Operator

Good day, everyone. And welcome to today's Bank of America Earnings Announcement. At this time, all participants are in a listen-only mode. Later, you will have the opportunity to ask questions during the question-and-answer session. Please note this call may be recorded. I will be standing by should you need any assistance.

It is now my pleasure to turn today's conference over to Lee McEntire, Investor Relations. Please go ahead.

Lee McEntire

Good morning. Thank you, Katherine. Thanks for joining the call to review our first quarter results. By now, I hope everybody's had a chance to review the earnings release documents that are available on the Investor Relations section of the bankofamerica.com website.

For the many years I have been in IR, I have always joined the other speakers in the same room as we presented earnings, but this quarter, we, like all of you, are practicing following safe physical distancing protocols and we are joining this morning from different locations.

So first, I will turn the call over to our CEO, Brian Moynihan, for some opening remarks; and then I will ask Paul Donofrio, our CFO, to cover the quarter briefly before turning back to Brian to moderate a question session. So hopefully this will make the session go a little bit smoother.

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

Over to you, Brian.

Brian Moynihan

Thank you, Lee, and good morning to all of you, and thank you for joining us to review our results. It has been an eventful quarter, but I hope all of you are safe and your families are well during this war on the COVID virus.

As you think about our quarter, our decade plus long discipline of responsible growth has resulted in us strengthening our balance sheet and making investments in technology and people and talent over the decade has helped us prepare for this environment.

Today, we are going to do three things with you. First, I am going to provide a couple high level thoughts on the quarter. Second, I am going to make sure you know how we are supporting our teammates, our customers, our communities and delivering for you, our shareholders, during this crisis. And third, Paul will cover the results in more detail.

I will start this discussion by covering the chart on slide two, along with the comments on slide three which go with the chart. Given the volatility in the last couple months and the global slowdown, I am proud of Bank of America and our team's results.

I want to thank my 209,000 teammates across our company for all of their efforts this quarter both in the front-line roles and support functions. It's been a company-wide effort to continue to serve our customers well during these times.

As I said many times, we are in a war against the COVID-19 and at Bank of America we are doing our part to help fight the effects of that war. We do that by living our purpose. We are helping people manage their financial lives through this crisis.

My teammates know they are playing a critical role for their clients, whether they are people, whether they are companies of all different sizes and institutional investors. Their role is to help keep the economy moving as best we can during this health care crisis. Their role is -- we have seen major disruption in the financial markets that affected every line of business as customers move to stay-at-home status through voluntary or involuntary measures.

In the United States and around the world, governments are responding to historic measures in a very short period of time. Central banks, governments and others have responded to provide tremendous liquidity to keep the markets functioning and to protect individuals and businesses at an historic scale.

The banking industry continues to play a vital role. We are well-capitalized with strong liquidity and we have helped transmit the benefits of these programs, as well as our own measures in the economy and markets.

So let's cover our first quarter performance. In first quarter 2020, Bank of America produced $4 billion of after-tax earnings. This included building our loan loss reserve by $3.6 billion over charge-offs and that's due to the economic deterioration of the global economy as a result of the virus. Earnings per share were $0.40. While earnings were down $3.3 billion from last year, this was led by the reserve build.

I think it’s useful to draw your attention to the pretax pre-provision income line, as we believe it helps illustrate the underlying earnings power of the company to support the credit costs that are inevitable in a downturn.

We produced $9.3 billion of pretax pre-provision income in the first quarter of 2020. That was down 5% from the first quarter of 2019. That is relatively strong given the changes in interest rates that have occurred, the widening of credit spreads and other changes across the past 12 months, particularly in the last quarter or so.

During this period, we maintained our strong balance sheets. Global Markets client’s needs for liquidity temporarily increased our balance sheet during the quarter by as much as $130 billion from year end, but through the efforts of Tom Montag and team we ended the quarter marginally up.

Small Business originations not from any of the special programs were $2.4 billion during this quarter, showing support for that segment of the economy. We also met our larger commercial borrowing customers’ demands with commercial loans increasing $67 billion, as clients drew down against their unfunded commitments and new commitments were made.

In addition to these fundings which reduced commitments, we also had requests for new commitments. Remember, some of the commitments that we are making are for clients like grocers, healthcare companies and others, who need liquidity because of the rising demand for their services during this time.

At the same time, we returned $7.9 billion in capital to our shareholders, and as you know, during the quarter, we voluntary chose to suspend the buyback portion of those distributions to share capital for expected customer growth. We did all that in our Common Equity Tier 1 ratio of 10.8%, still finished 130 basis points above our 9.5% minimum.

From our liquidity standpoint, we ended the period with $700 billion in liquidity, increasing $120 billion from year end. Driving that increase was deposits increasing $149 billion, far exceeding our $67 billion expansion in our loan portfolio.

Moving away from the balance sheet and on to earnings a couple highlights I’d point out. NII finished a bit better than expected at $12.3 billion on an FTE basis, flat with fourth quarter. Capital Markets revenue was strong.

Sales and trading revenues excluding DVA were up 22% year-over-year and investment banking fees were up 10% year-over-year. We had a record quarter in Fab Gallo's equities trading business.

Our non-interest expense was a touch better than expected as well at $13.5 billion. Net charge-offs remained low at a little more than $1 billion, up $163 million from last quarter, driven by an uptick in commercial. Obviously, returns to the quarter were lower given the reserve build. Return on tangible common equity was 8.3%.

Let's turn to slide four. Just as important as our financial results this quarter is what we are doing to take care of our teammates and to help clients and communities impacted by the virus. We do this not only because it's the right thing to do but also in the end it will benefit you, the shareholder.

Many of our teammates are on the front lines of this effort, including daily engagement with clients, whether it's in our financial centers which remain open, financial advisors guiding their clients through the turbulent times or the capital and liquidity we are providing the companies across the businesses.

To do -- to be able to do all these great things to support clients, our first priority since the crisis was to address the health and safety of our teammates. We have taken that teammate centric view of our efforts, because it's the right thing to do and we need these teammates to do a great job for the clients.

We have taken extensive measures in our business continuity work to prevent teammate exposure to the virus. We have established multiple locations for the important work of our trading operations and call center platforms, and otherwise enabled social distancing by moving more than 150,000 people to work-from-home.

That means ensuring that they have appropriate tools and resources, and we have the appropriate control protocols for them to do their day-to-day work. To give you a sense of scale, we have deployed about 90,000 laptops in the last 60 days across the company.

We moved quickly to ensure social distancing in our facilities that are still open, installed additional protective barriers in all our branches, thinned outstanding operations environments and posted healthcare professionals in our facilities to help anybody.

We are also taking measures to help our employees better handle the stresses in their personal lives. You can see some highlight here. One example has been our increased child care support. We allow teammates to hire relatives and others so they can work given school and daycare outages.

