwriting standards which for the past 10 years has focused on high-FICO borrowers with whom we have strong relationships. It also reflects the investment-grade nature of our commercial portfolio with strong payment and debt service characteristics.

Our increase in reserves from Q1, reflect an outlook based upon the most recent economic consensus estimates. In addition we continue to include downside scenarios. A weighting of these new scenarios produced a recessionary outlook with a deeper decline and gap to return to positive GDP.

It is worth noting that, if one looks at the Fed's stress credit losses in the latest CCAR and just assumes that we have pushed all those losses into reserves today our CET1 ratio would still be above 10.25% versus our minimum of 9.5%. Obviously there remain many unknowns including how government fiscal and monetary actions will impact the outcome and how our own deferral programs will impact losses. But perhaps the biggest uncertainty is 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 17. Despite the enormous financial challenges of various impacts -- impact -- COVID-related impacts including dramatically lower rates, fee reductions, higher provision and increased expense, the business remained profitable in the quarter. And as Brian discussed this health crisis has proven the value of our high-tech and high-touch strategy.

The significant investments and innovation in our digital capabilities have been a valuable resource for our customers complementing investments in our financial centers and differentiating us from peers. Provision expense reflected higher expected future losses from the worsened economic conditions.

And note that net charge-offs in the period actually declined. So much of the financial burden of expected future losses were incurred in the first half of this year. And because of deferrals significant charge-offs in this segment are not likely until the end of this year or later. Revenue in this business absorbed the brunt of company's NII decline as the segment has the bulk of our deposits. And this segment also bore the brunt of the fee waivers negatively impacting revenue.

Card fees were down as a result of lower spending activity, as well as fee waivers. Service charges were down as well due to fee waivers and fewer overdraft and related fees as a result of increased balances in customers' accounts.

With respect to expenses as you know banking is considered an essential service. And across the country we have managed to keep 60% of our financial centers open. The team worked through enormous challenges in the first half of the year to assure ongoing service which has been a daily balance between to service our customers' need and the safety of our employees as well as customers. Our costs reflect this balancing act.

We've added roles to service calls and managed digital interactions not only for existing products and services, but also for small business applications to the Paycheck Protection Program. Many of these additional personnel work from home. We also continue to invest in the franchise. We added salespeople in addition to the associates to handle customer calls that I have just mentioned. We renovated and added financial centers and we increased minimum wages.

The expense from these investments continued to be mitigated at least in part by process improvements, digitalization and technology improvements. Client momentum continued as we saw average deposits rise $104 billion or 15% from Q2 '19. Even more impressive was the fact that 70% of this growth was in checking accounts as clients received stimulus, delayed their tax payments and slowly are ramping up spending.

Average loans increased 8% driven by mortgage demand even in this low-rate environment. Mortgage growth was mitigated by a decline in credit card and other consumer balances. We continue to add consumer investment accounts and see strong flows into our Merrill Edge platform.

In Q2, we added 9% more customer investment accounts this year than last year with more than 30% of those added digitally. AUM rose 17% driven by flows and market valuation.

Let's skip slide 18 and move to Wealth Management as I think we've covered most of the trends already. So referring to Wealth Management and -- to wealth -- to Global Wealth and Investment Management on slide 19 and 20, here again, you saw lower rates as COVID-related credit costs impact an otherwise solid quarter with good AUM flows as well as strong deposit and loan growth. Merrill Lynch and the private bank both continue to grow clients, as we remained a provider of choice for affluent clients.

Despite our sales force working from home, in Q2, we added nearly 6,000 net new households at Merrill Lynch and nearly 500 net new relationships in the private bank. Total client balances rose to $2.9 trillion from Q1 driven by the rebound in equity markets. Compared to a year ago, they are up 1% driven by strong growth in deposits, AUM flows and loans.

Net income of $624 million was down 42%, driven by a 10% decline in revenue, as well as higher provision expense. The revenue decline was driven equally by the lower NII as well as fees. Non-interest income decreased 7% driven by lower transactional revenues and lower asset management fees driven by market valuations partially offset by the benefit of AUM flows.

Expenses were stable year-over-year, as investments made in the past 12 months in sales professionals and technology were offset by lower revenue-related incentives and net savings associated with COVID. Provision expense increased from reserves built for future COVID-related net charge-offs, while current net charge-offs remained low.

Moving to Global Banking on slides 21 and 22. As noted earlier, Global Banking saw a strong average loan growth from Q1 line draws, record deposit levels and record investment banking fees. But those benefits were not enough to offset the impact of lower rates and higher provision expense as a result of COVID.

The business earned $726 million, falling $1.2 billion from Q2 2019, but this included adding $1.5 billion to the allowance for credit losses this quarter. On a pre-tax pre-provision basis results improved 4% year-over-year driven by record Investment Banking results.

In Q2, we were able to improve notably both our Investment Banking revenue and market share for the second straight quarter. Investment Banking fees of 2.2 -- excuse me, $2.2 billion were up 57% year-over-year. This record result included records in both investment-grade as well as equity capital markets.

While average loans were up 14% from Q2 2019, I would note that repayment of Q1 draws built significantly as the quarter progressed, which will be an headwind to NII in Q3. I would also note that new loan origination spreads increased quarter-over-quarter and year-over-year.

At the same time, we continued to see strong growth in deposits, which were up $131 billion or 36% even as the rate paid decline following the decline in LIBOR rates. Rates paid are now back to levels seen at the end of 2015 just before rates began to rise. Growth in Investment Banking fees, loans and deposits reflect not only what we believe to be applied to quality, but also the addition of hundreds of bankers over the past few years increasing and improving our client coverage.

