Operator

Good day, everyone and welcome to the today's Bank of America Earnings Announcement. At this time, all participants are in a listen-only mode. Later, you'll have the opportunity to ask questions during the question-and-answer session. [Operator Instructions] Please note this call is being recorded.

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

Lee McEntire

Good morning. Thanks for joining this morning's call to review our 1Q 2019 results. By now I trust that everyone has had a chance to review the earnings release documents which are available on the Investor Relations section of bankofamerica.com website.

Before I turn the call over to the CEO, Brian Moynihan, let me remind you that we may make forward-looking statements during the call. After Brian's comments, our CFO, Paul Donofrio, will review the details of the 1Q results. After that we'll open it up for all of your questions. For further information on forward-looking comments, please refer to either our earnings release documents, our website, or our SEC filings.

With that, take it away, Brian.

Brian Moynihan

Thank you, Lee and good morning, everyone. Thank you for joining us this morning to review our first quarter of 2019 results.

In the first quarter, we've reported $7.3 billion of net income after-tax, the best quarter in the company's history.

So let's begin on slide two. This slide shows the building blocks in achieving another record quarter. It also shows our commitment to responsible growth and how it drives our shareholder model. We reported diluted EPS of $0.70, which grew 13% from the first quarter of 2018. This reflects a nice mix of both operating improvements and capital returns.

Pre-tax income of $8.8 billion, grew 4%, you could see that in the upper right. And we generated operating leverage of more than 400 basis points, which you can see in the lower right. Asset quality remains strong as net charge-offs remained around $1billion, the same level it have been for several quarters.

Provision expenses up year-over-year to match those net charge-offs more closely. And we had a small reserve build this quarter against the net reserve release last year. Through disciplined capital deployment after meeting all the requirements to make loans to our customers and support their businesses, we continue to drive our share count lower. You can see that in the lower left. We are well underway with our goal to bring out the dilution in shares caused by the increased capital build after the crisis. Through share buybacks, our diluted shares are down 7% compared to the first quarter of 2018 and down 1.5 billion shares in the past four years.

Turning to slide three, part of responsible growth is to produce sustainable results and part of that is to drive operational excellence, and we did it again this quarter. As you can see on slide three, we extended our positive operating leverage streak to 17 consecutive quarters.

As you think across the last four years or so, we've had many different markets out there, many different interest rate environments, many different changes and perceptions in the U.S. economy and the global economy. All those things affect our business in a given quarter. But what has been constant behind that is our ability to drive operating leverage. We achieved it differently in different quarters, but as shown here, we achieved it consistently.

When you think of our company, the three broad and diverse buckets of revenue, two which has annuity like characteristics, and one is more susceptible to prevailing market conditions. The first bucket to spread revenue from loans and deposits, and the second bucket is recurring fees, like our cash management fees in our commercial business or consumer account fees or interchange and things like that.

The third bucket of revenue, which are more market related would be the sales and trading revenue, the investment banking fees and asset management brokerage revenue, which are both dependent on market levels at a given moment and market activity given rise to those levels.

So if you think about this quarter versus last year, our market related types of revenue was down 12%. The other two non-market related revenue sources were up 7%, that shows you the diversity in this company and all-in that ended up with flat revenue growth.

However, our laser like focus on expense management came to the table again and resulted in the year-over-year expense decline of 4%, which resulted in the 400 basis points of operating leverage. All you can see as you move to the right hand side of slide three.

When you think about how we're driving the company, while managing expenses we continue to invest in the future. Our expenses have come down from $57 billion to $53 billion and change over the last four years or so. And we've been driving the operating leverage in each quarter, during that time, but we also continue to invest deeply in our franchise. And why do we do that, because it is working, we're getting more business as we add relationship management capacity, increase our marketing and drive deeper penetration of U.S. markets through the full franchise entry and more and more markets across United States.

We also continue to invest in our people, with industry leading benefit plans, in both in health and retirement, with industry leading capabilities and universities to train and reskill our teammates, and plus deploy the Pay Plan we announced recently, where we're going to increase our minimum wage over the next 26 months from $15 an hour plus to $20 an hour.

We need to do that because we need the best teammates to make this great company work and work for our clients. Across the company, we added 500 new sales professionals this quarter, more consumer relationship bankers, more wealth advisors, more commercial bankers and more business bankers, more small business bankers and more investment bankers. And as we had discussed many times, our initiative of spending for technology has been running around $3 billion for many years now, but is currently due to savings from tax reform expected to be 10% higher in 2019.

We continue to enhance both our physical network for delivering products and services to clients as well as the facilities we operate in communities and countries around the globe. All in Bank of America invest around $2 billion a year in capital expenditures to build out and enhance our buildings, facilities and infrastructure.

As it relates to our financial centers, our ATMs and other physical build out. The point is we haven't just announced what we'll do. We're halfway through the broad based build out in our consumer business. We're executing plan we laid out several years ago. But importantly for you, the cost to complete the work is already embedded in all our expense guidance. It's in fact embedded in our current run rate.

So we drive operating leverage and we invest and we see returns on that investment. One of the ways that we get our return on that investment is through our digital capabilities. Each quarter we show you the charts on slide five of our digital customer statistics. Because as I discussed them with many of you, we sometimes miss the obvious, what is driving this trend, is the change in our customers' behavior.

We will continue to serve our customers in every manner possible. The customer can have their cake and eat it too if they could have digital, physical 24 hours a day cash and electronic payments, checks and wires and ACH, a loan officer an online application to fulfillment of their mortgage. It is their choice. 37 million digital users now with 27 million of those mobile, and we now have 27% of our sales transacted digitally. 77% of our deposit transactions are now done through digital means.

This means more of our financial centers teammates and their time can be devoted to important events in the client's financial wise. We welcome 800,000 customers a day into our financial centers, and they remain very important to our capabilities. And we continue to invest in those financial centers, upgrade them and make them more modern.

And while consumer payments goes slowed from 8% to 9% pace of a year ago to the 3% pace in the first quarter of 2019 over the strong quarter in first quarter of 2018. That's still amounted to over $700 billion in payments in the quarter. An example was part of those payments you can see in the Zelle uses have grown to more than 5 million active users and we processed $16 billion of payments for them this quarter.

So if you look at the drivers of our income, let's go to slide six. We'll spend a couple minutes on client activity on these matters. Average total deposit grew $63 billion on a year-over-year basis. This is our 14th straight quarter of growth of $40 billion or more organic deposit growth versus the prior year. Global banking grew deposits in the 8% pace as did wealth management. Consumer banking deposits grew by 3%, consumer core checking grew 7% from last year, showing more households are choosing us to be their core bank.