Our life events services team provides teammates with personalized support, resources, tools and access to benefits, and we are providing special compensation to teammates in the financial centers, operations centers and call centers.

We also hired 2,000 teammates in March to continue to increase the staffing we need especially in the consumer-related areas to handle our clients' needs and we announced that there would be no layoffs during 2020 of our teammates.

Our previously announced $20 an hour minimum compensation is now in effect and reflected in the numbers you are seeing across the company, and we confirmed our commitment to bring on our 3,000 young kids from summer jobs -- for summer jobs and starting their first job whether graduating from college or graduate school.

Taking care of the employees is the right thing to do and enables each to play the important role they must provide as critical providers of services to help the economy keep rolling through the virus.

We are doing that in many ways. In addition to keeping our financial center open and the many things I mentioned earlier, we are doing more for our clients through these times. Customers who are struggling to make their payments are calling the bank with deferral requests on loans and fees - and waiver of fees. As it -- in other disruptive events that we have done for hurricanes, earthquakes, tornadoes and other things over time, we work with them.

Since this humanitarian crisis began, we received more than 1 million requests for assistance through early April. We have seen the volume of the deferrals, however, reduced since the peak a week or two ago and we will see where it goes next.

We have provided a chart on the material beginning on slide five about the deferrals. As you can see, in our case, the largest number of requests has come from cardholders, but as a percentage of loans, we have the most requests from our small business clients. These clients are at the heart of the governmental programs and are also at the heart of businesses that were shut down due to the stay-at-home orders by governments.

One of the things that's different about this business for us is it lends to doctors, dentists and others. They have deferred payments until they can reopen their practices. We are a leading lender to them and you will see those recover as they go back to business.

Our mortgage requests remain relatively low in volume and some of our customers -- for all our customers we have also suspended foreclosures or repossessions of autos, which may have been pending.

Our affluent clients are also looking for our company in these turbulent times. We have been there for clients with both upgraded systems and capabilities to allow them to trade, investment office, supplementing 20,000 advisors' capabilities to talk to their clients and give advice and counsel, client engagement during the quarter is up two-thirds from last year even though our advisors work from home.

For small business clients, we built the first digital platform for the PPP program and we launched it 12 days ago. The team is working hard to drive over 300,000 requests for funding through the process so that we can get those loans funded.

As stated earlier, our regular way small business support was over $2 billion in the quarter. For larger clients we provided $67 billion in access or unfunded commitments, imagine the speed and capacity that our team did to absorb the requests so quickly and get them funded over the course of the quarter.

These commitments are a much-needed liquidity bridge for many clients especially in light of the rapid changes that occurred in March in the commercial paper markets and in the debt markets. As those markets opened up, we also saw strong debt capital markets issuances to support clients.

In fact, March ended up being the busiest month ever for U.S. high-grade market with approximately $260 billion of total issuances. The previous record was $171 billion and we led the market. April has continued this busy pace and has been good to see that access is expanding to high yield clients.

For our institutional trading clients, we have provided an operationally sound system with improving speeds of trading. In a single day, we had $1.7 trillion in payment value made. Again, the investments made over the past years to our trading platforms delivered more speed and capacity to make that possible, and all doing while maintaining good controls.

The clients we serve in that business had severe -- witnessed severe volatility in the markets and we provide them with liquidity when they need it. Since the month end spike, you can see Tom -- since the mid-month spike, Tom and the team managed the balance sheet into the place we need to be at the end of the quarter.

Lastly, to assure communities around the U.S. where we live and work got some assistance before the government money came to help. We announced $100 million donation to fight -- to help fight the virus outcomes and supply vital support across those communities.

Our market presence and other leaders are playing a vital role in this critical action. We have also increased our community development financial institutions by $250 million on top of our industry-leading $1.5 billion commitment to these institutions.

As we have discussed each quarter and frequently over the last decade, we have transformed our company so we could serve clients consistently across all areas. We have added a slide in the appendix to remind you how much the company has improved this balance sheet position and risk profile since the last crisis.

Successful stress testing to illustrate our preparedness, but we are now being tested in the new environment. We didn't know what economic challenges might cause us to have to demonstrate this resilience and that challenge is upon us now. I remain very proud of what my teammates have accomplished across every dimension to help us be ready and empower the part they are playing to help the world win this war against this virus.

An area that we focused on also is consumer spending. We have seen a shift in consumer payments and this is on slide -- beginning on slide six. Overall, a couple months ago in a healthy U.S. economy, payments were running at a high single-digit, in fact, in some cases, a low double-digit percentage increase over the same period prior of 2020 January and February versus 2019 January and February.

And in fact, that would have shown that the economy this quarter probably was going to grow faster than people expected. That changed when the virus spread and you can see that impact here on slide six.

We saw a severe immediate decline in discretionary payments for travel, leisure and other things that you have read about and entertainment to be expected. This was followed immediately by large increases in payments for necessities around groceries and staples like health supplies, et cetera. Then as large cities and states began to move to voluntary and mandated stay-at-home status, we saw large declines in debit and credit card spending into other categories.

At the same time, we have also noted a stabilizing going on and the level of payments in other areas like ACH cash wires and P2P payments. The broader measure is the black line on the chart, as you can see, overall payments have declined but remained at high single-digit pace year-over-year moving down from double-digit pace to around 8%.

The total movement in the U.S. has been pulled down by a significant decline in the card spending, which is more than up, which has been affected by the travel, entertainment and other related areas and retail areas, and that's gone from 7% to 8% to only 2% increases in the month of March and it has fallen at the negative territory in April.

The overall spending, however, of all types of spending in our customers seems to have stabilized in the last few weeks. During mid-April, we are seeing spending run at about a low $50 billion average level compared to $60 billion average level before the crisis. That's per week spending. We will see how that plays out through this quarter and that stability may provide insight to the level of the economy activity in the shutdown status.

Our digital banking capabilities have helped with both customers, service and sales, while our financial center visits are down, and sales are down because of that. We have seen consumer digital logins remain steady as people manage their financial lives on a digital basis. Digital sales are down, but they are now running about 50% of the total sales.

Our loan production for cars, mortgage and other products has fallen week-by-week. For the first two weeks of April comparing that to the February average levels, we are seeing them down 55% for card origination, 40% for mortgage and 60% for autos. Again, we are watching to see these stabilize at some level of activity, even given the shutdown economy, and we will keep watching that as states, cities and the federal government focuses on reopening the economy.

On slide seven, you can see the couple charts shown the commercial line draw velocity and deposits in March. In total, we saw $67 billion increase in commercial loans due to draws from the commercial clients in the month of March. 45% of these fundings came from large commercial clients. 40% were from large corporate bank customers and the remainder was spread across all the businesses.

