Participants

Presenters

Brian Moynihan – Bank of America, Chair and CEO
Alastair Borthwick – Bank of America, CFO
Lee McEntire – Bank of America, Investor Relations & Local Markets Organization Executive

Participants

Glenn Schorr – Evercore ISI
Jim Mitchell – Seaport Global
Mike Mayo – Wells Fargo
Betsy Graseck – Morgan Stanley
Matt O’Connor – Deutsche Bank
Erika Najarian – UBS
Gerard Cassidy – RBC Capital Markets
Ken Usdin – Jefferies

Presentation

Operator

Good day, everyone, and welcome to today's Bank of America earnings announcement. (Operator Instructions). It is now my pleasure to turn today's program over to Lee McEntire.

Lee McEntire

Good morning, and welcome. Happy Monday, and thank you for joining the call to review Bank of America’s second quarter results. I hope everyone’s had a chance to review our earnings release documents. As always, they’re available, including the earnings presentation that we’ll be referring to during this call, on the Investor Relations section of the bankofamerica.com website.

I’m going to first turn the call over to our CEO, Brian Moynihan, for some opening comments. And then I’ll ask Alastair Borthwick, our CFO, to cover the details of the quarter.

Before I turn the call over to Brian, just let me remind you, we may make some forward-looking statements, and please refer to our non-GAAP financial measures during the call. Forward-looking statements are based on management’s current expectations and assumptions that are subject to risks and uncertainties.

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

So with that, Brian, I’ll turn it over to you. Thanks.

Brian Moynihan

Thank you, Lee. And thank you, all of you, for joining us today. This quarter, thanks to a great team here at Bank of America, we reported $6.2 billion in net income or $0.73 per diluted share. We delivered on our fourth straight quarter of operating leverage. We grew revenue 6%, while expense rose 1.5% for 4.5% of operating leverage compared to quarter 2 of 2021. We also saw a 21% year-over-year improvement in NII. These earnings generated a return on tangible common equity of 14% and return on assets of 79 basis points.
As a reminder, when comparing our earnings in the second quarter of ’21 to the earnings this quarter, in the second quarter ’21, we recorded 2 items of note. In that quarter, net income benefited by $2 billion from a tax adjustment for a U.K. tax law change, and that was worth $0.23 to EPS.

We also released $2.2 billion in credit reserves during that quarter that benefited earnings by $1.7 billion or $0.19 in EPS. This would bring that quarter’s reported EPS to $1.03, down in the low 60s, and that compares to this quarter’s $0.73 per share. This gain is illustrated by the increase in pretax, pre-provision income, which includes these 2 -- which would exclude those 2 impacts, and that was $7.4 billion this quarter, improving 15% in PPNR improvement from the second quarter of 2021.

So let’s go to Slide 3, and let’s talk about some of the drivers of the results. The organic growth engine at Bank of America that existed pre-pandemic is back in full place here. And you can see that in the second quarter of [2022] (corrected). This reflects in net new checking account openings, net new consumer investment accounts, net new household growth in Wealth Management, very strong loan growth across all products and good performance by Global Markets and investment banking teams, even given a quarter with volatile capital markets.

Our expense management continues strong, and it benefits by the best digital banking platform in the world. Once again, we drove more users, saw more log-ins and usage, and that generated 20% more sales from the platform compared to last year. Our asset quality remains very strong, with net charge-offs in the second quarter of [2022] (corrected) still 50% below pre-pandemic levels in late 2019 when credit was pretty good.

Breaking down the performance by segment, I’d make a few comments. Our Consumer Banking segment continued to see good momentum as we grew loans at the fastest quarterly pace in nearly 3 years. We added more than 240,000 net new checking accounts in the quarter, in the second quarter alone. We opened new financial centers and renovated others and deepened digital engagement with both consumer and small business clients. And after considering the highly elevated consumer income tax outflows, payments of taxes, which is good for the government, we saw good deposit activity.