Turning to digital on slide 23, as we've already covered most of the important points around loan and deposit activity on 22. As in consumer and GWIM, our digital capabilities are more important and useful than ever in this health crisis, enabling clients to work-from-home and seamlessly manage their treasury needs. And it's no surprise that in this environment we would continue to see increased use of these capabilities.

Switching to Global Markets on slide 24. Our teams performed well in an unusual environment producing the best quarter of revenue since the first quarter of 2012. We saw the fixed income market mostly strengthened through the quarter and prices recovered from Q1, with particular strength in credit products.

As I usually do, I'll talk about results excluding DVA. This quarter net DVA was a loss of $261 million. Global Markets produced $2.1 billion of earnings in Q2 nearly doubling the prior year's period and increased 42% from solid Q1 results.

Year-over-year revenue was up 34% from higher sales and trading results and improved Investment Banking fees, partially offset by the absence of a gain on an equity investment which occurred in Q2 2019. Expenses were well controlled and flat compared to Q2 2019.

Within sales and trading -- within revenue, sales and trading improved 35% year-over-year, driven by a 50% improvement in FICC and a 7% improvement in equities. Compared to Q1, sales and trading revenue also improved, as growth in FICC linked quarter overcame a decline in equities from a record in Q1.

Trading comparisons to Q2 2019 for FICC reflected better trading performance across all products both macro and credit. FICC results benefited from improved client flows, credit spread tightening, lower funding costs and asset prices which rallied through the quarter. Equity revenue was driven by stronger performance in cash and client financing, partially offset by a weaker performance in derivatives.

On Slide 25, note the half year comparisons which shows sales and trading, up 28% year-over-year but otherwise pretty stable over the past several years at around $7 billion. Finally on Slide 26, we show All Other, which reported a profit of $216 million. Revenue benefited from a gain of $704 million from the sale of $9 billion in mortgage loans, which drove the improvement in revenue from Q1.

Our effective tax rate this quarter was 7%, reflecting the 11% tax rate expected for the rest of 2020, due to the greater impact of tax credits related to tax-advantaged investments on lower pre-tax income as well as the related adjustment to the year-to-date tax rate.

Okay. With that let's open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to Glenn Schorr with Evercore. Please go ahead. Your line is open.

Glenn Schorr

Hi, thanks very much. Two quick clarifications. On your net interest income comments of down a couple of hundred million, I'm assuming that is off the current base? And then do we stabilize from there? I heard your comments about -- depending on how we assess the duration of and stickiness of the deposits. So maybe you could talk about how do you assess the duration. It sounds good but I don't know how you -- if clients can help you assess that but how you -- how do you assess the duration and stickiness of the deposits? And what would you redeploy into, if you thought that they were somewhat sticky?

Paul Donofrio

Yes. So just to be clear, we're talking about a couple of hundred million off of -- from Q2 to Q3. I won't repeat all the kind of drivers of that. Beyond Q3, NII is really kind of -- the growth of NII is going to be dependent upon sort of asset growth and redeployment of deposits into higher-yielding acuities.

We've added $284 billion in deposits since year-end. All of that has gone into cash earning 10 basis points. So as we assess the future of this pandemic, as we kind of assess how much of that is going to stick around and we get a little bit more confident on the -- on those two elements that can be deployed into securities or a portion of it, let's say, can be deployed into securities.

And that's -- there's a big difference even in these rates between what you can earn on a mortgage-backed security or a treasury bond and 10 basis points. So there's some opportunity there but it has to -- I think we're going to be thoughtful about it and it's one of those things I think you know when you see it.

Glenn Schorr

Got it. Maybe a similar question on expenses. The $400 million in COVID-related expense, I'm assuming that's a combination of PPP and work-from-home related things. Do -- does that roll-off starting now that stick around? I want to get to the core number that we're adding the $200 million of merchant servicing expenses on top of. Thanks.

Paul Donofrio

Yes, sure. So, as we said, we're sort of estimating that if you take all the increases from COVID-related spending and all the decreases, you had a net $400 million. If you think about all those increases, it's not just PPP. There's supplemental pay. There's child care. There's masks. There's food. There's more financial guards in at our financial centers.

You've got all the PPP-related expenses. You've got all the tech expenses moving people -- virtually all our employees move from home -- moving to work-from-home. You got some offsets in sort of some travel and other employee expenses in terms of meetings that all kind of nets down this quarter to $400 million.

We're going to work on that. I don't think you can say it's all going to go away in Q3 but we're going to work on those expenses as we move forward. But of course, we're going to make sure anything we do, we're not jeopardizing the safety of our customers and employees. So we think there's some opportunity there.

Glenn Schorr

Okay. Last one. The Wealth Management reserve build, I wonder if you could talk about the profile of those loans. How much of that is to things like a building for a wealthy Management would require that build?

Paul Donofrio

I think most of it is mortgages.

Brian Moynihan

And there's some commercial lending in there, but it's all very high-quality and personal wealthy people's loans and some -- there was 30% of our mortgage originations this quarter aided at 25th. And so it's a significant mortgage book and that picks up some and just the estimates whether it happens or not is a separate question. But we feel good about that portfolio, but it's just the same factors applied to the rest of the portfolios applied in that business.

Glenn Schorr

Okay. Appreciate it.

Brian Moynihan

We look at things like real estate exposure we consider real estate exposure in that business that people have buildings and things we're talking about. There's -- going back Glenn to the many years, there's no hidden sort of real-estate exposure on our Wealth Management business. It's handled as real estate.