As for the asset quality of what we funded, 92% of these were collateralized or made to investment grade clients and less than $100 million were made to clients whose loans became non-performing. The draws were well-diversified by industry and were largely driven by U.S. borrowers.

From a capital standpoint, we are already risk-weighting these commitments at 50% under standardized capital. So the additional impact to CET1 finished draws was roughly 25 basis points for the quarter.

The draw activity was pretty normal through the first week of March but ramped up in the second week before peaking in the third week of the month. The requests have come down in every one of the last three weeks.

And as we have seen, we turned to April, draw requests of new credit requests have mitigated at these levels. We are seeing clients' attentions turn from securing liquidity to more structured view of their capital position and their needs to better understand how they prosper and fare in the COVID-19 impacted business model.

We observed earlier that the commercial paper market froze in the middle of the quarter as new rounds of virus worsen clients were unable to access the CP markets. As the Fed announced the programs we saw that market stabilize, and over time here, we have seen it drop -- lengthen out, so draws can be for long periods of time.

It's worth noting since we have one of the premier global treasury service platforms of the world, we saw many of those draws come back and our balance sheet as deposits, whether 75% of the loan draws were not used for other pay-downs ended up as deposits with our company.

In addition, at the bottom of the slide you can see the growth in deposits by every line of business. Global Banking deposits rose $94 billion, which is unusual for sure. We also saw $32 billion increase in consumer deposits, with 65% of that being checking. That has been our normal.

In fact, it's the 28th quarter of the last 29 that we have had year-over-year growth at $20 billion or more in Consumer Banking deposits. Wealth Management deposits reflect a flight to cash in the first quarter, but have been stabilizing last year, as you can see in the charts Paul will show you later.

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

Paul Donofrio

Thanks, Brian. Good morning, everyone. I am beginning on slide eight with the balance sheet. Overall compared to the end of Q4 the balance sheet expanded $186 billion, driven by an increase in deposits of $149 billion. Deposit growth in excess of our loan growth was invested primarily in cash or cash equivalents.

As Brian mentioned, the team did an incredible job of not only providing our Global Markets clients needed liquidity from a mid-March spike, but also reducing those levels by the end of the quarter. Shareholders' equity of $265 billion was stable with year-end but included some offsetting factors.

AOCI increased $6.5 billion, reflecting several factors, but was driven by a $4.8 billion improvement in the valuation of AFS debt securities. Offsetting this increase to equity were two items. Share repurchases and common dividends of $7.9 billion exceeded our $4 billion of earnings given the reserve build this quarter. And as a reminder, we booked a reduction in equity on January 1 by adopting CECL.

Now with respect to CECL, we elected the five-year transition option made available under the fed rule to delay any capital effects of CECL until 2022. The January 1 reserve build plus Q1's $3.6 billion build equate to a total increase in the reserve of $6.9 billion since year end.

Assuming no regulatory relief, including the original relief planned for day one adoption, our CET1 ratio would be 22 basis points lower than we reported. The relief received in late March accounted for 12 basis points of the 22 basis points.

As you know, a portion of the CET1 impact of future reserve increases or decreases during the emergency period will also be delayed until 2022. Beginning in Q1 of 2022, we will begin phasing in the 22 basis point reduction for these impacts in equal quarterly amounts through 2025.

With respect to our CET1, our CET1 standardized ratio declined 40 basis points to 10.8% driven by a $70 billion increase in RWA. Increases in counterparty risk in Global Markets and increased loan revolvers draws in Global Banking drove the RWA increase. Lastly, our TLAC ratios remain comfortably above our requirement.

Given the time constraints of Brian's point earlier on ending deposits, I will skip the discussion on average deposits on slide eight and move to slide nine, earlier, Brian also discussed our loan growth near the end of the quarter, which was driven by revolver draws, some of that growth affected the growth of average loans presented on slide 10, Q2 should further reflect this late quarter growth. Year-over-year average growth has been consistently in the mid single-digit range and early Q1 trends were similar to that.

Note the significant increases across consumer and GWIM, which was driven by residential mortgage given continued low interest rates. This quarter we originated $19 billion in first mortgage loans, retaining 94% on our books. We continue to see good follow-through on our large pipeline but apps are down in the past couple of weeks.

I would also note credit card balances, average credit card loans were down a bit more than the typical seasonality, given the drop-off in consumer spending late in the quarter, while customer payment rates continued at a fairly steady pace. Given the significant drop in card spending, we expect card balances to decline further in Q2.

Okay. Turning to slide 11 and net interest income. On a GAAP non-FTE basis, NII in Q1 was $12.1 billion, $12.3 billion on an FTE basis and was relatively flat compared to Q4 '19. One less day of interest and lower asset yields driven by lower rates negatively impacted NII this quarter.

Two primary things offset these negative impacts. First, we saw good loan and deposit growth. Second, lower rates reduced the costs of our long-term debt and improved our funding costs in Global Markets. The lower rates also allowed us to price our deposits more efficiently in Wealth Management and Global Banking.

Before I discuss our forward view of NII, I want to emphasize that future NII results will be influenced by interest rates, as well as loan and deposit balances, which will likely be highly influenced by the virus' impact on the economy. Both of these drivers have been volatile and may continue to be.

In terms of the forward guidance, as you know, interest rates dropped significantly over the past 90 days. On the short-end with LIBOR which impacts variable rate loan pricing, as well as longer term rates which impact mortgage and mortgage related assets, have both dropped nearly 80 basis points on a spot basis.

As you think about our NII for the rest of the year, I would point you to the asset sensitivity disclosure for our banking book at 12/31 before we experienced these rate declines. Banking book sensitivity from an instantaneous parallel drop of 100 basis points in rate at that time was estimated to reduce NII by $6.5 billion over the following 12 months. Since these rates moved less than 100 basis points, the change in NII over the next 12 months is likely to be less than $6.5 billion.

I would also note some additional items to consider that are expected to mitigate some of that decline. First, we have grown both loans and deposits significantly more than what would have been assumed in that asset sensitivity at year end. Second, our deposit pricing actions have been pretty swift. And last, the asset sensitivity of the banking book does not include the benefits to NII of the trading book, which is a little liability sensitive.

With that said, we would expect the largest decline in NII over the balance of 2020 to impact Q2 as the bulk of the repricing of our variable rate loans should happen fairly quickly. Considering all these factors, particularly the virus' impact on the economy and interest rates, we believe NII could approach $11 billion in Q2 and then begin to stabilize with loan and deposit growth mitigating the negative impacts of longer term asset repricing.

Turning to slide 12 and expenses, at $13.5 billion this quarter, expenses were up 2%. They were 2% higher than Q1 2019 as increased investments throughout 2019 in people, real estate and technology initiatives were partially offset by savings from operational excellence initiatives. Compared to Q4 2019, expense increased roughly $250 million, reflecting nearly $400 million and seasonally elevated payroll tax expense.