In our Wealth Management segment, in a period of declining market values, where stocks and bonds had the worst first half in 5 decades, revenues still grew in that business 7% year-over-year, and we expanded our pretax margin. Our banking business with the clients overcame those market values and weakness. We added more than 5,100 net new households across Merrill and Private Bank. Across our entire Wealth platform, Merrill, the Private Bank; and our consumer investments team, Merrill Edge, client balances, including deposit investments and loans, totals $3.8 trillion at 6/30/2022, aided by nearly $150 billion of client inflows over the last year into those businesses.

Our Global Banking team grew loans 5% linked quarter. That’s 5% in a single quarter, 20% annualized. We also saw Global Treasury Services revenue as customers utilized our service to manage quality stand up well in the quarter. Overall, revenue in Global Banking was impacted by the weaker investment banking fees that were available in this volatile market. Lower investment banking fees, and we also had marked, as previously discussed, our leveraged finance positions. Our NII improvement nearly offset all those impacts, leaving revenue only modestly down year-over-year. We maintained our #3 investment banking market share ranking.

In Markets, we had a solid quarter of sales and trading results, growing 11% from last year ex DVA. Our macro FICC business, where we have been investing over the last couple of years, performed well, as did the equity derivatives, while other FICC businesses felt the effects of spread widening and customers taking a more risk off position.

From a broader enterprise, our P&L perspective, quarter 2 expense was down modestly from quarter 1 and consistent with what we told you on our last call. It is notable that we achieved that even as quarter 2 included approximately $425 million in regulatory matters that Alastair will discuss in a few minutes.
As I said earlier, one of the reasons we continue to have good expense results and continued progress on digital engagement across the businesses. I commend you to look at Slides 22, 27, 29 in our appendix where we set forth our digital operating results by lines of business.

Overall, digital sales continue to grow, up 20%. Digital choice for payments continue to grow. Zelle transactions continue to outdistance checks written, crossing off the last year, and the gap continues to widen. Erica is approaching 1 billion interactions since we started with it. Clients have filled out 8 million life plans, enhancing our asset growth and account retention. That's one of the fastest-growing product implementations we've had.

It is also worth noting the strong credit quality. Most all of asset quality metrics improved again this quarter. You will note, however, the charge-offs rose in quarter 2, but this increase was largely due to some loan sale accounting and some other credit decisions due to the past pandemic issues.

As I've done for several quarters, I want to make a few points about customer activity. Let's go to Slide 4. By our data, across the 35 million core checking households plus we have and 60 million consumers in America, U.S. consumers remain quite resilient. I would offer a few thoughts as you look at Slide 4. In addition, I'll give you where we see -- what we see so far in July in a moment.

First, customers -- consumers continue to spend at a healthy pace even as quite some time has passed since the receipt of any stimulus. Second, the overall average deposit balances for most client cohorts are higher than they were both last quarter and even rose in June versus May. They remain at multiples above the pre-pandemic levels. And importantly, we're seeing no deterioration in our customers' asset quality, and they have the capability to borrow.

Our customer data shows Bank of America customers spent the highest quarterly period on record in quarter 2 at $1.1 trillion in total spending. That's up 12% year-over-year. This quarter also was the highest debit-spending period on record for us. But as you think about more recently, just to give you the more recent statistics, in June 2022, spending was up 11.3% over June 2021. Transactions also rose more than 6%. For the first 2 weeks of July, the spending is up 10% plus and transactions, again, rising 6% plus. This is strong consumer resilience.

We continue to see shifts in what people are spending on as the quarter took place, more of on experiences, travel and things like that and a bit more on fuel due to increased prices and less on retail stores. In quarter 2, we saw the higher gas spend as well as the continued recovery in the travel categories and a continued recovery in restaurant spending.

In the lower right-hand chart, you'll note the continued shift in how people spend money. The check and cash volumes continue to come down and are replaced by digital alternatives. This continues to help on our cost structure.

Regarding our customer liquidity, average deposit balance of our customers remained at high levels relative to the year ago and pre-pandemic periods. They are largely unchanged for the mass market customers, they rose about 1% over June from May. The only area where we had any change to the negative was a small dip, 1%, for the most affluent segments of those customers. That reflects the tax payments made in April and the build back coming more slowly for those customers.