Our pace of growth has consistently exceeded the industry's growth rates, customers value the capabilities rewards of their relationship and continue to see lower attrition and 90% plus primary bank status.

In addition, wealth management also saw a strong growth of deposits in new relationships. Our Global Banking team continues to benefit from strong customer demand as we continue to deploy bankers and treasury officers across our franchise.

Within Global Banking, you will note that commercial customers move balances from non-interest bearing to interest bearing as a treasury credit rate we give them for their balances to pay for their services rises, they [indiscernible] with us, non-interest bearing balances. However, this change stabilizes when the rate curve stabilizes as it has.

As we go to slide seven, let's talk about average loans. The good news is the average impacted late fourth quarter growth we spoke to you about last call was complemented by further good growth during the first quarter. Particularly promising was a strong rebound in our middle market customer base, where we saw growth and line usage increase. This means middle market companies are increasing their loan activity as they draw lines to finance raw material purchases, payrolls and other investments. Overall, from a corporate top of the house level, we grew loans 1%. However, looking at across our business segments, core loans grew $33 billion or 4% on a year-over-year basis. That's consistent with our responsible growth model.

The lower left hand chart shows the core business growth has been consistent across the last five years or more; consistent growth, consistent with the responsible growth for several years. And the growth rate improved this quarter. In fact, this quarter our ending balances in commercial banking shows the highest linked quarter growth rate in the last six years.

As we move to slide eight, you can see the highlights for the quarter. I've covered a lot of the core points here, but I want to focus a little bit on returns. Despite a modest increase in the average balance sheet our return on assets in the company was 126 basis points and improve both on year ago and sequential quarter basis. Our return on tangible common equity was 16%. Our efficiency ratio continued to move down to 57% from 59.5% last year.

With that, let me turn it over to Paul to walk you through more details of our first quarter results. Paul?

Paul Donofrio

Good morning, everyone. I'm starting on slide 10 since Brian already covered the P&L. Overall, compared to the end of Q4; the balance sheet grew $23 billion, driven by the equity financing business. Liquidity remained strong with average global liquidity sources of $546 billion and all liquidity metrics remained well above requirements. Long-term debt increased $4 billion, common shareholders' equity increased $1.7 billion from Q4, as the value of our AFS debt securities benefited from the decline in loan and interest rates, thereby increasing AOCI.

Partially offsetting the increase was the return of more capital than we earned this quarter. We returned $7.7 billion, or 112% of the net income available to the common through a combination of dividends and share repurchases.

Turning to regulatory metrics, total loss absorbing capacity rules became effective in January, and at the end of March our TLAC ratio comfortably exceeded our minimum requirements. Our CET1 standardized ratio was flat at 11.6% from Q4 and remained well above our 9.5% regulatory requirement. The ratio was flat, because the increase in AOCI mentioned earlier was offset by higher RWA primarily in global markets.

Turning to slide 11, I want to spend a few moments on NII given the changes in the rate environment. Net interest income on a GAAP, non-FTE basis was $12.4 billion; $12.5 billion on an FTE basis, compared to Q1 2018 GAAP NII was up $606 million or 5%. The improvement was driven by the value of our deposits as interest rates rose, as well as loan and deposit growth, partially offset by lower loan spreads.

On a linked-quarter basis, GAAP NII was down $128 million. In Q1, we benefited from yields rising on our floating rate assets as short-term rates rose. We were also disciplined with respect to deposit pricing, and we benefited from loan and deposit growth, particularly commercial loan growth.

However, higher short-term rates also increased the cost of our long-term debt and other global market funding costs. Additionally, lower mortgage rates muted the benefits from increased short-term rates. The net of all these things was still a benefit in the quarter. However, this net benefit only partially mitigated the seasonal impact in Q1 from two less days of interest, which costs us roughly $180 million.

Net interest yield of 2.51% improved 9 basis points year-over-year, but was down 1 basis point linked quarter. Deposit rates in our Wealth Management and Global Banking businesses increased however, we saw minimal movement in our consumer business. Overall, the average rate paid on interest bearing deposits of 160 -- of 76 basis points rose 9 basis points from Q4 and is up 40 basis points versus Q2 2018. That compares to an average increase in Fed funds of 97 basis points year-over-year.

Turning to the asset sensitivity of our banking book, the drop in long-end rates increased our assets sensitivity, compared to year-end. In addition, we are now modeling modestly lower deposit pass-through rates given our experience in this rate cycle. Given the recent moves in rates, I thought, I would provide some perspective on NII for the rest of the year.

On a full year basis, NII grew 6% in 2018, in a rising rate environment and an economy that grew approximately 3%. The economy is expected to grow more moderately in 2019. And rate expectations have been lowered. Plus, we have some seasonal headwinds in Q2. But through loan and deposit growth, and picking up two additional days of interest over the next couple of quarters. We would expect growth in NII to be consistent with or slightly better than growth of the general economy. More specifically in Q2 typically sees higher funding of client activity in global markets related to the European dividend season, which aids trading revenue but reduces NII.

We also typically see less benefit from loan growth, driven by paydowns on year-end credit card balances in Q2. Finally, long-end rates have fallen across Q1 and remain lower, this should drive higher prepayment of mortgage backed securities, which will cause bond premium write-off. These headwinds will be partially mitigated by one additional day of interest accruals. Across the second half of the year, we expect NII to benefit from growth in loan and deposits as well as an additional day of interest in Q3.

Ultimately, we expect NII for the year -- for the full year of 2019 to be up roughly half the pace of 2018. This perspective assumes today's forward curve and loan and deposit growth consistent with the current economic environment.

Turning to expenses on slide 12, we continued to improve efficiency at $13.2 billion, we were down $618 million or 4% compared to Q1 2018. This reflected efficiencies from a full year of work across the enterprise to simplify and improve our processes, as well as lower FDI insurance costs. We also reduced managers and management layers over the last year, cutting bureaucracy and complexity.

By the way, in terms of headcount, we are replacing many of these managers with sales professionals. We also saw an end to some intangible amortization in our Merrill business related to the merger 10 years ago. Compared to Q4 2018, expenses are up $149 million, due to seasonally elevated payroll tax expense, partially mitigated by timing of marketing and tech initiative plans.

In addition, 4Q was elevated by the mismatch between accounting for certain deferred benefit programs and the accounting for related hedges as the overall market declined in Q4, this went the other way in Q1, with the market’s rebound.

Our efficiency ratio improved to 57%. I would also note that we filed an 8-K earlier this year, in which we reclassified some expense to revenue resulting in an approximately $200 million reduction in full year 2018 expense.