With respect to our outlook, we are still assessing the impacts both positive and negative that the virus has had on the company's expenses, and as such, are not in a position to provide any updates to our previous expectation that expense would be in the mid-$53 billion range this year. As a reminder, that mid-$53 billion number was before considering the dissolution of our BAMS JV and surrounding actions.

With respect to impacts of the pandemic, on the one hand, there are many costs that declined such as travel, meeting costs, lodging, conferences and lower power costs for unused facilities, incentives will align with financial performance and market levels.

But on the other hand, as you heard Brian mention earlier, there are costs associated with protecting, supporting and rewarding our employees during this health crisis, including suspending headcount reductions related to COVID for the rest of 2020.

We also have costs from the setup, operation and cleaning of backup facilities for trading and other activities. This would include the cost of computers and other supplies and expenses to reposition 150,000 associates to work-from-home.

Okay. Turning to asset quality on slide 13. Our underwriting standards have been responsible and strong for years now and we expect this strength to differentiate us as we advance through this health crisis.

For years now, we have been focused on client selection and getting paid appropriately for the risk we take. As you all know, what really impacts banks in a recession is not the loans put on your books during stress, but rather the quality of your portfolio booked during the years leading up to stress.

One independent indicator of the relative quality of our balance sheet is the Federal Reserve's annual CCAR stress test. Our net charge-off ratio under those stress tests has been lower than peers in six years of the last seven years. And our consistent focus on asset quality has been reflected in our results for many years now.

Adjusted for the recoveries of loan sales in some periods I have described before, we have reported net charge-offs between $900 million and $1 billion for many quarters. Total net charge-offs this quarter were $1.1 billion or 46 basis points of average loans. Net charge-offs rose $163 million from Q4, driven by commercial losses with the largest contribution coming from energy exposure.

We saw a small seasonal increase in card losses. Provision expense was $4.8 billion. Our reserve build of $3.6 billion reflects the expected increase in life-of-loan losses, given the weaker current and expected economic conditions as a result of the virus.

On slide 14, we break out the credit quality metrics for both consumer and commercial portfolios, Q1 is too early to see any significant effects of COVID on net charge-offs. However, there were a couple of leading indicators of deteriorating asset quality in our commercial portfolio due to the virus as both NPLs and reservable criticized exposures increased.

On the consumer front, COVID’s effect on asset quality were less observable. This is likely due to deferral offers extended to consumer borrowers. Moving forward, we believe deferrals coupled with government stimulus for individuals and small businesses should aid in minimizing future losses. Having said that, given the rise in unemployment claims, we do expect consumer losses to increase later this year and potentially into 2021.

Turning to slide 15, this table provides a full picture of our allowance increase since 12/31/19, including the 1/1/20 implementation of CECL, as well as this quarter’s build given the worsening economic conditions.

As you can see, our allowance including reserves for unfunded commitments was $10.2 billion at year end and now stands at $17.1 billion. That is nearly a $7 billion increase or 67% since year end. Note that we ended Q1 with an allowance to loan and leases of 1.51%.

I would also note the increase in the coverage ratio for credit card increased to 8.25% and the coverage ratios for our U.S. commercial and commercial real estate increased to 1.11% and 2.16%, respectively. These ratios reflect our underwriting standards over the past 10 years, as well as our loan mix with the large concentration of secured consumer loans.

We size the increase to our allowance in the quarter by weighting a number of different scenarios, all of which assumed a recession of various depth and longevity, including an assumption of some tail risk similar to what is in the severely adverse scenarios.

A weighting of these scenarios produced a recessionary outlook, which includes a marked drop in GDP in Q2, growth recovered slowly from there, with negative growth rates in GDP extending well into 2021.

Obviously, there are many unknowns, including how governments fiscal and monetary actions will impact the outcome, and how our own deferral programs will impact losses. But perhaps the biggest unknown is how long. How long economic activity and conditions will be significantly impacted by the virus.

Okay. Turning to the business segments and starting with Consumer Banking on slide 16. Consumer Banking earned $1.8 billion. Results were impacted by COVID-19 through lower rates, higher provision expense and modest fee reductions.

As you know, banking is considered an essential service and across the country, we have kept more than 75% of our financial centers open. In addition, we have added personnel to service calls and manage digital interactions not only with respect to existing products and services, but also on small business applications through the Paycheck Protection Program.

Many of these additional personnel are working from home, while net income declined 45% from Q1 2019, it’s worth noting pretax pre-provision income declined 12%. Revenue declined by lower interest rates, as well as the impact of COVID-19, aside from the higher provision costs, consumer fees also reflected modestly lower consumer spending and fee waivers beginning late in the quarter.

We continued to invest in the franchise, driving expenses up 3% year-over-year. We added new and renovated financial centers, salespeople and increased minimum wages, plus the additional associates added to service calls, I just mentioned.

The expense for these investments continued to be mitigated by process improvements, digitalization and technology improvements. Investments supported continued growth of loans, as well as deposits, as a result, our cost of deposits declined to 150 basis points.

Client momentum continued as we saw average deposits increase $40 billion from Q1 ‘19, average loans increased 8% and we continued to add consumer investment accounts and saw solid flows into our Merrill Edge platform.

Let’s skip slide 18, as I think I covered much of the trends on slide 17 already. The ability of our customers to connect through digital banking has never been more important. As you can see on slide 18, all aspects of digital engagements continued to increase, with one-third of sales now processed through digital channels, and as you heard that -- and as you heard, that moved higher in the last few weeks of the quarter.

We learned a lot from our digital auto and mortgage experiences, and what we learned enabled us to quickly launch a digital pathway for our small businesses to apply for loans in the Paycheck Protection Program.

Turning to Wealth -- turning to Global Wealth and Investment Management on slide 19, here again, we saw lower rates and COVID-19 related credit costs impact an otherwise solid quarter. Note the impact of lower market levels in March. Those impacts did not impact Q1 AUM fees as March fees were calculated based upon market levels at the end of February.

Merrill Lynch and the Private Bank both continued to grow clients as well as remain a provider of choice for affluent clients. Net income of $866 million was down 17% from Q1 2019, but here again, pretax pre-provision income was down a more modest 4%.

Revenue grew 2% year-over-year, as a strong increase in AUM fees and brokerage fees were partially offset by a decline in NII as a result of lower interest rates. Expenses increased from revenue-related incentives, as well as investments we made in the past 12 months in sales professionals, technology and our brand.

Okay. Let’s skip slide 20 and move to Global Banking on slide 21. The early impacts of COVID-19 were more evident in this segment. First, the LIBOR fell rapidly in March impacting loan yields. At the same time, revolvers draws didn’t happen until late in the quarter and will likely be more fully reflected in Q2 averages of loans and NII.