Glenn Schorr

Understood. Thanks, Brian.

Operator

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

Mike Mayo

Hey, Brian.

Brian Moynihan

Hi, Mike.

Mike Mayo

You mentioned July activity is above last year. Is that right? So, just a little bit more color on the green shoots. It seems like the trends are all in your favor. But I'm just wondering, if that's backward looking. In many of your markets like Florida, or Texas, or California I mean, that's where you're big you're seeing an increase in COVID cases. And I guess that leads to death and that leads to shutdown. So from an on-the-ground perspective, do you expect these green shoots to continue? What advice do you give the governors in those states? How does it all shake out?

Brian Moynihan

The first advice we give to everybody is try to be safe. The faster you can get the environment to tip over as you've seen in some of the hotspots we talked about last April, you can see the activity pick up. But just to be very precise the data through the 14th of July, so that's about as recent as you might be able to get is up over last year. If you look in the first two weeks of

July, it fell a little bit in Texas and places like that, but it's still 25% higher as an aggregate than where they were in the shutdown phase.

So it will plateau a little bit Mike I think, and you'll see that ebb and flow. But there are other activities that just overwhelm that what you see in terms of the bars closing stuff, just the general activities the improvement in people's homes spending on their homes. And you saw some of the data today that supports that in the retail sales numbers.

So, yes, it's flattened a little bit, because it flattened in credit card. You'll see that more dramatically, because the credit card spending that goes on in restaurants and travel and stuff. But it -- just in the last couple of weeks, it fell mid-single digit percentages, I think in some of those in Texas and Florida, but it's still 25% compared to that week-to-week -- the weeks before the reopening. That's 25% up. So, we'll see it play out. It's hard to be any more down to date than July 14.

Mike Mayo

And then a separate question. I guess, you've added more to your reserve what $8 billion added to your reserves the last two quarters another $4 billion this quarter pretty remarkable. And your net charge-off ratio was flat quarter-to-quarter. Talk about a disconnect, however, maybe it's not a disconnect.

So I guess, it's a tough question. But what would your charge-offs fee? What would your NPAs be if you didn't have the forbearance in place? Like, if it ended tomorrow and you had to recognize the full extent of the problems just in a sense of order of magnitude would it be 5% higher? Or 10% higher? 50% higher? What?

Brian Moynihan

Just to give you a simple answer. If you -- and a little bit of this Mike will always depend on timing, because if you think about credit cards then there's a roll rate to them as you well know. But just for the second quarter, I think the number would have been another $40 million higher, if you took all the stuff and assume the payment behavior took place but there was no deferral. And so that's $40 million on what? $600 million to $700 million, so it's something small.

Interesting enough for the non-deferred customers, the delinquency quarter-to-quarter actually went down 15 or 20 basis points. For the non-deferred customer, excuse me, the non-deferred customers. So 90% of people in cards that didn't defer their delinquency went down quarter-to-quarter. And so, as you think about that, it's a mixed bag.

The other thing that's inherent in your question is, all of us getting used to CECL versus the old methods of providing which is, you provide for a lifetime and then the losses are going to come that later down the road by definition, or else you have it as CECL provision. So, you'll see the actual losses that's come in later than later quarters.

But you're right. Right now, we are seeing nothing that is consistent with an 11% employment rate in the actual consumer payment behavior. And that has to do with the stimulus and things that's helping the margins quite substantially. So it's hard to predict, because there's a lot of factors in it, but that's kind of the data points I'd give you to give you a sense of it.

Mike Mayo

And just last follow-up. I mean, clearly, the stock market based on your stock price doesn't believe you. They think your customers are a lot weaker. So are we just not seeing it yet? I mean two or three quarters now where you say, oh, it was a lot worse than we expected. Or do you think this is going to play out in that, like actually the borrowers are in better shape than people realize?

Brian Moynihan

I think, part of this will play out in terms of how the path forward on Phase 4 Stimulus and everything occurs. But even on the commercial side, if you look our -- the NPLs went up $350 million or something on the commercial NPLs for the quarter and 40 basis points.

So even on the commercial side and we went through -- we asked our team to go through every commercial borrower in our business banking and our middle market segment, which is tens of thousands of borrowers, and assess everyone and rerate to make sure they're all up to date. Make sure, yes, just really go work on it, when they were at home and not able to do as much. And they've gone through that book.

And what you see criticized moved up and that's expected. The actual non-performers aren't. And so, those commercial customers are adapting and you're seeing it. So I think the -- we basically have looked at the assessment, the provision setting methodology is, as we said, 10% unemployment year-end, 9% first half of next year, it gets down to 7.5%. So it's not a rosy picture in a lot of ways.

And the proof is we give all those data to the Fed, as Paul said, and they do a stress test. And under those scenarios, our losses run, I don't know, 4%, 4.7%. And we're sitting with 2% reserves today and we're not in that scenario in terms of actual payment behavior by customers or delinquencies and cash, and that has to do with the stimulus is different in this crisis than it's ever been. It was given directly to consumers to sustain their ability to carry their day-to-day expenses.

Mike Mayo

All right. Thank you.

Paul Donofrio

Hey, Mike. It's obviously --

Mike Mayo

Yes.

Paul Donofrio

Hey, Mike. It's obviously hard to see data yet, right? But there are some clues out there and you can start looking at those clues across the industry. And I would -- you mentioned one of them, let's just look at losses. You can look at NPL growth. You can look at reserve quick growth.