With respect to expense levels for full year 2019 and 2020, as you know, we increased for 2019 our planned level of initiative spending, supporting both physical and digital expansion and we made announcements of further investments in our people like our minimum wage increase, despite these increases, we still believe we will meet our target of reporting expense for the next two years that approximate our reclassified 2018. However, please note, that the quarterly progression of expenses in 2019 may look a little different than the past years, as it will be impacted by the timing of planned technology and marketing spend.

Turning to asset quality on slide 13, asset quality continue to perform well, driven by long-term adherence to responsible growth and a solid U.S. economy. Net charge-offs were $991 million, $80 million higher than Q1 2018 and $67 million higher than Q4. Comparing to Q4, we saw typical seasonality in our credit card portfolio. Compared to the prior year, we continued to see modest seasoning in our credit card portfolio.

In Q1, there was also one charge-off related to a single utility client, which increased losses by $84 million impacting comparisons against both periods. The net charge-off ratio was 43 basis points. The loss ratio has now been below 50 basis points, in all but three quarters of the past five years. Provision expense was a little more than $1 billion and closely matched losses this quarter. Provision included a modest $22 million net reserve build. Looking forward, we expect net charge-offs to approximate this quarter’s $1 billion level for each of the remaining quarters in 2019, assuming current economic conditions continue.

On slide 14, we broke out credit quality metrics for both our consumer and commercial portfolios. Here you can see both the seasonal increase in consumer losses as well as the impact of the commercial charge-off, I mentioned. With respect to consumer metrics, both delinquencies and non-performing loans trended lower, which we believe is a good indicator of future asset quality. In commercial, we did have a modest increase in non-performing loans and reservable criticized exposure, but as a percent of loans, both metrics remain near historic lows.

Turning to the business segments and starting with consumer banking on slide 15. Earnings grew 25% year-over-year to $3.2 billion.Q1 reflects continued strong momentum from 2018 as deposits grew $23 billion or 3%, revenue grew 7% and expenses were down 4%, creating operating leverage of 11%.

Despite the expanded physical footprint, the all-in cost of running the deposit franchise declined 6 basis points year-over-year to 1.64%, which includes both the cost of deposits as well as rates paid. The efficiency ratio has now declined to 45%, credit cost remain low. The net charge-off ratio was 128 basis points, increasing only one basis point year-over-year.

With respect to client activity, we continued to increase the number of accounts, while maintaining primary account status above 90%. More customers enrolled in preferred rewards, more customers use our digital channels for service as well as sales and more customers use our expanded and enhanced physical delivery network.

We remain healthy growth and consumer spending has slowed to 3%. This seems quite natural following two years of spending growth above historical averages, especially given the backdrop of an economy, which has modestly slowed. And remember, growth in spending in Q1, 2018 was fueled by confidence following tax reform in late 2017.

Consumer lending was also solid growing 5% year-over-year. The recent dip mortgage rates has improved momentum in the mortgage market on both refinance and purchases originations were up 22% from Q4. With respect to small business owners, we've been investing in our capabilities. For example, we've streamlined underwriting, enhanced credit card features and added specialist.

Loans to small businesses are quickly approaching the $20 billion level, up 6% year-over-year. Solid activity with consumers is also evident in the growth of our investment assets. Investment assets in the Consumer segment, ended the quarter up $29 billion from Q1, 2018 on solid flows and a Q1, 2019 market rebound. So, customer activity remained solid across all major product categories.

Okay. Turning to the slide 16, note the year-over-year real improvement in consumer banking NII, which drove our 7% growth. As we realized the value of our deposits through our focus on relationship deepening, card income was down 3% year-over-year, driven by higher rewards. Higher rewards were impacted by a number of factors.

First, we saw more customers sign up for preferred rewards. Second, as some clients deepen their relationship with us, the amount of their rewards increased. Lastly, we added features that made it easier for customers to earn and view the rewards. While, these types of improvements increased rewards, we believe they also deepen relationships across multiple products, improving retention and profitability. Service charges were 2% lower year-over-year, as we continue to make policy changes to reduce certain overdraft fees for customers. Lower ATM volume also had an impact.

Turning to Global Wealth and Investment Management on slide 17, GWIM results were impressive, particularly given the revenue impact of the market’s decline at the end of December. Relative to 2018, the business continued to gain momentum growing net new households, which not only added to solid AUM flows, but also drove another strong quarter of brokerage flows.

Net income of just over $1 billion grew 14% from Q1, 2018. Pre-tax margins remain strong at 29%. The business created 360 basis points of year-over-year operating leverage as expense declined 4%, while revenue was down only modestly.

Within revenue, positive impacts from the banking activities and AUM flows were not enough to overcome lower market valuations, declines in transactional revenue and general pricing pressures. The expense decline of 4% was driven by lower FDIC insurance costs, lower revenue related to incentive costs and merger related intangibles, which are now fully amortized.

Moving to slide 14, Q1 results reflect continued strong client engagement in both -- at both Merrill and the private bank, strong household growth in both businesses and continued low attrition of experienced financial advisors contributed to the $17 billion in overall client flows. On the banking side, deposits were up $20 billion year-over-year, which included inflows of about $8 billion from the conversion of some money market funds to deposits near the end of 2018.

We also saw deposit outflows of about $8 billion as the market recovered. Loans are higher by 3% year-over-year, reflecting strong mortgage growth given the decline in rates. We also saw growth in custom lending.

Okay. Before discussing Global Banking and Global Markets separately, I know many of you look at these segments together. So for comparison note that on a combined basis, these two segments generated revenue of $9.3 billion and earned $3.1 billion in Q1, which is a 16% return on their combined allocated capital.

Looking at them separately and beginning with Global Banking on slide 19, the business earned $2 billion and generated a 20% return on allocated capital. Earnings were up 2% from Q1, 2018, driven by operating leverage. Revenue was up 3% year-over-year, we saw positive impacts from loan and deposit growth, as well as higher interest rates.

We also saw higher leasing revenue. These increases more than compensated for a decline in investment banking and loan spread compression. The business created more than 400 basis points of operating leverage, as revenue growth was matched with a 1% decline in expenses. Lower deposit insurance costs more than offset continued investments in technology and bankers. Lastly, provision expense increased year-over-year, driven by the single name charge-off mentioned earlier, as well as the absence of the prior year's energy reserve release.

Looking at trends on slide 20, and comparing to Q1 last year, let's focus on IB fees. We and the industry felt the impact of the government shutdown as the SEC was closed for some period of time in the quarter. IB fees of $1.3 billion for the overall firm decreased 7% year-over-year. This was relevant to a global fee pool that is estimated to have declined 14%.