Lastly, COVID-related credit costs are higher in this segment as the reserve build was more heavily weighted to commercial loans. The business earned $136 million, which included adding $1.9 billion to the allowance for credit losses.

On a pretax pre-provision income basis, results declined 21% driven by lower interest rates and by roughly $450 million of net markdowns in the value of loans and underwritten commitments recorded at fair value in our capital markets books and FBO books.

On the positive side, in Q1 we were able to improve our investment banking revenue and market share. We generated $1.4 billion in investment banking fees this quarter, a 10% increase year-over-year. In fact, despite a 20% year-over-year decline in the volume of investment banking transactions across all banks, we processed 9% more transactions in Q1 than the previous year.

Growth in investment banking fees, loans and deposits reflected not only what we believe to be a flight to quality in uncertain times, but also the addition of hundreds of bankers over the past few years increasing and improving client coverage.

Turning to slide 22, Brian covered the most important points around loan and deposit growth, I just want to reiterate one point. We believe companies viewed us as a safe haven in this period of stress. Quarter-over-quarter on an ending basis, deposits increased $94 billion, while loans increased $58 billion.

Not only were we able to capture as deposits, the bulk of the cash that customers drew on the revolvers that wasn't used to pay down debt or for other purposes. We were also able to attract billions more in additional deposits even as pricing deposits lower with falling rates.

Turning to slide 23, as in consumer and GWIM, our digital capabilities are more important and useful than ever, enabling clients to work-from-home and seamlessly manage their treasury needs. And it's no surprise that in this environment, we continue to see increased use of these capabilities.

Switching to Global Markets on slide 24, as I usually do, I will talk about results excluding DVA. Despite the volatility experienced in the quarter, Global Markets produced $1.5 billion of earnings in Q1, a 34% increase year-over-year.

Year-over-year revenue was up 15% from both higher sales and trading results, and improved investment banking fees. Expense was up a more modest 2% year-over-year on higher related -- revenue related costs.

Within revenue, sales and trading improved 22% year-over-year, driven by a 39% improvement in equities and a 13% increase in FICC in a significantly more volatile market environment when compared to Q1 last year.

FICC revenue reflected better trading performance across macro products, offsetting weaker performance in credit sensitive products resulting from widening credit spreads, which impacted asset prices. Equity revenue of $1.7 billion was a record for the company.

All right, skipping slide 25 and moving to All Other on slide 26. All Other reported a loss of $492 million. The loss reflects approximately $500 million for several valuation reductions including marks on derivative positions and certain noncore securities, which were impacted by wider spreads toward the end of the quarter.

Our effective tax rate this quarter was 11.5%. It included the impact of a fairly normal level of tax credits from our commitment to sustainable energy products and other ESG efforts, many of which are tax advantaged.

Applying this fairly normal level of tax credits against a lower pretax earnings base resulted in a lower tax rate, it's just math. For the full year, I would expect the ETR to be in a range of 14% to 15%.

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

Question-and-Answer Session

Operator

[Operator Instructions] We will take our first question today from Betsy Graseck with Morgan Stanley. Please go ahead your line open.

Betsy Graseck

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

Brian Moynihan

Paul, why don't you hit that, please.

Paul Donofrio

Yeah. Sure. So let me ask the last part -- answer the last part first. We put a reserve on our balance sheet that we think reflects the information that we had at the end of Q1. And so in terms of what's going to happen in the future, that reserve is going to go up or down based upon the facts and circumstances and our view of the future when we get to the end of Q2.

I think when you think about reserves, you have got to really focus on loan mix and the quality of the portfolio and then you have the added variable under CECL of everybody coming up with a view of the future.

We sized our reserve build in Q1 by weighting the number of economic scenarios, all of which assumed a recession of various depth and longevity, and that included assuming some tail risk similar to what's in the severely adverse scenarios.

So when we weighted the scenarios that produced a -- clearly a recessionary outlook, which included a significant drop in GDP in the second quarter with negative GDP growth rates extending well into 2021.

We also considered the impact of various groups of credits and stressed industries. And while small relative to the impact of scenario weighting, we incrementally factored that analysis into the sizing of our reserve build.

Obviously, there are many unknowns including how government, fiscal and monetary actions will impact the outcome, but we can try to consider that as well. We also had to consider how our own deferral programs will impact losses. But perhaps the biggest unknown is how long economic activities and conditions will be significantly impacted by the virus.

Brian Moynihan

So, Betsy, I might add a couple things. If you sort of benchmark, this has nothing to do with setting under GAAP, it's just sort of, okay, now you have it, let's look at it. I think we are about 65% of last year's fed supervisory severely adverse total losses type of numbers. That's one way to think about it.

As you -- and then another thing to think about is the construct of the portfolios. Those of you like yourself who have been around our company a lot, I went back and started saying sort of are we sure how much different we are and people forget things that won't mean a lot to people on the phone, the gold option program, which was a restructuring of card debt that went on in the mid-2000s, it started to go into the crisis in 2008 time frame at $25 billion, eight quarters later, six quarters later, something like that, it's down to 12, half of that was charge-off.

There's none of that around now and so it's not only the FICO scores and all of the things that you have, it's also that there's pieces of the portfolio that cost us a lot in the last crisis that aren't there.

But let me -- and that's just how we positioned the portfolio. So even some of the industries which people -- we are focused on as a credit grantor and you are focused on as an analyst are relatively 1% in this industry or that industry, so the list is sort of concerning industries entertainment, travel, things like that, we have low exposures to because of diversity of mix of portfolio.

You touched on the deferrals and let me just give you a couple perspectives on that. One, on that small business, as I mentioned earlier the reason why it's high is there's a lot of doctors and dentists in there and you would expect that they would pay.

But to give you a sense, before their deferral, 95%, 97%, 98% of these people were current under all of the measures and so they are not people who were struggling. They were people who are current just needed a hiatus due to their change.

The FICO scores for 90%-plus of the mortgage deferrals, 95%-plus on the cards, again, about 90%, 85%, I guess, are 600 or better, so the average FICO is almost 700 of the deferral. So you would expect that people who have deferred are doing it as a matter of convenience and will get back in the flow once the economy reopens.

And so the LTVs on the mortgage is again 95% or under -- only 5% or 10% are really the FHA, VA of the deferred program and they are 95% are better, all the rest of it's low. It's 75% of its below 80% LTV and stuff. So these are core people who have had a change and we would expect to start to perform. So we will see how it plays out but it's very different I think than past deferral statuses we have had.

Betsy Graseck

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

Brian Moynihan

Let me just, Lee has corrected me. It's 65% of the adverse, not severely adverse, I think, is what Lee is telling me. We are in two different locations, so usually he can wave at me when I have made a mistake.