And then as Brian just said, I mean, it's not like this is one-time where our loss ratios in the Fed stress tests have been the lowest among peers. They've done eight exams. Every one of those exams is kind of different. They did this thing and that one, stress this thing more on that other one and change something else on the next one. Seven out of eight of them, no matter what they changed, no matter what they did, we had the lowest loss rate. So there is some evidence out there if you look carefully at it.

Mike Mayo

All right. Thanks again.

Operator

Next question is from Jim Mitchell with Seaport Global.

Jim Mitchell

Hey. Good morning. Hey, Brian, just a follow-up on your corporate credit comment. If you look at your NPLs, you absolutely had the least amount of increase quarter-over-quarter versus your peers. And I appreciate your comments that you did really a real micro as opposed to macro look at every individual loan.

So when we think about that, do you think it's -- your performance is more to do with the fact that you took a micro look rather than some peers maybe doing a macro look? Or is it really just your higher exposure to investment grade, your industry mix? And how do you think about the massive amount of capital raising in the second quarter and the liquidity that provides to corporate borrowers and how you factor that in? Just -- that's it. Thanks.

Brian Moynihan

I'm not sure where it is in that sequence, but it's the latter part of it, which is that, basically it's the quality of the portfolio. So our commercial real estate exposure, as Paul said earlier, is much -- it's not going into last crisis we had $14 billion or something of construction-related for housing. We have like $400 million or something like that. It's very little. So the kinds of exposure to get pulled on pretty quickly.

And remember, we took a lot of charge-offs in the first quarter for what? For gas company exposure I think a couple of hundred million Paul. And those -- yes so, we've been taking care of the portfolio. So, it's not macro-micro. It's actually just the quality of what we have done in client selection across the last decade gets us there. And so -- and that's why you see differences in the rates in the stress tests and other things.

But that's responsible growth and we built this company so that'd be adamantine in all times and fortress and that's how we build it. And we'll see where this all goes. But remember that our SCB is under the floor yet the losses -- and there's a lot of objective third-party evidence that shows and that has a lot to do with our mix of businesses and how we build them.

Jim Mitchell

Yes. Absolutely. And then maybe on deposit growth, it continues to be I think surprisingly strong. Appreciate the comment of not sure how it holds up and you're holding it in cash for now. But when you think about -- is there any kind of trends throughout the quarter as the stimulus money got paid? Do you see deposit growth slowing? Or are you seeing it turn negative lately? How do we think about the ability for those at least near term what are you seeing in terms of deposits over the last month?

Brian Moynihan

Well and I'll let Paul talk about this on the commercial side especially because he used to run that business for us a long time ago before we got him to be a CFO. But the reality is this the place we're uncertain is in the large cash inflows from corporate customers that you're not sure when they're going to start using the money and redeploy the money and want them to frankly.

We should want them to redeploy that money into the economy as opposed to having drawn or raise money in the markets and have it sitting on the balance sheet. So that's the real volatility question is when do they -- when do those companies move some money out for higher yield because some of the money marketing prints are settling in with a little more yield to them and things like that and the stability allows them to take -- think about putting it off a bank's balance sheet. So that's the volatility question in terms of deposits. It's around that.

But when you look at consumer just to give you a sense, the linked-quarter growth in consumer checking was $50 billion. We had 180,000 net new checking accounts, year-over-year up almost 900,000. Those are numbers that are normal quarters' sort of net production. I think we might have been 250,000 or something like that in a quarter like this.

And so what's happened is we still are building up that core consumer base and the average amount in accounts are up 12%, 20%. Some of that's been spent down. We think all the EIP-type stimulus as well is largely out of people's accounts. It's been gone through the system.

Obviously the unemployment supplements for the limited number of customers we have. That's a small -- in any group that's 10% of the population, so it's smaller than the whole. But you're seeing that stimulus was that $1,200-type stimulus went -- came and went out of people's accounts pretty much.

On a small business you're seeing the PPP, the 65% to be spent which is also good because that's future stimulus to be deployed. And so, if you think about all those pieces, I would focus more on this. Paul's comments about understanding whether this deposit are going to stick is more of a commercial question.

And a large corporate question than it is a wealth management consumer question because what's going on behind this is we've ground out another even with half -- yes 40% of our branches shut down due to the environment we have ground out, digital sales and digital growth and even non-digital growth to the tune of 180,000 new core checking accounts with average balance moving up at 92% core and that sticks your ribs money and we will deploy that over time.

But you had to make sure that like all of you are worried about where we go next and that's why we're trying to keep the liquidity position that might run out of here for the clients' purposes or whatever. So Paul, I think all the volatility comments are really on the institutional side.

Paul Donofrio

Yes. I'm not sure to add anything Brian. Maybe just a macro point of obviously if the money supply grows, more our deposit balances are going to go up. And you -- when you look at -- in addition when you look at the treasuries bank account at the Fed it's got an enormous balance way higher than usual. And my guess is some of that's going to end up in the private sector as well. So there were some -- perhaps some macro forces that would suggest that deposit balances are going to grow at banks and we're going to get our fair share.

There are a couple of little just tiny things about the third quarter that's worth reminding people. Tax payments were delayed and they're going to get paid in the third quarter. Plus we're all hoping as Brian says that spending continues to increase and so some of that excess money that's sitting on people's accounts may get spent both in the corporate and consumer side.

And then in GWIM, you've just got a lot of deposits came out of the market and went into deposit accounts and if markets continue to feel good to people, you expect to see some of that come out of deposits and go back into the market.

Jim Mitchell

That's all really helpful. Thanks.