In addition to this data, I would refer you to slides 24 and 25, which completes the resiliency picture. This shows you strong asset quality across our consumers. Also, look at elevated payment rates on credit cards. That means people paying off their debt at a good clip.

There's no real differentiation across the trends in customer cohorts, even for the very small portion of our card book that is in lower credit quality. So while all this is good news, it clearly makes the Fed's job tougher when you take these statistics and this activity and combine it with a low unemployment rate.

I want to switch gears now and talk a little bit more about credit. We provided more information on credit this quarter, as would be obvious, given the debate about a future recession. Whether this debate can
discuss this potential outcome, we just continue to drive responsible growth at our company, and so we’re prepared. So as you look at Slide 5, you can see how much the loan book has changed under more than a decade of responsible growth. As you can see on the top left chart, our loan book is quite well balanced now between consumer and commercial loans. Focusing on the top right chart, note that the consumer portfolio is even more collateralized with a greater mix of mortgage and less card. In addition, much less second mortgage, and obviously, second mortgage as they’re underwritten clearly differently than they were in the mid-2000 to 2010 decade. And all consumer portfolios have much higher FICOs. In the bottom left chart, you’ll note that more diversified commercial mix as well. And if you look at the lower right chart, you can see our results on the stress test and how they fared time and time again.

When you go to Slide 6, we gave you a little detail on what we look like in the height of the last crisis compared to where we are now. You can see the loan portfolio in 2009 when risk were at the peak for Bank of America, because this was after we closed the Merrill and the Countrywide transactions and the company was all put together.

We give you those metrics, what they look like pre pandemic, at the end of 2019, and what they look like today. On the right are the changes we’ve made under that decade-plus of responsible growth. Given all these changes, 92% of our commercial loan book today is either investment-grade or secured. And while there is not much difference in something like commercial real estate book, you have to look underlying to see the changes. For instance, the land development loans increased -- have decreased from $5 billion in ’09 to $200 million currently, and secured residential exposure decreased from $11 billion to $150 million now.

We’ve also included a few slides in our appendix, pages 23 to 25, to highlight the consumer resilience and delinquency points as well as our consumer lending statistics, highlighting this continued strong quality of all our originations. Take note of the FICOs on the newly originated activity there.

So in the end, despite the worries of a slowing economy and other global issues, client activity remained good this quarter, NII has improved quickly, and our customers' resilience and health remains strong. We recognized some expense from regulatory matters and still managed to keep expenses flat to the first quarter and in line with what we’ve told you. We continue to drive strong operating leverage in a weaker capital markets environment. These earnings are delivering strong returns and delivering capital back to shareholders.

And thinking about capital, remember, first, we use our capital to support customers and related loans, and we continue to invest in the franchise. Second, we are delivering capital back to you as shareholders. We announced our intent to increase our dividend in quarter 3, which we have our dividend 22% higher than it was just 12 months ago. In addition, we retired shares this quarter.

Third, we’re going to be building capital, given the new higher minimums received during the stress test. It will make our balance sheet even stronger. Along the way, we believe our expected earnings generation over the next 18 months will provide an ample amount of capital, which allows us to support customer growth, pay dividends and use the rest to allocate between buying back shares and growing into our new capital requirement.

And with that, I’ll turn it over to Alastair.

Alastair Borthwick

Thank you, Brian. And since Brian hit the highlights of the income statement, I just want to reiterate, we saw good returns in the quarter with a return on tangible common equity of 14% and return on assets of 79 basis points.

So, I’m going to begin my comments on Slide 7 and the balance sheet. And as you can see, during the quarter, the balance sheet declined $127 billion to a little more than $3.1 trillion, and that reflected an $88 billion decline in deposits and a decrease in our Global Markets balance sheet. We utilized a combination of cash and some rotation from securities this quarter to fund our loans growth given the decline in deposits.
Our average liquidity portfolio declined in the quarter, reflecting a drop in deposits and lower securities valuation, and it remains very elevated at nearly $1 trillion. For reference, that was $576 billion pre-pandemic, just to give you an idea of how much liquidity has increased over the period.