But in terms of the dividend, we kept the dividend payout ratio below 30% of the sort of normalized earnings level and we did it for a reason that one of our operating principles is we wanted to maintain a dividend. And given what we know, we have earned twice the dividend this quarter at $0.40 versus $0.18 payout ratio and we expect that to continue and that shows you the 100-plus basis points, 130 basis points of excess capital.

We have tested it lots of ways as you might expect, as we talked to our Board about capital management, as we talked to our Board about dividends. On any given time, we are showing them severely adverse cases, adverse cases and thinking through the pretax PPNR capability of withstanding different reserve builds and outcomes and so that's what we are doing and trying to keep it going.

Betsy Graseck

Thank you.

Operator

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

John McDonald

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

Paul Donofrio

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

John McDonald

No. No. Go ahead, please.

Paul Donofrio

I was going to say in terms of providing specifics on one variable or another, you have got a lot of variables that go into these models, many, many, many variables and so we really believe that to provide that level of detail could be a little misleading.

It's -- unless you have the full context of all the factors that we considered when we set the allowance, picking one or the other and starting to compare here or there just to us I think would be misleading.

Plus, very importantly, the impact of all those multiple inputs that go into the process will be different from each bank depending upon the bank's loan mix and very importantly the quality of the loan portfolio that they have been putting on the books for years.

I think, Brian, just sort of talked about it, but I will say it again, we have been very focused on prime and super prime customer borrowers for many years now. So the impacts to us of all those inputs is going to be different, and I guess, that's what all the information I would want to give you about like one input or another. Hopefully that helps you in terms of how we think about it.

John McDonald

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

Paul Donofrio

Yeah.

John McDonald

…in 2019?

Paul Donofrio

Yeah. Again, as Brian said, that's more of an output, not an input, right? We are developing scenarios based upon the information we had at the end of the quarter. But it is interesting and it's maybe helpful for all of you in terms of comparing reserves to really think about the loan mix, the quality of the portfolio and then, of course, what people assumed about the future.

But in terms of the loan mix and the quality of the portfolio, there is an independent view out there. There's an independent view every year. And so if you look at our losses in the severely adverse -- the fed's stress test, our losses under the severely adverse or our losses under the adverse and then you look at our reserve and you divide by those losses, you are going to get percentages that are in the range or better than what you are seeing across the industry.

John McDonald

Okay. Got it. Thank you.

Paul Donofrio

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

John McDonald

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

Paul Donofrio

You still have the issue, though, by the way, that every bank is going to have a -- this is the first quarter we are all doing CECL and everybody is going to have to develop their own view of the future.

And there's no evidence right now that you can point to of asset degradation. There's a little bit of NPLs and a little bit of reserved criticized. So we are all doing this based upon just our view of the future based upon all those inputs that we use in our models.

John McDonald

Got it.

Operator

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

Mike Mayo

Hey, Paul. Same question, maybe more specifically, how much more could reserve…

Paul Donofrio

Same answer, Mike.

Mike Mayo

Same answer?

Paul Donofrio

Yeah.

Mike Mayo

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

Paul Donofrio

Yeah. Yeah. Sure. Again, like you said, we have the liquidity, we have the capital on our reserve build if you look at independent perspectives from the fed or other sources, our reserve bill as a percentage of future losses under multiple scenarios that they publish is higher or in the range of our competitors. So that's a lot of information for you right there.

In terms of your question about, hey, what's the likely reserve build in the future? If we thought we were going to have to add more reserve build in the future, we would have put it into this quarter. That's how the rules work. You reserve for your expected lifetime losses.

So our reserve build reflects what we think as of the end of the quarter we are going to have to have in losses for the life of the assets on our books. Now when we get to the end of the second quarter, we may have a different view of the future and so we may release reserves or we may increase reserves.

The quality of our loan book won't change that much because that doesn't change that much in the quarter. The mix doesn't change that much because that doesn't change in the quarter. We have built this loan book based upon years, years of underwriting standards. And so it will go down -- the reserve will go down in the second quarter or go up in the second quarter, but it will be based upon a change in our outlook on the future.

Mike Mayo

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

Brian Moynihan

Well, one thing that is different, Mike, and you well know is when our authority embedded in governors, the mayors, and the President to tell us what to do is overriding here. So we could have a view of what can happen, but given the healthcare crisis as opposed to demand changes and things that would be out of the general economic flow or credit risk because commercial real estate got overvalued. The things that we have dealt with in our lifetimes as you have dealt with, this is just different. So we have to remind ourselves always this is going to come down to solving this healthcare crisis and is number one.

Just to give you some facts of where we stand and we will see this play out. As I said earlier, if you look at sort of the weekly flow of payments across all of means, cash being taken out of the ATMs and spent through checks written through ACH wires and credit and debit card. That was around $65 billion a week in January/February and now it's running $50 -- like $51 billion, $52 billion average for the last couple weeks. But you are seeing that rate of decline flatten at this point and if you go and look at geographies based on the data we see, we have seen it sort of flatten.

So you are seeing what might be a relatively -- and that's after the unemployment claims have been filed and we are seeing the unemployment come into the accounts. You are seeing a rate of -- the rate of declines sort of flatten and then as you look at it sort of compared to the rate of decline year-over-year by week and things like that and different types of industries. They have gotten to the bottom in some, travel or entertainment, you have gotten to a more sustainable maybe in drug stores and grocery stores and you sort of see the economy running at that level. And so that would imply whatever the 10% over the 16%, 15%, 16% decline.

That will hold on. We will watch, but right now that seems to be holding on, the places have been shutdown longer and we will see that play out as it goes forward to see if that starts to grow from there. Remember, gas prices are down a lot and gas usage is down a lot. That impacts those numbers also.

So we are looking for those signs. I am not saying we have anything yet. We are looking for those signs. We are also looking for how the unemployment affects our customer base and so we have seen as households that we have as unemployment one of the participants of the household we have a lot of dual earning households. 75% of the households that we have who have received unemployment also have someone receiving a regular paycheck still.

And so those types of things will be interesting to see it play out if that would change in behavior in terms of what people spend on versus a real crisis in the household because of one wage earner. We will figure that out.

So we are seeing balances in households especially among the moderately affluent grow in terms of checking account balances because people are spending less and storing cash. We see it on the Wealth Management side people can delay paying their taxes.

So all these factors will play in, it’s just a little premature to call anything, Mike, and so that’s the factors we are looking at as we look at not only to your point about how you said potential losses based on our customer base and their behavior and what happens to them, but also based on our view of the economy opening up.

And frankly, our advice to people who want as to what parts of the economy could have a faster impact with less, they are the healthcare experts, but less risk of people congregating versus others that might help support a reopening or get activity.

Go back to the dentist or something like that. You could put dentists back to work. That will open up part of the economy that is usually not closed down for these things and it’s a relatively few number of people in a given space or given time. So I will leave it to healthcare experts to make those judgments, but all that’s going to come together. As we move through the quarter, we will try to give you better insight, but right now that’s what we are seeing.