Year-over-year, we saw good performance in advisory fees, up 16%. This was more than offset by declined in both debt and equity underwriting fees, within debt underwriting leverage finance rebounded from a tough -- from tough conditions in Q4. But primary additions remained slow and in investment grade we saw lower than expected offerings to finance share repurchases, fee pools in ECM were also down year-over-year.

Switching to global markets on slide 21, as I usually do, I will talk about results, excluding DVA. Global Markets produced $1.1 billion of earnings and generate a return on capital of 13%. While Q1 saw a seasonal rebound from Q4, we were down from the first quarter of last year. Q1, 2018 was a record for the equities business fueled by higher client activity and a spike in market volatility. In Q1, 2018, the equity business included a large client derivative -- client driven derivative transaction.

Overall, revenue declined 10%, while expenses declined 6%, sales and trading declined 13% year-over-year to $3.6 billion, FICC declined 8%, while equities fell 22%. The decline in equities was more modest, adjusting for the one large client trade in the year ago period. Much lower market volatility this year results in less client activity and weaker performance in equity derivatives.

FICC’s lower revenue was due to lower client activity and less favorable markets across both macro and credit related products. Investors remained cautious from the quarter, given geopolitical concerns and market volumes were light for both primary and secondary trading. We had no days with trading losses in the quarter. The year-over-year expense decline was a reflection of lower revenue related costs.

On slide 22, you can see that our mix of sales and trading revenue remained weighted to domestic activity where fee pools are concentrated, within FICC we remain more oriented towards credit products than macro.

All right, finally, on slide 23. We show all other, which reported a net loss of $48 million, which was relatively unchanged from the prior year period. Given the recent changes to our financial statements that enhanced certain allocation methodologies, we believe the ongoing profitability or loss in this unit should not be much different from Q1, absent unusual items. This quarter, there was the normal seasonal tax benefit associated with stock-based compensation of about $200 million. This moved the tax rate in the quarter from our expected full year rate of 19% to the reported 17% rate in Q1.

Okay, with that, let's open it up to questions.

Question-and-Answer Session

Operator

[Operator instructions] We'll take our first question from John McDonald with Autonomous Research. Please go ahead.

John McDonald

Hi, good morning. Paul, I was hoping that you cloud clarify the outlook for the net interest income, it sounds like you expect NII to be down sequentially in the second quarter on a few of those pressure points that you mentioned? And then to grow some in the back half as loan and deposit growth and day count get more favorable?

Paul Donofrio

Yes, that's right. I mean, as we said in the prepared remarks, we've got some near-term headwinds. Some of them are seasonal; some of them recover long-end rates are down. But as we move to the second half of the year, we expect to benefit from continued loan and deposit growth, plus another day of interest in Q3. So ultimately, we think the full year 2019 NII is going to up roughly 2% year-over-year. By the way, when I gave the -- in the prepared remarks, when I gave the net charge-off with that single credit, I transpose the numbers I said 84 it was really 48.

John McDonald

Okay. Just -- and on that outlook for 3% NII in 2019, is that assuming no rate hikes and still a pretty flattish curve.

Paul Donofrio

Yes, that assumes the curve as we sit here today, which is flat.

John McDonald

Okay, no hikes.

Paul Donofrio

Correct.

John McDonald

And then in terms of rate sensitivity, you mentioned that that had gone up, how do you think about managing rate sensitivity at this point in the cycle? And actions to potentially protect NII in a flattening curve environment from here or a rate cut scenario from here, how do you think about how sensitive you want to be?

Paul Donofrio

Well look, we’re not a hedge fund, we're a bank and so we're customer driven and our asset sensitivity is driven by our loans and our deposits and the activity that our customers do with us. Having said that, we have limits on how much asset sensitivity we want, on the upside and the downside, we're within those limits. There may come a point in the future, where we would do something to modify the asset sensitivity of the company.

But, remember when you're doing that you're basically placing a blood on the future rate of -- future change in interest rates, what if you're wrong. So, again, we're a bank, we're serving our customers. That's what creates the asset sensitivity in the company. There may come a time we’ll adjust that, but right now we feel comfortable.

John McDonald

Got it. Okay, thanks.

Operator

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

Glenn Schorr

Thanks. Appreciate it. I know it's within the NII construct that you just gave. But I'm curious, you made a comment on in the quarter the non-interest bearing to interest bearing shift in deposits continued, but you thought it would stabilize as rates to it. I'm just looking for some color on how real time is that? In other words, if we get no hikes for this quarter and next quarter, do you think you see an almost immediate stop in that shift?

Paul Donofrio

I think, Glenn what I was saying was that the -- you got to look at the -- what drives the value of the consumer deposit franchise in a company and that's a consumer side. And what you're seeing is consumer deposits grew $26 billion and checking grew $24 billion. And so between non-interest and very low interest checking. So that's what drives our account, we have $0.5 million more checking accounts than we did a year ago to give you a sense in a book of $34.5 million went to $35 million.

On the non-interest bearing side the reference was in the commercial side, which because the way cash management services are priced when rates rise people have to hold less balances to get the fees, it's credit rate goes up when rate stop rising, which really has happened that stabilizes and we have seen that and expected that to continue.

Glenn Schorr

Okay. Maybe that ties into my follow up maybe small, but that the service charges especially at the deposit related fees are down 4% or 5% year-on-year. It seems like a steady trend down is that a customer behavior thing or has Bank of America changed anything on how it charges fees?

Paul Donofrio

We continue to think about and continue our change our policies on overdrafts, which has a downward effect on it, but the real driver of that is the fact that we have primary households. So the people are above the limits of free checking for lack of better term and if you get $250 a month in direct deposit then you can get free accounts free those fees are waived if you have $1,500 average balances et cetera, et cetera. And so, the profitability of consumer franchise is a combined profitability of the deposit value and the fee value. And together you saw that revenue growth of 7% year-over-year. So, it is not -- we price on a relationship basis. So you have to be careful to look at this thing in parts.

Glenn Schorr

Understood. Thank you. Appreciate it.

Operator

We'll take our next question from Steven Chubak with Wolfe Research. Please go ahead.

Steven Chubak

Hi, good morning. Wanted to ask a question about some of the remarks in the context of an operating leverage line. So a core tenant of the investment case has been your ability to deliver sustained positive operating leverage. I think slide three actually showcases that quite well. Just given the current outlook for loan and deposit growth and expectations for expenses to increase year-on-year at least for the remainder of 2019 are you still confident given the NII guidance and your ability to continue that momentum and deliver positive operating leverage even in the absence of higher rates?

Paul Donofrio

Yes, I mean, look the way I would think about it we've given you guidance on expenses. We've told you that in 2019 and 2020 we expect that our expenses will be approximately what they were for full year 2018 on an adjusted basis. And so we're going to create operating leverage if we grow loans and grow deposits and grow revenue. It's simple as that if we're holding expenses flat.