Shareholders' equity increased to $2.5 billion from Q1, with a few different components we should note. Shareholders’ equity benefited from net income after preferred dividends of $5.9 billion and the issuance of $2 billion in preferred stock. So that's $7.9 billion flowing into equity. We paid out $2.2 billion in common dividends and net share repurchases. AOCI declined as a result of the increase in long rates. And we saw that impact in 2 ways. First, we had a reduction from a change in the value of our available-for-sale debt securities of $1.8 billion, and that impacts CET1. Second, rates also drove a $2 billion decline in AOCI from derivatives that does not impact CET1. And that reflects cash flow hedges mostly put in place last year against some of our variable rate loans, and that provided some NII growth and also protected CET1 at the same time. With that equity growth, we saw book value increase in the quarter.

With regard to regulatory capital, our supplemental leverage ratio increased 10 basis points to 5.5% versus our minimum requirement of 5%, leaving plenty of capacity for balance sheet growth. And our TLAC ratio remains comfortably above our requirements.

Okay. Let's turn to Slide 8, and we'll talk about CET1, where our capital levels remain very strong. We have $172 billion of CET1 and a 10.5% CET1 ratio, which increased from the first quarter and remains well above our second quarter 9.5% minimum requirement. That 10.5% CET1 ratio is also expected to be just above our new 10.4% requirement from CCAR when it’s confirmed by regulators at the end of August. And that new level will be effective for us on October 1.

I’ll walk through the drivers of the CET1 ratio this quarter. First, $5.9 billion of earnings, net of preferred dividends, which generated 36 basis points of capital. And looking at the chart, you can see how we use that. We grew loans by $38 billion. And with a decline in our Global Markets balance sheet and some loan sales and other balance sheet initiatives, we were able to hold RWA flat this quarter. Second, we returned $2.7 billion of capital to shareholders, representing 16 basis points.

Third, this quarter, the movement in treasury and mortgage-backed securities rates caused a decline in the fair value of our available-for-sale debt securities, and that lowered our CET1 ratio by 11 basis points. And we remained well positioned for that rate movement as our hedge of a large portion of this portfolio continued to protect it from AOCI movements. So we ended the quarter above our expected minimum of 10.4%, required October 1, and we expect to build some additional buffer on top of that in Q3.

Moving beyond the third quarter, we should just remind you, our balance sheet growth last year means our G-SIB surcharge and CET1 requirement will move higher by 50 basis points beginning in 2024. And I just want to make sure we repeat that for clarity, it’s 2024, because I know others have different timelines for their requirements.

Given our additional higher G-SIB minimum over the next 6 quarters, we’ll work to move above that expected CET1 minimum of 10.9% by January 1 of 2024. And we’ll look to exceed that with another 50 basis points of internal management buffer on top of that requirement.

Okay. So now let’s talk about the biggest use of CET1 this quarter, and I’m referring to loans on Slide 9. As you review the average loan data, we just want to remind you that our discipline around responsible growth has remained tight.

Average loans have climbed back over $1 trillion. They’re up 12% compared to Q2 ‘21, led by commercial growth of 15% and complemented by consumer growth of 8%. Each line of business and product segment reflected good growth. And geographic and industry participation within that growth has also broadened over the past several quarters.

As we turn to linked quarter comparisons, I’ll use ending balances. And the $25 billion linked quarter commercial improvement came mostly from new loans and also included some improved utilization from
existing clients. From an asset quality standpoint, 98% of the commercial loan growth was either investment-grade or secured. Consumer loans grew $10 billion linked quarter, led by both credit card and mortgage and also increases in auto and securities-based lending. And for the first time in years, home equity balances increased modestly. Card loans grew $5 billion from Q1, reflecting healthy spend levels even as payments rates remain elevated. Within our growth, our average FICO was 771, as you can see on Slide 23 in the appendix.