Mike Mayo

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

Brian Moynihan

Yeah. I mean, it’s just -- that’s -- people are -- we all want to see where the end is, you included, Mike, we do too, but the question is we have got to wait for some time to pass to have a feel for that.

Mike Mayo

Thank you.

Operator

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

Glenn Schorr

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

Paul Donofrio

Look, we have got $2.16 billion on commercial real estate. Given how we have run our commercial real estate business over the last 10 years, especially relative to others. We feel that's up from $1.6 billion at January 1. We have got $1.11 billion on U.S. commercial. Those commercial losses, they just don't run as high because of collateral and other protections we have in the structure.

So we feel pretty good. If you look at total commercial, we are at $1.16 billion. So we feel good about where we are. And again, it's when you sort of add all of that up and you just look at it relative to the losses that people are projecting including the fed, whether it's an adverse scenario or it's an adverse scenario, you are going to come out with percentages that are pretty healthy on an absolute basis and relative to our peers.

Brian Moynihan

And Glenn, I'd add one thing. Let's go back to the beginning on the pretax PP&R, which we all learned after the last crisis. But that earnings power to absorb pay as you go losses on the consumer side in terms of card charge-offs and things like that or building reserves and then going through on the commercial side, which is what happens typically.

That earnings power is I think what we feel has us in good stead in terms of the ability to absorb whatever circumstances play out here and still -- with more liquidity than the start of the year, more capital than we need, 130 basis points more capital and the PP&R volume that lets us drive through it.

And if you think about that PP&R when you look at the stress test and stuff, we are running a lot higher than the stress test assumed, because they assume there's market losses and things like that, which we didn't experience even in the most volatile periods of time in the markets history.

And so I think as you play this out that -- whether we can all talk about the reserve of X or Y or Z per thing, which is what you all are focused on and should be focused on, the reality is how much earnings capacity you have to keep generating capital and keep generating earnings that you can offset whatever comes at you and that's what we feel good about.

Paul Donofrio

That…

Glenn Schorr

Thank you both.

Paul Donofrio

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

Glenn Schorr

Great detail. I appreciate it. Thank you.

Operator

We will go now to Vivek Juneja with JPMorgan. Please go ahead.

Vivek Juneja

Just…

Brian Moynihan

Hello?

Paul Donofrio

You still there, Vivek? Is it us?

Operator

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

Brian Moynihan

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

Operator

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

Matt O'Connor

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

Brian Moynihan

Yeah. I mean, we did see bond premium amortization in Q1 is always sort of seasonally low or lower. We do expect an increase in Q2, given the decline in rates in Q1. You have got to remember that prepayments generally lag moves in NII or they proceed moves in NII -- the rate move proceed NII impact by six weeks to eight weeks. What else did you ask about?

Matt O'Connor

I assume trading benefit 1Q…

Brian Moynihan

Yeah.

Matt O’Connor

…and is being factored in and then just kind of…

Brian Moynihan

Yeah.

Matt O’Connor

…call it pressure from the rate environment is the third bucket?

Brian Moynihan

Yeah. Yeah. Trading definitely, we are liability sensitive in Global Markets. But it’s not a huge impact and it can bounce around quarter-to-quarter depending upon the type of assets that they are booking and whether they bought them at par or above or below par.

That influences whether profits show up or revenue shows up in NII or shows up in market making or similar activities. So we -- that’s why we don’t give guidance on it because it can change pretty rapidly depending on what they are buying and selling for clients in Global Markets. But right now, it was a little bit liability sensitive and did help a little bit in Q1 and it will probably help a little bit in Q2.

Matt O’Connor

Okay. And then as we think about the balancing growth component, obviously, 2Q average balances will benefit from the run-up on a period end in 1Q. But I would think as you kind of look to the back half this year and beyond, some of those line draw downs in commercial start to get paid off, so that maybe it’s tougher to grow the balance sheet or at least tougher to grow loans? I don’t know if that’s the right way to think about it?

Brian Moynihan

Yeah. I mean, there’s no question that commercial revolver lines which spiked in March, will start to pay down once economic conditions start to improve. But obviously the timing of that is very uncertain. So I think we are just going to have to wait and see.

Clearly, we are going to see some carry over from these draws in Q2 and we may see a very significant amount stay with us for some time, we will just have to wait and see. Obviously, deposit balances also benefit NII because you don't necessarily have to make a loan. You can earn on those deposit balances and they are way up as well and they may be with us for a little while, we will just have to wait and see.

Matt O'Connor

Okay. And just last quickie.

Brian Moynihan

Just so our NII guidance, I am not going to get into the details, but our NII guidance, of course, assumes some sort of runoff. We are making some sort of guesses at this point about what the runoff would be in both loan and deposits.

Matt O'Connor

Yeah. Understood. And then, just lastly, a quick one on the spread of the commercial lines draw downs, any rough numbers on that, I am often asked that question.

Brian Moynihan

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

Matt O'Connor

Maybe like a LIBOR…

Brian Moynihan

I think.

Matt O'Connor

…plus 150 or 200?

Brian Moynihan

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

Matt O'Connor

Got it. Okay. That’s helpful. Thanks so much.

Paul Donofrio

In terms of who drew.

Brian Moynihan

Yeah. In terms of who drew. Yeah.

Matt O’Connor

Great.

Paul Donofrio

Yeah. But one thing, just to back up, there will be a transitory impact we should all hope of these draws and stuff. And that means more stability in the market, more reopening of the economy. So but what isn’t transitory is the good core work that went on in our Consumer business and our Wealth Management business and the treasury services, the core growth levels that will continue through even if the deposits that people have built go back into other forms or get used up.

And so I think that’s going to be the trick, for a little while, we will all going to be pre-occupied with the pace of those loans dropping off, et cetera. But the reality is over the long-term we are going to be based more on the way that underlying has performed going into this/

And frankly, the amount of activity that can continue in the underlying business given this COVID virus situation and we -- our officers are making contact. Our wealth managers, we are continuing to add accounts in various businesses, not at the rate that you would before.

But -- because just necessarily is not face-to-face meetings taking place, but you are seeing the Wealth Management contacts are up. You are seeing even the referrals between our lines of businesses continue. It’s just at a lower rate because of the necessities of the face-to-face meeting limitations, but those will come back as soon as we can get back in action.

Operator

We will go now to Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

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

Brian Moynihan

In terms of the government programs?

Brian Kleinhanzl

Correct.

Brian Moynihan

We have -- yeah. We -- yeah, 12 days ago, we started taking applications in the PPP program. We have had hundreds of thousands of applications. We are processing them in accordance with the guidance that was given by treasury to get the work done and then submit them, thousands have been through the SBA and have a number and we have thousands -- many thousands in the hands of clients that are signing promissory notes and we are funding them.