Operator

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

Betsy Graseck

Hi, good morning. A couple of follow-ups there. One on the points that you were making about the deposits. It's interesting that you had all those drawdowns and paybacks, but the deposits didn't leave yet. That's basically what you're referring to, right?

Brian Moynihan

Yes, Betsy, that's the interesting point. You'd expect if they pay them back you just seen it, but other cash came into those companies and it came on the books and I think we grabbed more than our fair share. Nothing to do with the consumer side, but on the institutional side. It's been interesting because our predictions would have been that we'd have seen the deposits decline already and they haven't.

Betsy Graseck

So, my two questions. One is on just the forbearance and the waivers. Can you give us an update as to how you're dealing with those? Do they roll off automatically? Are you going person-by-person? How should I be modeling this fee waiver fading? Is it going to come back? Do you kick it back in? And I mean do you stop the fee waivers in 3Q or is it going to be more of a phase-in through 2021? Just help us understand how you're dealing with that.

Brian Moynihan

I think maybe the size of the mortgage has different aspects because of statutes and stuff. The rest of the lending side stuff begins especially like the small business as I said earlier it really runs off as we speak. And then some of the other products run through.

We're always going to help consumers in distress. So, if somebody calls up and says I'm unemployed and I can't work and stuff we're going to work with them and we're going to work on both on the fee side and on the collection side for the lack of a better term.

But our view from the start was we want to have that dialogue with the consumer to help figure out where they stand and so that activity starts to pick up. The waivers by definition were 90 days and things they roll off. But in -- what you'll get away from is people who did it out of panic which when you see somebody's paid every month, obviously, they didn't need the waiver. Those people roll off and disappear and you'll get down to the people that you need to actually help. They're unemployed and struggling and we'll help them.

We'll work with them like we always do in our collection efforts. So, that's the sort of credit side of the thing. And the big numbers will move. The numbers of requests I said have dropped 98%, so it's really nothing if you look at our percentages relative to industry and mortgage were lower across the board 200 basis point, 150 basis points in terms of requests and stuff. So, we feel good about that.

When you get to the fees, this is really going to come down to this. We all -- we went into this thinking about it as a bit of a natural-disaster type approach process. So, that's going to come down to where the consumer lives the market the condition what's going on in that market and whether they're able to work and things like that. So, we'll see that play out.

If there's another round of stimulus payments, we waive the fees so people wouldn't have the fees. We've held off on the fees that they had that could have been negative in their account to make sure they got the whole $1200 in the case of last payment. We will do that again because that's the right thing to do to make sure they get the benefits of that -- those payments. But those things will sort of ease through the third quarter depending on really a specific question and then as you get towards next year, they'll normalize.

Betsy Graseck

And then as we go through this pandemic, obviously, we've got flash points building again in certain locations like you were asked earlier on the call, you've got a big footprint of branches in these locations. So, I would think that your programs are open obviously for folks who are coming back into that second wave. Just want to confirm that.

And then how are you thinking about the branch footprint just generally? I mean you mentioned earlier about opportunities to improve efficiencies to call back the $400 million net COVID cost increase that you experienced this quarter.

But a little bit longer term given the increase in digital the fast ramp that we've seen in the most recent couple of months does that make you think, hey, we can pull back on our branches even more than we had been thinking before? Give us an update there. Thanks.

Brian Moynihan

Yes, I think the time to figure that out will be a little bit later Betsy not because we don't work it all the time. So, even year-over-year I think we're down 30 or 40 branches or something like that in terms of branch count.

This -- last year's second quarter -- or this year's second quarter we're always working as dynamic. They might be bigger and replace two or three small ones. They might be places that we just had too many whatever but we'll always be working that. So, 6,100 to 4,300 branches continue to work and we're doing that by following customer behavior. So if this -- some of this behavior changes stick to the ribs, you'll see us keep fine tuning our system.

By the way the cost of deposits, now with all the operating costs in consumer over deposits actually went down year-over-year again to -- by about 7 basis points or something like that. So we continue to manage that overall operating cost down, and it's not just the branches it's all of the call centers and all the things around it. So let us play that out.

I don't think -- and then by the way remember, we're deploying and we opened branches in the middle of this thing in places in Ohio and stuff we didn't have. And so that replaces on the account at a much different execution than something that may have been left over from years ago. So it will play out. I don't think they'll get -- they'll go one way or the other way dramatically, but what will happen is some of the count we believe will be consolidated markets as we've always been doing and deploy to markets where we don't have reach.

I think on a given day, we're still getting 0.5 million business to the branches. So it is an important part of what we do and the teammates in those branches have done incredible work being open every day during this crisis despite what was going on in the environment around them. So I -- it will always be an important -- an incredibly important part, which makes us different. We are a big digital company and we're a big physical company and that combination proves superior customer reach and results.

Betsy Graseck

Thanks.

Operator

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

Matt O'Connor

Good morning. Can you just talk about the small business PPP in terms of the timing of when you think it will be repaid or forgiven and remind us of the accounting there? And is that included in your net interest income outlook? Thanks.

Paul Donofrio

Why don't I start with the accounting? So the -- if you look at this quarter, there's about a little under $100 million. It will be a little more than that next quarter in NII for PPP. That's a function of 1% interest rate plus under FAS 91, you're going to amortize the fees into NII over the life of the loans.

In terms of the overall program, we're -- we did about 335,000 loans in a few weeks. That was quite expensive in terms of all that we had to do to do that well, and so I would not expect much if any profitability out of PPP.