Steven Chubak

Okay, fair enough. And just one follow up for me on TLAC. Paul, since you gave some incremental color this quarter, I think I asked it on the last call. But I was wondering if you could provide some more details, since you noted more explicitly that you're operating comfortably above the required levels. Given the much higher interest expense associated with long-term debt, I was hoping you could actually size that excess TLAC cushion. And whether there's any appetite to optimize your TLAC ratios to maybe help reduce that interest expense burden, especially given the tougher operating rate backdrop that we're currently operating in.

Paul Donofrio

Sure, there's obviously appetite in interest and optimizing. We'll be disclosing in the Q, a lot of detail around the TLAC -- the different TLAC ratios. I guess, a couple of things, as you see those. Remember, we received approval of $2.5 billion of additional buybacks in February. We've also been setting up a new bank entity and a new broker dealer for Brexit, plus, we're creating a new broker dealer as part of resolution planning.

So, our funding needs are a little bit elevated right now. We need to optimize that over the long-term. And, we'll sort all that out.

Steven Chubak

All right, that's it for me. Thanks very much.

Operator

And our next question comes from Gerard Cassidy with RBC. Please go ahead.

Gerard Cassidy

Thank you. Good morning. Paul, can you give us some more color, if I heard you correctly, you mentioned that the equity business included a very large derivative client driven transaction. Can you give us some more color on what that was?

Paul Donofrio

I'm not sure I would give you more color on the specifics of the relationship or the client. We don't like to comment on individual clients. But look it impacted, I think if you backed it out, equities would have been down how much 13% -- 12% instead of the 22%. So it was a meaningful transaction last year.

Gerard Cassidy

Okay. And then second, you guys have done an obviously very good job in holding the line on expenses. Can you give us some color on where you think the efficiency ratio could eventually get to and you can operate consistently at that level?

Brian Moynihan

Well, Gerard, I think it just -- as we said it continues to drift down where it stops, we don't ever try to give people a number for fear they'll stop there and not keep pushing. And so our job is to continue to drive it down. So with flat expenses in a rising NII that like Paul described. You're going to see -- that all just obviously falls to the bottom-line. But remember the NII component this is really very marginal from standpoint of happening and checking accounts on $35 million a consumer $20 billion more investment assets to Merrill Edge.

The wealth management business grows on a very leveraged platform. So if you look across the efficiency ratio, or the pre-tax margin, wealth management 29% efficiency ratios, they'll continue to get better, all in that will help in a quarter where markets are up, you'll see that number drop down quickly in the quarter where market activity is less which year-over-year the market activity was less than last year. So we saw a little deterioration that side even though we made 250 basis points of improvement overall. So I don't -- if I say to you guys on this call my team will say we've made a goal so the goal is to continue to drive it.

Gerard Cassidy

Very good. Thank you.

Operator

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

Betsy Graseck

Hi, good morning. Couple of questions, just on the expense question one more for 1Q. You came in with an extremely low expense ratio this quarter, do you see that more as a one-off due to the fact that the revenues were a little lighter in the capital markets for the reasons you mentioned earlier? Or is this a good number that, as we look forward year-on-year to 1Q, 2020, you could improve on?

Brian Moynihan

Well, again, let me just take one step back. We've given our perspective on what we think 2019 and 2020 is going to be we said, with all the investments we're doing the increase in technology, the merit, health care, everything we're doing. Adding bankers, adding financial centers, we think because of digitization, because of all the efficiency. We think we can hold expenses at that 2018 level. So that's how I would think about it.

If you just think about Q1 expenses, they were up, approximately $150 million from Q4. Q1 obviously included the normal $400 million-ish of seasonality of elevated payroll expenses. This was sort of partially offset by the timing of some tech initiative spend and marketing costs, which combined were kind of down about $200 million quarter-over-quarter. But we expect both of those to be up for the full year of 2018 as we continue to invest.

We mentioned in the prepared remarks the deferred comp issue, which had a quarter-over-quarter effect. We mentioned the Merrill Lynch intangibles, which was about $75 million. But having said all that for the year is what I would focus on, we think we're going to be at $53 billion in change.

Betsy Graseck

Okay, that's helpful. And then can you speak a little bit to the loan growth side, because we got the NII overall and understand the NIM trajectory here.

But can you just give us a sense as to what's in your outlook there for loan growth. And if there's any variance between the different buckets, that'd be helpful too?

Brian Moynihan

I think, Betsy just to give you -- look for our company and for U.S. economy, especially where we saw some relatively strong performance was in our middle market business this quarter and our small business. In those -- that's good, because that means the core tens of thousands of customers in the middle market and the millions of small businesses are using their lines and line users went up by a percent middle market, small business, so I think originations were up 7%, 8% year-over-year in the quarter.

So I think the -- if you think about the thing overall, either, that's good news. And so as we think about it long-term the run-off, if you go back to that page and look at the non-core portfolio, it's gotten to a point now where it's small enough, the impact is muted. So the 1% overall growth and 5% core growth we'd say the 5% core growth is in line with our expectations. The 1% overall ought to frankly start to mitigate, because that number of non-core loans is really just down to a much smaller number.

And frankly, we sold -- this quarter we sold off some of the toughest loans just to kind of get ourselves position in case no matter what happens next. So expect us to do see the core loan growth in that mid-single-digits and expect maybe a little bit more of it to come through the bottom line as the non-core runs off.

That's just a follow up on your question to Paul on expenses. We are driving the company hard to continue to reengineered on a constant consistent basis. So the digitization that you saw in the consumer business which we talked a lot about is swinging through the commercial businesses fairly consistently. And the cash pro product the cash pro mobile product and things like that are growing. And so there was a very digitized business from sending a cash is a little different to consumer, but the activity between us and the customer, the paper to electronic, any one form of electronic to another form of electronic frankly, saves us expenses but also put some pressure on revenues even though the treasury services revenues you can see are up nicely.

So, expect that we're going to do everything we can on expenses, we're going to make the investments of $3 billion in technology. We're going to continue to drive the physical plant rejuvenation and continue to add people because it's working. But don't ever think that we're trying to -- we're not overspending here we're going to spend what we need to do to drive this company forward.

Betsy Graseck

Got it. Yes, I mean at one point you mentioned something like $5 billion spent annually on storing and moving cash in check. Is that, still kind of the lag line for that?

Brian Moynihan

We’re chipping the weight is still high. Even, check deposits continue to go down in our franchisee year-over-year. In the first quarter, they went from about $145 million in last year first quarter, $125 million to $130 million -- $127 million I think it was this quarter. But if you look at it the -- and just that change the mobile deposits were up 15 million units in a single quarter where the financial center are down -- the mobile were up 1 million units in a single quarter where the financial centers are down about 1.5 million units, 1.25 million unit.