So that is still, I think, for the whole industry the real impact economic of the money traveling out is coming, will come over the next period of time here. Today, we received the first major distribution of the direct payments in terms of the $1,200 stimulus payment types.

We are seeing now the unemployment benefits, the extra $600 type thing coming through and the benefit structures we are seeing in the -- programs we are seeing both as we service the state as a provider of prepaid card type -- card access to those programs and we see in our accounts.

So those programs are just barely hitting the general consumer, general business, et cetera, in term -- for us and for the industry. Our industry peers are all in the same condition. And so they will provide the stimulus they will provide is actually going to be from now on, not from now backwards, because this is a program that didn't exist literally three weeks ago, only started two weeks -- 12 days ago and several hundred thousand people applied for it and we are processing through it as fast as we can and it's around 10,000, 12,000 on the more commercial banking side.

Brian Kleinhanzl

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

Brian Moynihan

Yeah. So I -- yeah, the total amounts as you saw on page five of the balance of deferrals. So if you go to the inverse of that 95% and we see of the cards are not deferred and they will pay us and stuff.

So I think the question is what really happens, to your point, so we deferred somebody whose 750 FICO who temporarily thought lost their job or thought they were going to lose their job and just wanted a month, that will come back.

And so I think the losses will shake out from the -- into the fall, because just the methodology is you remember, it's to the 180 days you have to roll through all the buckets and stuff. So we will see it play out, but it's going to be delayed.

But remember, because the CECL, you are providing for your expected outcome under that delay, and Paul gave you the parameters of what we talked about already. So the question is that's what we are putting up at the end of the first quarter and we will get the second quarter we will put it up and third quarter all based on what we think the credit costs will be of that portfolio over the cycle that's ahead of us, down into the trough and back out the other side in a very slow matter, as Paul described. And then the real question will be…

Brian Kleinhanzl

Yeah.

Brian Moynihan

…sort of people's behavior given these government programs and the amount of extra cash going in and then on the employment, the PPP program is employ people and pay people, you get two -- eight weeks of pay to pay them out and so we will see how that all metes out to the underlying people. But so I think it's premature, but I think it will delay charge-offs, but our reserve at any given moment reflect what we think will ultimately happen to those customers, not when it will happen.

Brian Kleinhanzl

Okay. Thanks.

Operator

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

Ken Usdin

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

Paul Donofrio

Yeah. So we are basically factoring in a timing between LIBOR and fed funds over the year. But we are also factoring in some loan and deposit growth offsetting that. And then, of course, we have got securities and other assets maturing that we are going to replace at a lower yield and all that's factored into our perspective that we think with loan and deposit growth, we can -- you will see NII kind of at that $11 billion level give or take roughly through the end of the year.

Ken Usdin

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

Paul Donofrio

Well, right now, that liquidity -- that excess liquidity that all came flooding in is in cash and we will have to think about what we want to do that with that excess liquidity as it becomes clearer kind of how long it's going to stick around.

If -- right now, if you just look at what's in our securities portfolio and compare to the yields available to reinvest, they would be 50 basis points lower. But all that's kind of factored into our guidance.

Ken Usdin

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

Brian Moynihan

Just to start on that, just generally customers put more cash and you saw that in the Wealth Management deposits being up $19 billion. So that reflects not only the moving money but also the reallocation in our models and things like that.

So you have seen that. We have seen them stabilize. My guess is two-thirds of that was more what you are speaking about a third or so was sort of the core growth building up that we saw coming into the tail end of last year into the quarter maybe or a little less than that. But a lot of it was moving and it will move back in the markets based on the allocations and methods and in terms of deposit forms of the markets.

And then on the money funds, the allocations reflected there, because of the prime money funds versus the government money funds, there's a lot of instability around that towards the quarter. So I think this will all settle out and you will see it return to more normal when people are thinking about that. So you will see less volume growth in the balance sheet deposit driven than Wealth Management.

Paul Donofrio

I am not sure what else I would add to that, obviously, we brought deposit pricing down, in Q1, you can see that in the average by product. They are going to come down further just based upon pricing actions that we have already taken that are just now rolling -- are going to start rolling into those average deposit pricing across the different types of products.

In terms of growth, we ultimately saw very strong growth in Q1. There's a lot of moving pieces there, so it's hard to give guidance on growth from here. I just would emphasize, what Brian emphasized earlier that the underlying spike in deposits. If you look beneath that underlying spike, we still saw solid core organic growth across all our LOBs in January and February.

In terms of the second quarter, with respect to consumer, you are going to have government stimulus and delayed tax payments. That's going to be a tailwind. June clients, we will just have to see they shifted out of investments into deposits. We are going to have to see how that plays out over time.

And then Global Banking, we already discussed the large deposit inflows in March, ending deposits grew $94 billion quarter-over-quarter. As the markets stabilize and economic activity returns, we do expect some component of those deposit balances to flow out over time as clients pay down their lines to pay other bills and redeploy liquidity. So we have kind of factored all that in, but at this point there's a lot of uncertainty.

Ken Usdin

Yeah. Understood. Thanks a lot.

Operator

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

Vivek Juneja

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

Paul Donofrio

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

Vivek Juneja

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

Paul Donofrio

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

Vivek Juneja

Right. Okay.

Paul Donofrio

Okay.

Vivek Juneja

Okay. Another one and small business, the deferrals that you have seen so far probably going to rise, what are you thinking in terms of as you have done your reserving, what percentage of those ultimately may not make it at this point?

Brian Moynihan

Vivek, if you are listen…

Vivek Juneja

If that -- what is…

Brian Moynihan

If you were listening earlier…

Vivek Juneja

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

Brian Moynihan

That's right. A substantial part of those small business are in clinical practice solutions which are doctors and dentists and things like that. And you expect once they open their practice they will pay because they don't want to lose their equipment practice.

So it's a little different than the general small business that have and that's why that number is elevated just because of who the dominance that portfolio as a percentage of the total. So if we expect a lot of it will come back and we will play that -- see that play out as parts of the economy reopen.

Thank you, Vivek. And we are going to move to close here because we have got an endpoint at 10. And so let me just close quickly. Thank you all of you for your time this morning. Number one, please keep your families and yourselves safe as we go through the rest of this health crisis. Simply put, we earned $4 billion. We added substantially to our reserves based on our view at the end of the quarter. Our capital ratio is 130 basis points over our minimums. The liquidity is increased during the quarter. But importantly, we drove responsible growth, supported our teammates, our clients and our communities and delivered, I think, for the shareholders too, given the circumstances that were going on.

As we look forward, we will continue to keep you apprised of what we are seeing on our client base due to our purview. And as we see that, we will continue to try to keep people informed to help people understand how the company and the economy might operate given the stay-at-home orders. Thank you for your time and we will talk to you next quarter.