Matt O’Connor

Okay. And does that include the fees that you get if it's accelerated from a forbearance? I think there were some articles out there that you're going to donate any profit. But obviously, there's just the focus on the revenue, and to your point, there is the cost as well so.

Paul Donofrio

Yes. If -- once there's forbearance to the extent that we were amortizing those fees into NII, once a loan is forgiven then you have to accelerate the remaining fees that haven't been amortized. So it could be a spike in a quarter or two if we start seeing a lot of forbearance.

But again, as you know, we've -- we said, we're going to donate profits, but I wouldn't expect a lot of profits out of this program. 335,000 loans in a quarter is probably I don't know I think somebody in consumer told me was like 10 years of loans in small business. This was a massive effort that involved people outside the company, in the company to get -- to do it well.

Matt O’Connor

Okay. And then just separately on the criticized commercial loans, it's helpful that you do disclose this. I'm not sure everybody does. So I appreciate that. But how would you think about the loss content on that? Obviously, it's a much bigger bucket than say non-performers and -- are loans that you're watching. But how should we kind of think about the risk of loans that are kind of criticized versus say non-performing? Or how much might flow into non-performing?

Brian Moynihan

Yes. Well, I'd say that that's -- that depends on the loan. They're largely secured. They're collateralized what sort of recovery, but remember the criticized is -- the ratings driven is a loss -- a probability to follow the loss given default and then the collateral structure. So that's all built into the reserving methodology that results in the reserve build.

So, it's not something that you have to think of separately than NPLs. It's just -- there are different stages in the process of getting through the system, but so it's really -- you have to say if it's -- we -- for example, we have a lot of retailers who have gone through bankruptcy over the last several years. We haven't lost anything because of the method of securing yourself and things like that. And that's -- but that's a business we've had for decades that has done a great job there.

Whereas if it's an unsecured line and somebody you have a follow-on -- somebody follows quickly that can be more problematic. But it's -- just rest assured it's all built into the methodology which produces the loss content which produces the reserves which -- in the scenarios we use.

Matt O'Connor

Okay. Thank you.

Operator

Next question is from Ken Usdin with Jefferies. Please go ahead.

Ken Usdin

Thanks. Good morning. I had a couple of questions on the JV dissolution. So just wondering, Paul relative to your $100 million fees; first of all, where is it located kind of where are we going to see it? And second of all can you help us give perspective of what it was maybe at its peak? And you've mentioned it could get better as the economy improves. What's the best metric we can watch of your disclosures to track that progress?

Paul Donofrio

A portion of that revenue is going to be in consumer. A portion of it is going to be in Global Banking. I -- we'd have to think about how to help you see it because it's -- it never -- certainly on a net basis it never was a big number in terms of net profits coming out of that JV. We expect it now that we can integrate it, do it our way, really leverage our customer relationships, put our full sales force more directly behind it and innovate.

We think this is incredibly important to our customers and we can grow it. But right now it's -- we gave you I think we gave you some perspective. It's about -- I would expect the revenues there to be about $100 million in the near term. But we would expect them to grow as we ramp up and some of our investments start to bear fruit. And again, I don't know how to answer your question on how you can see it. I have to think about that, whether it's something appropriate for the supplement or not.

Ken Usdin

Okay. And just in terms of fees, other categories, wealth management, the asset management part was down. Was that because of the averaging effect? And should that improve given the period-end market levels that we saw?

Paul Donofrio

Yes. You have to remember that AUM fees are on a one-month lag, so you're picking up there what happened at the end of the first quarter.

Ken Usdin

Yes. And lastly, just any comments about the Investment Banking pipeline given the relative strength that we saw in the second quarter? Thanks, Paul.

Paul Donofrio

Yes sure. The Investment Banking had a great, great quarter. And we know we picked up significant market share. We've been picking up significant market share for many quarters now. I think all of you have sort of recognized that. It was a record. I think our market share is above 8% at this point. And our market share in middle market investment banking is also rising given our emphasis there on the bankers we add. I think we're up to -- we're over 9% there.

A lot of activity as we help clients raise capital to address their needs, you can't really expect -- I don't -- we don't know the answer, but we're already sort of seeing a little bit of a slowdown in activity in the first couple of weeks of this quarter. So I don't think you can expect that the third quarter is going to be as robust as the second quarter has been.

But what I will want to emphasize we feel really good about the progress we have made with our clients in terms of market share both for large companies around the world and the middle market companies.

Operator

We'll go next to Saul Martinez. Please go ahead. Your line is open.

Saul Martinez

Hi. Good morning guys. I wanted to start off on NII, what's just a bit of a clarification. You said NII would be down a couple of hundred million quarter-on-quarter on commercial paydowns. You also said that long-end rates would also weigh on NII. Just give me -- give us a sense of what the order of magnitude could be in terms of additional NII pressure to the third quarter from long-end rates?

Now I would assume that the redeployment of cash into securities is something that helped, but only over a longer period of time. And I know Paul in the past we've talked about reinvestment risk and kind of sized up the impact of long-end rates on securities cash flow. So if you can help us understand the potential impacts on third quarter and how to think about it beyond that?

Paul Donofrio

Yes, look I will say in terms of our $200 million of current perspective being down quarter-over-quarter 2Q to 3Q, we're kind of putting all that stuff in there, right?

Saul Martinez

Yeah.

Paul Donofrio

You've got loans being potentially down. You've got average LIBOR coming down. You've got the securities portfolio. It's kind of all in there. Securities portfolio about $20 billion, $25 billion matures every quarter. And reinvestment yields right now are significantly below where that -- where the portfolio is. So that's just going to slowly dilute over time. We can offset some of that, if we decide to take some of these deposits that are now sitting in cash and put them into securities we can get a sort of a natural offset. But we have to sort of just see how that all plays out.