And as we’ve done in the past, in the appendix on Slide 32, we’ve provided that daily ending loan chart that shows trends through the quarter. And you can see both commercial and consumer loans balances are now back to pre-pandemic periods, with really only credit cards still remaining 15% to 20% below that period.

Moving to deposits on Slide 10. Across our past 12 months, we’ve seen solid growth across the client base as we’ve deepened relationships and added new accounts. Some of the year-over-year growth was impacted by a higher level of tax payments across Consumer and GWIM clients and businesses in Q2 of this year. Those elevated tax payments drove the decline in deposits from Q1.

Year-over-year average deposits are up $123 billion or 7%, and retail deposits with our Consumer and Wealth Management clients grew $129 billion. And we believe our retail deposits of $1.4 trillion continue to lead all competitors.

Within the consumer balances, I’d just like to point out that small business deposits of $177 billion grew 14% year-over-year, and that reflects continued reopening of small businesses across America and the consumer spending supporting their growth. The average balance of these accounts is more than $40,000.

On Wealth Management, we saw clients paying higher tax bills this year, and we saw some move deposits to market-based funds, much of which remained in our own complex. With our commercial clients, deposits were up modestly year-over-year, even as customer tax payments are higher this year. And some have recently begun to seek higher yields and use cash strategically for acquisitions and other operational activities.

Turning to Slide [11] (corrected) and net interest income. On a GAAP non-FTE basis, NII in Q2 was $12.4 billion, and the FTE net interest income number was $12.5 billion. Focusing on FTE, NII increased $2.2 billion from the second quarter of last year or 21%, and that’s driven by benefits from higher interest rates, including lower premium amortization and loans growth.

NII compared to the first quarter rose $870 million, and that came in a good bit higher than the $650 million plus that we signaled on our last earnings call. The benefits of higher rates, lower premium amortization, loans growth and the additional day of interest more than offset the impact of lower securities balances.

Our net interest yield was 1.86%, improving 17 basis points from Q1 and benefited from the rise in rates, loans growth funded with cash and a 4 basis point improvement from lower premium amortization on securities. Looking forward, we want to provide the following NII guidance, and we just have to provide a few caveats.

First, we based the guidance on interest rates and the forward curve materializing, and I’m referring to the curve on July 15. Second, we assume modest growth in loans and deposits. And third, we assume deposit betas reflecting disciplined pricing to achieve our growth.

If those assumptions hold true, we can see NII in Q3 increase by at least $900 million, possibly $1 billion, versus Q2. And then we expect it to grow again at a faster pace on a sequential basis in the fourth quarter. And the way we think about those NII increases, given the expense discipline that we have, is we expect the majority of that to fall to the bottom line for shareholders.

Focusing on asset sensitivity for a moment. As you know, we typically disclose our asset sensitivity based on a 100 basis point instantaneous parallel shock in rates above the forward curve. And on that forward basis, asset sensitivity at June 30 was $5 billion of expected NII over the next 12 months. More than 90% of
that is driven by short rates. That’s down from $5.4 billion at March 31, largely because the benefit of higher rates is now already factored into our baseline of actual NII after we grew the $870 million.

Now, given that the yield curve is projecting 125 basis points of rate hikes over the next couple of meetings, we thought it was also appropriate to provide the disclosure again regarding asset sensitivity on a spot basis. And on a spot basis, our sensitivity to a 100 basis point instantaneous rate hike would be $5.8 billion or $800 million higher than the forward basis at June 30.

Okay. Let’s turn to expense, and we’ll use Slide 12. Our expenses were $15.3 billion, up a couple of hundred million or 1.5% from the year-ago period and down modestly compared to the first quarter. I want to focus on the more recent comparison versus the first quarter. We had higher expense for regulatory matters related to certain issues, and those offset the seasonal decline from the first quarter elevated payroll taxes and revenue-related incentive costs.

Let me pause for a moment on the $425 million expense we’ve recognized for regulatory matters in the second quarter. A little more than half of the amount relates to fines to resolve regulatory investigations relating to our administration of prepaid unemployment benefit card programs in certain states and that we announced last week. The balance of the expense relates to an industry-wide issue, and it concerns the use of unapproved personal devices. And that has not yet been fully resolved.