So each year, we're driving that incremental change. So that's just checks deposit, that's not even cash distributed and stuff. So just that it is a big cost a lot of it's on a commercial side too. And we continue to drive it down. Collecting all that core in currency for the small businesses and people and that collect cash as part of their operations we continue to digitize that, too.

Betsy Graseck

Okay, that's great. And just one last question for me, I know you've been planning on increasing hiring in the investment bank, especially around the middle market. And I'm wondering, do you feel that you are fully baked there with your head count? Or is there still some more room to ramp that and thinking about what the impact is going to be on the loan growth as you indicated earlier?

Brian Moynihan

So if you look at it, think about this time last year and into the summer, we continue to look at our position we've been adding people, we still have room to go to add. It's all in the numbers you see. So as expensive came down we added more people in that area in both middle market bankers filling out the franchise in various areas, and investment bankers dedicated to that area. The team's has been building up, and then frankly rounding out our general teams in investment banking.

And so, Matthew Carter [ph] came in and picked it up. We're seeing market share sort of improvements even in markets which are not as robust as we like, from our standpoint. Then -- but we expect that the middle market one has been growing very fast it is a matter of just getting more capacity. If you look at some of those numbers are up 25% in fees over the last couple years, we just got to keep driving.

Paul Donofrio

And just to give you a sense on progress, if you look at hiring year-to-date versus last year in investment banking and capital markets commercial bankers. It's that 3 times of the pace as it was last year and attrition is down. So we're definitely making progress.

Betsy Graseck

Okay, thank you.

Operator

Our next question comes from Saul Martinez with UBS. Please go ahead.

Saul Martinez

Hey, good morning guys. On the interest rate sensitivity, you gave the reasons for why the sensitivity moved up long-end rates and deposit assumptions, but at a point in time, what is the breakout of the $3.7 billion between short and long-end right now? Sorry if I missed that you broke it out.

Paul Donofrio

Yes, 75% on the short end, 25% on the long end.

Saul Martinez

75-25 still, okay. Also, you've been under -- so you've had some pressure obviously with higher short-end rates on the sales and trading NII. I assume your 3% growth, does that assume some easing of pressure as rates stabilize here?

Paul Donofrio

Well, as rate stabilize we shouldn't see much change in NII in that business.

Saul Martinez

Okay. So it's assuming no rebound because as assets reprice and funding costs remain stable.

Paul Donofrio

That's right.

Brian Moynihan

That stuff moves pretty quick through the system. But it -- the 3% it includes that part of the balance.

Paul Donofrio

There just isn't a lot of asset sensitivity in global markets.

Saul Martinez

Okay, fair enough. Just to change gears, on cards, income was down 2% year-on-year, volumes were up only 2% year-on-year. Can you just give a little bit of color, what's going on there?

Paul Donofrio

Yes, sure. Look, the first thing I would say is, again, Brian said it, but remember we're focused not on products, but on increasing and deepening relationships and remember consumers revenue was up 7% year-over-year and profits were up 25%.

To your question, purchase volume growth has slowed, but it was still up 2% year-over-year. We've got higher rewards also pressuring revenue. But again, higher rewards are also driving higher deposit balances, which help NII as well as client retention. We continue to add more than a million new cards each quarter although this is down moderately as we focus on profitability and reevaluate applications that are looking to play the rewards game.

Saul Martinez

Okay, got it. Then just one final thing, CECL, if you can just give us an update where you were in the process and how you're thinking about when you'll give us the day one impact?

Paul Donofrio

Sure. So we've made a lot of progress and our efforts are continuing, we did a parallel run in Q1, which we're still analyzing, but based upon the early estimates from that parallel run we do expect CECL reserves to increase. I think it's important to point out, there's still a lot more work to do.But we would currently estimate the impact to be an increase in our reserves of up to 20%.

I want to emphasize that sort of any adjustment to reserves will be based upon the composition of our portfolio and the forecast of economic conditions at that time, which is going to be year-end**.** In addition, we haven't finalized their methodologies. And look, if you're thinking about drivers, it's obviously credit card is the primary driver**.** Relative to others, you got to look at commercial real estate, those are the things that are affecting reserves.

Saul Martinez

Got it, that's really helpful. Thank you.

Paul Donofrio

Just so that equates to that 20%, that up to 20% equates to a reserve increase of about $2 billion.

Saul Martinez

Got it. It's not material for your capital. I get it. Okay.

Paul Donofrio

Yes. And from a capital perspective, it's going to get phased in over three years.

Saul Martinez

Yes. Understood.

Operator

And our next question from Matt O'Connor with Deutsche Bank. Please go ahead.

Matthew O'Connor

Good morning. Any thoughts on the NIM percent going forward, obviously, there could be some quarter-to-quarter volatility, but just as we think about the underlying direction in NIM, can you hold it stable or might it bleed down a little bit?

Paul Donofrio

Look, longer term I think NIM is going to depend on the forward curve. I mean, that's the best answer I can give you. In Q2, I guess I would expect, NIM to decline a little bit because of all the items I mentioned earlier, in those prepared remarks. It's up year-over-year nicely. I think if you look at the banking book, you can really see the power it's up to sort of 3.03%, which is up 10 basis points year-over-year.

Matthew O’Connor

Okay. And then if we just take the forward curve, which is what’s in your net interest income dollar guidance, would that imply some underlying pressure beyond 2Q as well?

Paul Donofrio

No, I think again, I think it's going to be -- it would apply flat I think is what I would say.

Matthew O’Connor

Okay. And then just …

Paul Donofrio

Over the whole year.

Matthew O’Connor

So what do you mean by that, so down a little bit in 2Q and then up a little bit in back half of the year to get back to 1Q.

Paul Donofrio

That's right.

Matthew O’Connor

Okay. And then just bigger picture question, obviously, not just a concern for Bank of America, but as we think about exiting this year, and we just take everything at face value that rates stay here and all these other assumptions, they'll probably change but let's just hold all that and it does seem like revenue growth is going to flatten out as we get into 2020. And I'm just wondering like

What you're thinking in terms of levers that can be pulled? You had a lot of discussion around expenses. Are there new products or customer segments that you can go after? Essentially other revenue opportunities that you can control independent of the macro, if the expenses are kind of lined up and flatten there's not too much more to do there.