Saul Martinez

Okay. I don't think -- I may have misunderstood. I thought that you met. So the $200 million a couple of hundred million is all in not simply from the impact of commercial paydowns, but from a number of things I guess. The -- I guess I wanted to go back and follow-up on Matt's question on PPP and get a little bit better sense for what the order of magnitude of the impact could be, because I mean you have $25 billion of PPP loans and I think it's fair to assume that a pretty sizable proportion of those will be forgiven. And given the fee rates on those, I mean we're not talking about small numbers even relative to your -- the size of your NII, I mean you get to easily over $1 billion.

So I guess my first question is, why should we see a pretty significant spike in NII in 4Q and 1Q as those loans start to get forgiven and the income is recognized? And I guess relatedly on the expenses, I guess I'm trying to understand what you mean by you're not going to make a lot of money on that.

Is it just that it's sort of in the expense base already and you've had to ratchet up expenses? Or is it that as revenues are recognized from an accounting standpoint you'll donate those accounting -- that accounting revenue away as one of your competitors is doing. I guess I'm trying to understand the order of magnitude timing and geography of the impact. So they don't seem to be small to me.

Brian Moynihan

We announced in April I think it was that we'd go away the net profits from this activity. There's a lot of costs -- internal costs obviously allocation of 10,000 people we had working on the origination platform of this to the high point. The forgiveness what we've got 3,000 people lined up to work on forgiveness that are already working on it and we open for business in a couple of weeks.

And then we had -- in part we also had to hire third parties coming to do some work and supplement us then -- and so there's a lot of elements. So where it shows up in revenue and -- we'll deal with it. But just I -- well the revenue you're saying is not insignificant. The issue is there's a lot of cost against it.

Saul Martinez

Yeah.

Brian Moynihan

Some are in the P&L and some are going to be next quarter's P&L, because on the forgiveness side, we have these teammates working on it. So we'll reconcile it all for you, but this space to commitment was to give away to net profits. That was something we committed in April. This is not new news.

Saul Martinez

Okay. But am I thinking about it right in terms of--

Paul Donofrio

You're not going to see--

Saul Martinez

Yes. Go ahead.

Paul Donofrio

To your point on the revenue, you're not going to see it in the revenue until the loans start to get forgiven.

Saul Martinez

Yes, which we would assume is what fourth quarter? First quarter? Or?

Paul Donofrio

We do see -- we see -- yes. We don't know when it's going to be.

Brian Moynihan

Yes. And by the way in phase 4 they're talking about extending and doing more loans and there's a bunch of proposals. So a little bit of this was hard to predict, because if they say you can do loan A and then do another loan or extend it that's -- even in the last quarter we're going from eight weeks to -- or 12 weeks to 24 weeks and things like that. So it's -- just look there's no mystery here. We'll just -- we just don't know until we get through it what exactly is going to happen because the rules changed so much.

Saul Martinez

Yeah. Okay. All right. Thanks guys. I appreciate it.

Operator

The next question is from Vivek Juneja with JPMorgan. Please go ahead.

Vivek Juneja

Hey, Brian, hey, Paul a question that I wanted to just clarify. The consumer loans that been -- that had been deferred, I'm presuming in sort of late June or early July you started to see some of those stock to get through the deferral period, just deferrals or 90 days. And so what are you seeing in the ones where deferrals are done? What percentage are re-upping and asking for a deferral to cut anew versus how many are going off? And of those going off what are you seeing?

Brian Moynihan

We're not -- the -- your point Vivek is that we're sort of -- it's now the time for that. It all kind of -- the time period that most of it occurred is now in a time period where it rolls off. And so we'll know better.

But you separate the card, we've already seen a couple of hundred thousand roll off and a bunch of them are rolling off as we speak. So that is 85% of our card and so separate that. From the standpoint of all the other aspects what I said earlier about small business, which is the next biggest -- which is the biggest percentage category, yeah, those are docs and dentists in there. They've all told us they're paying us and their payments are now coming up in July and early August.

In terms of home loans, we're seeing the numbers on deferral drop every week because there the new requests are less than people who have continued to pay. And so it's going to come down to cards and we're in that period of time. But there are substantial reserves set-up based on the credit characteristics of those individual card holders and what our expected outcome for them are.

And as we said earlier, a lot of them -- a substantial number of them paying us every month, some haven't been paying us at all, some have been paying us partly and that will all play out this quarter. When they charge-off with them we'll be down -- as that plays out over the roll-rate type of thing. But it's all in the reserves today. And while we say that there's -- yeah there's a decent chunk of reserves in the card business that is specifically built by these deferred loans.

What I said earlier, if you didn't hear it was that for the second quarter for the people who had deferred, the actual increase in charge-offs would have been about, I don't know $30 million, $40 million on a basis $600 and some million whatever it is. So it wasn't a substantial difference yet. And so those are the people that only got enough that they were rolled and charged off during the quarter. So let us see it play out. It's in the reserves. It will be covered by the reserves.

Vivek Juneja

Okay. Thanks.

Operator

Our next question is from Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

Yeah. Thanks. Just two quick questions. I mean, first on the expenses. Just how are we should be thinking about the expense trajectory as we look out to the third quarter, fourth quarter? I get the extra $200 million from merchant services, but then how much of these COVID-type expenses are expected to roll off into the third quarter, and then that still if we get the typical seasonality as well in the back half of the year?

Brian Moynihan

Yes. So all of those factors, I think Paul laid out earlier, but what we were reminding people is last year when we unwound the joint venture and told you about it this time last year, we said when we took it from a joint venture interest through the P&L on the balance sheet interest, it was going to increase our expenses. That $200 million it -- this is the quarter where it happens. And so we just want to make sure people are factoring that in.

Absent that, you know, that we manage expenses tightly in this company and we'll manage them down. And we'll have some pluses and minuses and we'll work it down, but we didn't want people to forget that we told you that last year.

All the rest of it will be the same, sort of, management practice we had. You have some PPP expenses come down a little bit. You have -- as we've -- people have moved around opened up a little bit, you have a little more business activity expenses. We'll see it play out. But then and you have the seasonality as you mentioned. And that will all be standard fare, but the key difference is we want to make sure people didn't forget what we told you last year.

Brian Kleinhanzl

Okay. And then a separate one just simple is the tax rate guide that you gave in the second half, does that roll forward into 2021? Thanks.

Paul Donofrio

I don't think we have a good answer for year 2021 yet. At least I don't have an answer, but we can get back to you on that if you need it. But for the rest of the year, it will be around 11%.

Brian Kleinhanzl

Yeah. Okay.

Operator

And we'll take our final question today from Charles Peabody with Portales. Please go ahead.

Charles Peabody

Yeah. I wanted to get some more color on your consumer and community bank and particularly the profitability of the various product lines like cards, mortgages, autos, branching. And I ask that because on a relative basis your consumer and community bank has done much better than the other big three Wells, JPMorgan, and Citi. And I know a big part of it is probably cards where the other businesses are losing money.

The other companies are losing money in cards. So, can you talk a little bit about the profitability of your different product lines and the relative value that they produced for you guys versus other major banks?

Brian Moynihan

I'm not sure I frankly agree with your premise that the profitability of our consumer bank is driven by the deposit business. And so given that you're in the middle of a twist right now with rates falling and the floors of zero rates in the consumer business that part it fell this quarter, but that'd be expected as you go through this twist. So it's been running -- the deposit segments have been running $2 billion a quarter type of numbers. And if that's in the consumer lending segment, would have been running even back in 2019 about $1 billion a quarter.

So it's a business which is -- and that's all lending not just the card lending. So it's a business which is driven by the deposit business when the rates fell as quickly and we moved rates down in the quarter it's going to take a little while to catch back up. And -- but that's -- but I'm not sure, I agree with the premise and that is driven by the card business. The card business is a portion of that a-third of the general operating profit.

Paul Donofrio

I think you're right, Brian. I think it -- the way to think about it is we started at a position of profitability before rates came down. That was stronger than many of our competitors given the strength of our deposit franchise and given how careful we have been with respect to credit unsecured consumer credit.

You're now seeing us getting hurt on the -- because that deposit franchises and those deposits aren't as valuable in a lower-rate environment, but you're not seeing us have the same sort of potential losses in unsecured consumer, because we just don't have as much as others.

Brian Moynihan

Yeah. Be that as it may because that lending portion lost money this quarter. And the deposit business continue to make money this quarter. So I'm not sure, I get that the starting point, but just to give you a sense. And so there wasn't a lot of money overall, but it was made by the deposit business.

Charles Peabody

I guess, the starting point was that the card businesses tend to be an outsized product for the other big banks and they're -- they clearly are losing money. And so is that the big differentiation? Is your card business losing money this quarter as well and -- but less so than the other big businesses other big companies?

Brian Moynihan

Yes. The lending business lost money. We don't -- I don't have a separate card P&L. But the lending business and consumer lost money. The deposit business made money and brought it to profit and offset $0.75 billion of losses on the lending side, because of the provisions versus $0.75 billion of profit after tax. So -- but remember, what drives the profitability consumer business is the position we have across all of the products.

We don't think of a lending business. And as we think of a customer business that is number one position in deposits, 92% core checking account, checking account growth of a million accounts year-over-year. The average balances of accounts growing year-over-year or even taking out the COVID impact, they're still growing at double-digits typically in a year. That -- the operating cost coming down year-over-year in terms of as a percentage of deposits.

These are all good measures that give you a great anchor, but when -- it gets tougher when rates are very low. That's -- we played that. I've been CEO for just my 11th year and has been through 9/11. I think the Fed fund rate has basically been zero a quarter and so that that's what we're doing.

The card business is a nice business. We keep it to a size that we think is consistent with our adamantine commitment to responsible growth and now therefore that, it's never going to drive the P&L one way or the other way. Then the risk-adjusted margin is 8% in that business today they're in actual charge-offs.

Remember what we've -- what's causing the losses is you're putting up reserves for the rest of the life of the portfolio in one quarter given an economic scenario that's deteriorated. So it's a good -- it's a wonderful business for us. It's our biggest business in terms of profit.

And it -- but we don't run it as a card business, or as a home loan business. We got out of that many -- a decade ago saying, it is the consumer business and we drive it on a unified basis.

Charles Peabody

All right. Thank you.

Operator

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

Brian Moynihan

Well, thank you, and thank you for spending time with us this morning. It's another quarter where we've driven responsible growth. We continue to manage this company tightly given the environment we're in, and we continue to drive the core activities forward.

And this quarter, we're especially pleased with the work our team did in Global Markets and Investment Banking area gaining share and providing the earnings power to have us earn twice our dividend build our capital, build our liquidity, and have a -- in the worst economic quarter since the Great Depression. So thank you. We'll talk to you next time.