Brian Moynihan

I think if you think about a growth rate in economy of two percentage points or so, and you think back about the last decade, we've been at that level more than we've been at any other level. And what did we do we grew loans mid-single digit, we grew deposits 3%, 4%, 5% faster, now kind of growing at that rate. That adds basically very advantaged cost of funds and loans that are well priced to our core clients in both the consumer and commercial side. And that then grows the net interest margin a lot of talk about over the last few years about what was the contribution rates, half of it came more or less than rates and half of it came from hard work and we expect the half that came from hard work to keep coming. And that leverage in the platform with expenses being flat is pretty good leverage.

And then the markets, will be what they are but as I said earlier, remember that the revenue from those two activities year-over-year is up 7%. Paul gave you the NII view of that. The fees side of that revenue was down deeply, but even with what's happened during the quarter to think about the wealth management business from the way the particular prices off in December, into January and things like that, think about the recovery either the fee income even it stays flat from here, it will be substantial in wealth management business.

So we feel good just driving out more customer relationships and more loans and deposits and more wealth management business from them. And that will give us a pre-tax -- ability to grow pretax in the mid to upper single digits. And then the share count through their capital management.

So that's the model of the 2% growth economy. If you tell me, you're predicting a recession, we'd handle the company differently as what everybody else, but that's not what we think. And then, as I think about it overall, just this is a great franchise and we're just grinding out the growth that's embedded in it. And that will produce as we've said mid-single digit, mid-upper single digit operating earnings increase, combined with share account will get you in double digits, and that's pretty good.

Matthew O'Connor

Okay, all right. That was clear. Thank you.

Operator

Our next question comes from Nancy Bush with NAB Research. Please go ahead.

Nancy Bush

Good morning. Brian, this is a question about your program to lift the minimum wage from $15 to $20 over the next 20 months. And I can see how this is necessary, as you said to quote get the best people in an economy that has the unemployment rates that we do right now. But can you just kind of generally flush out what kind of productivity improvements you're seeing in the workforce, and whether this $5 raise will be paid for by productivity.

Brian Moynihan

Yes, it's going to be -- well it has been I think, in the last several years, we've gone from probably sub $10 an hour to over $15. And it's been paid for every year. So I think our ability to continue to drive productivity is really driven by the change in customer behavior and the digital capabilities we have.

So more of the activity that would have been done a decade ago or two decades ago, person handing a check for deposit to branches would have through a person's hands and now goes through a mobile bank deposit, mobile check deposits, and the cost of that is 10 fold different. And yet, we still have in this quarter alone $50 million odd deposits at the financial centers to work on.

So the productivity will increase, we've been able to pay for those kinds of increases, we've been able to keep the healthcare costs for the lower compensated teammates flat since 2011, after we cut it in half. And this is all to really have great teammates working with our core customer base. And that's what we are focused on. And our average compensation of our company is $120,000 or something like that. So this is not -- this is to really help drive in the branch and the call centers and the operations groups to continued efficiency. But overall, we continue to manage head count down to make it happen.

Nancy Bush

Okay. Also have a quick question about the credit cycle. Marianne Lake [ph] said on Friday that I think there were sort of 5 loans that came on non-accrual -- 5 material loans that came on non-accrual at JPMorgan Chase. And that was the second quarter that that had happened. And she characterized these credits as idiosyncratic, not belonging to any particular industry, et cetera. I guess my question is this, has the nature of credit cycles really changed due to the low rate environment? And how will you know, if we are entering a new credit cycle?

Brian Moynihan

We continue to -- those are great questions, Nancy, when you think about it in a broader context. But I think the major differences with our company is that the geographic distribution in the United States means that we're not susceptible to any regional issues dominating our discussion, as it would have been 20, 30 years ago, or even a decade plus ago. I think that the balance in the company from a consumer and commercial has come down -- has changed substantially, so we're 50%, 50%.

I think the secured portion of consumer is the dominant part as opposed to going in the last crisis. So all that sort of gives us a different feel for what we think the credit cycle be like. When you go to the commercial side, the underwriting capabilities of the team have been proven through cycles as being very strong. The ratings integrity is strong, when we go through with all the reviews whether it's SNC [ph] or whether it's internal reviews.

And so yes, a company like the charge-off we had in the fourth quarter can have an idiosyncratic event that causes some damage. But will it be wholly different, it will really depend if the economy stays bumping along it goes into slight degradation, you're going to see some across the board distress. But I think so far as we've seen pieces pop-up oil and gas a few years ago. We put up reserves, we took most of them back in.

The retailing business, we were a major lender in it we've been able to work through the credits there because the nature of the collateral and stuff like that that has consumer side, the charge-off rate stays low. We've worked through, as you know a lot of mortgage credit that was just still with us and we've been getting that down and that's brought our charge-off some mortgage back to where we thought they'd be.

So I'm not sure, I would ever say you have to take any credits that happen and say there's no -- you have to say it's completely isolated one-off events, because you got to be careful not to fool yourself. But on the other hand, what we see is right now the fundamentals of the economy in the U.S. on a global basis and the fundamentals of consumers and unemployment being low as you mentioned, means that credit is in good shape and we just don't see that changing a lot.

Nancy Bush

Thanks.

Paul Donofrio

I just want to add one thing; I know you're asking how will we know? But the one thing, I do want to stress is how much we've transformed the company over the last 10 years by sticking to responsible growth by changing the mix between consumer and commercial by focusing on prime and super priming. And again, the best place to see that is in the Fed stress test results, where you can see that our loss rate over multiple years and we'll see what it is this year has been lower than all peers. And almost 50% lower than the worst nine quarters we experienced during the financial crisis. So the company is just fundamentally different.

Nancy Bush

Okay, all right. Thank you.

Operator

Your next question comes from Alevizos Alevizakos with HSBC. Please go ahead.

Alevizos Alevizakos

Hi. Thank you for taking my question. You have already mentioned about GWIM, but it was a really impressive performance. When I'm looking at the numbers, clearly, the outperformance except for the solid revenues, just coming from the expense line and you mentioned a couple of factors during your prepared remarks, including the FDIC and the lower intangible amortization costs. I was wondering, as a first question, whether you would be able to quantify like what was the lower expense coming from the intangible amortization cost and then from FDIC, especially in that division?

Paul Donofrio

So those lower intangible is about $75 million per quarter. And FDIC, I think is a little over $100 million per quarter, for the whole company. Yes.

Alevizos Alevizakos

So not only for the wealth management just for generally all the company?

Paul Donofrio

Yes, and that's -- Merrill intangibles is $75 million. FDIC for the whole company is sort of like $150-ish million.

Alevizos Alevizakos

Okay.

Paul Donofrio

So Merrill is going to be half of that. So you obviously don't get the whole thing.

Alevizos Alevizakos

Yes. And as a second question, I think I missed you at the end when you were talking about the all other segment. You guided basically that the Q1 is actually a good indicator for the future, but you also mentioned that there was this tax benefit of $200 million. So what is actually the run rate? Is it the $50 million loss or the $250 million?

Paul Donofrio

Yes. There was a sort of normal seasonal kind of tax variability that I expect most people had in their models. So if you adjust for that a good for modeling purpose I would suggest to use around a loss of around $200 million per quarter. That's a good base.

Alevizos Alevizakos

Okay, thank you very much.

Operator

Our next question is from Vivek Juneja with JP Morgan. Please go ahead.

Vivek Juneja

Hi, thanks for taking my questions. Couple of questions, I hear you on the card purchase volumes and the rewards expense. Your card outstanding growth has also slowed substantially, it's gone from up 5% year-on-year last year in the first quarter, then it was in the 4-ish percent over the course of the year and it was flat year-on-year in this quarter. Can you talk about -- I heard you say that you're trying to avoid customers who are gaining the rewards side. What about the card outstanding growth why has that slowed so much?

Paul Donofrio

In term of Card balances.

Vivek Juneja

Yes, card balances, Paul, that slow to flat year-on-year. And if you look over the course of the last five quarters that's a slowdown from where you've been coming over the last year.

Paul Donofrio

Yes, look I would expect low-single digit year-over-year growth to sort of continue. Right now we are experiencing a little bit of an uptick in the portfolio payment rate that's affecting growth.

Vivek Juneja

Okay. And that's just you think just temporary that what's driving that that it would only be temporary?

Paul Donofrio

Look, I just think it's good economy, and we have high quality customers in our card portfolio and they're taking some of their excess deposits and paying off the balances.

Vivek Juneja

Okay. Shifting gears, Brian, a question for you in western banking. If I look at your -- I hear you on the fact that you've been hiring more bankers, Paul, mentioned that too. When I look at your IB fees this quarter at least based on the results you have better come out thus far, it seems like you've slipped now to number five. Any color on why, you used to be number two few years ago and it's gone, -- it slipped further and further. Is it a risk issue, is it an expense issue? What is the issue and what should we expect as we look out, Brian?

Brian Moynihan

I guess, we'll end up four or five on fees paid depending on what is going on at the time. It will ebb or flow. If it's more that capital markets driven, typically we do better if it's more equity capital markets we do a little bit differently and if it's advisory, we sort of depends on sort of what the deals are. At the end of day, if the team continue to work on driving it, we feel good if the progress is being made and we’ll continue to make that progress in the future.

But I always tell people to keep in mind, the Global Banking segment in our company are $2 billion $700 million of which was investment banking fees. So the key for serving corporate clients is to have a full robust broad relationship and drive the cash management and drive the lending and the investment banking and not get overly focused on 2% of our revenue.

Vivek Juneja

Thanks.

Operator

And we'll take today's last question from Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

Yes, thanks. So, one quick question on the commercial, I guess, that is still kind of construct upon commercial growth. But can you point anything specifically that you're actually seeing an improvement on the commercial side is like line utilization up year-on-year, are you seeing more CapEx spending?

Brian Moynihan

There has been a lot of talk. If you think about the last couple years of the economy and the last year and half in economy and commercial loan growth and I don't get the fantods all over that and that the sense it's things ebb and flow by what's going on. And so I think what you saw this quarter really a combination of probably three things for us in the core commercial business, commercial loans across the board.

One is, in terms of the business banking segment, which is a smaller end we've hit sort of an inflection point we were managing some of the credit risk in that portfolio. That's kind of hit the base and that's a smaller book, but it does impact year-over-year that was down like over $1 billion and that's now flattened out in terms of linked quarter impact.

Second thing as the small business continues to grow it does a good job in that and you can see that separately. But the third most important thing is, we deployed more middle market bankers, they continue to deepen relationships and as we did it, we basically not only did we took down the number of accounts per person, so that they could deepen the relationship to spend the time that's why we've seen the treasury service and other revenue grow. But importantly also even pushing harder on the loan growth side, and that benefit us.

And then, frankly, for years we were kind of running down a little bit of our commercial real estate on a relative basis, you would have seen other people grow faster as the market settled in and we like the credit risk better, we've actually seen a little better growth in the commercial real estate segment very high and very strong quality that's helped us a little bit too.

And then the last thing, which I think is good news to the economy overall is the line usage went up about a point in middle market which is -- which means that, that's across a lot of lines obviously, but what that really means is that people are using the credit's the right word. So there are task of driving commercial loan growth is really down to literally thousands of people out there every day doing the job that Matthew and Alistair [ph] and Acer and Sharon Miller [ph] and the team push them to do and we're seeing the benefits of that. And that ought to be compounding in the future.

Brian Kleinhanzl

And then just a separate question on the card income,. I know it has been asked a couple of different ways, but typically there is some seasonality in the first quarter. Was the seasonality impact greater than the rewards impact in that linked quarter decline in card income and consumer banking.

Brian Moynihan

The impact of -- if charges were up and fees were down, obviously impacted the rewards credits and other credits both the merchant and everything else exceeded the growth in the revenue. And so I think that's given. So we were up 3% in charge volume, something like that and then overall declined slightly. You remember that we're running our credit card relationship management business different than a lot of people. We run it as an integrated business. And so when you see that $26 billion in deposits growth in consumer remember a lot of it's coming in large deposit relationships in the context of general consumers and not wealth, affluent wealth management people to customers.

It's coming because they're bringing to us $10,000 or $20,000 in balances to that is helping drive our deposit balances and a relationship size in order to get the reward system. And so when you look at that you got to be careful about looking any one line item that we have and look at it in total growth and that's a 7% consumer overall and the risk adjusted margin on the card product, I think we show is over 8%. So it's very high credit quality and the fees included in that.

So, I think it's one of the differences, we're going to look a little different. And so, yes, the amount we rewarded our customers to do business with us, exceeded the rate of growth than their charge a little bit, but combined with their deposit balances and how they get the rewards. You saw a consumer deposit level growth of mid-single digits, you saw $26 billion which is the size of a good bank right there, just in consumer. And it was all in check, the total other growth other than checking was like $2 billion. So it's all checking growth and all really what we do for people in the card as part of that payments, debit card, credit card and checking are really linked accounts now.

Brian Kleinhanzl

Good, thanks.

Brian Moynihan

All right. Well, thank you for joining us again, we appreciate your interest, another quarter record earnings, strong client activity we continue to see a good strong, solid U.S. economy. We deepen those relationships, we had strong asset quality. And again, at the end of day, we delivered a 16% return on tangible common equity, 126 basis points return on assets. And we did that by driving operating leverage of 400 basis points. So thank you look forward to talk to you next quarter.