As we look forward more broadly on expenses, we continue to invest heavily in technology, in people and in marketing across the businesses, and we continue to add new financial centers and renovated old ones in expansion and new growth markets. To help pay for those investments, we continued to look for opportunities to simplify our processes and reduce work, driving our costs lower to self-fund our new investments.

Our headcount this quarter includes roughly 2,300 summer interns, and we hope they will consider us to be a great place to work and join us full time next year. This is the most diverse group of talent we’ve seen yet. Absent the addition of those interns, our headcount was down a little more than 700 associates. And we, like many other companies, are doing many things to tackle challenging labor market conditions, and we’re meeting that challenge pretty well so far.

Turning to asset quality on Slide 13. I want to repeat what we’ve said now for many, many quarters. The asset quality of our customers remains very healthy, and that’s true in both consumer and commercial. So net charge-offs of $571 million increased $179 million from Q1, driven by loan sales and some other credit decisions that we made as opposed to core credit deterioration. Absent those losses, net charge-offs were down modestly compared to the year-ago period and up slightly from Q1.

Provision expense was $523 million in Q2, driven by the charge-offs as we had a small reserve release of $48 million. Now that release includes builds for loan growth. It includes builds for a dampened macroeconomic outlook in the future. And the builds were offset by continued asset quality improvement and the effect of reduced pandemic uncertainty.

On Slide 14, we’re highlighting the credit quality metrics for both our consumer and commercial portfolios, and a couple of things are worth repeating again this quarter. Consumer delinquencies remain well below pre-pandemic levels, and that’s true in both consumer and commercial. So net charge-offs of $571 million increased $179 million from Q1, driven by loan sales and some other credit decisions that we made as opposed to core credit deterioration. Absent those losses, net charge-offs were down modestly compared to the year-ago period and up slightly from Q1.

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Turning to the business segments. Let’s start with Consumer Banking on Slide 15. And the Consumer Bank earned $2.9 billion on good organic growth, delivering its fifth consecutive quarter of operating leverage.

Strong top line growth of 12%, driven by net interest income improvement, was more than offset by increase in provision expense resulting from the prior year’s much larger reserve release. And while reported earnings were down, pretax, pre-provision earnings for Consumer grew 26% year-over-year, which highlights the earnings improvement without the impact of that reserve action.
Card revenue was solid and increased modestly year-over-year as spending benefits were mostly offset by higher rewards costs. Service charges were down nearly $200 million year-over-year as our previously announced insufficient funds and overdraft policy changes were in full effect by June. The third quarter will reflect the full run rate going forward, and we believe these changes are helping to improve overall customer satisfaction and further lower customer attrition.

Expense increased 2%, as much of our increased salary and wage moves in the quarter impact Consumer Banking the most. And as revenue grew, we improved the efficiency ratio to 54%. Reduced costs associated with continued shifts in client behavior to digital engagement is also allowing us to invest in higher marketing, more technology and higher wages for our people. We also continued our investment in financial centers, opening another 19 in the quarter while we renovated 157 more.

Notable customer activity highlights included 240,000 net new checking accounts opened in the second quarter and marking the 14th consecutive quarter of net new consumer checking account growth. This led to a record 35 million consumer checking accounts, with 92% of them considered to be their primary account. Additionally, small business accounts are enjoying the features of their business Advantage Rewards and showed growth of 5% from last year. We also grew investment account 6% year-over-year. And not surprisingly, the market impacted customer balances negatively on the investment side. At the same time, over the past 12 months, we’ve seen $21 billion of positive client inflows.

Lastly, once again, we opened over 1 million credit cards in the quarter, and we grew average active card accounts and saw combined credit and debit card spend up 10%. And as you saw earlier, we had solid lending activity with continued low loss rates.

Our 43 million active digital users signed on this quarter a record 2.8 billion times, with our Erica users up 30% year-over-year. And we captured over 123 million total client interactions in the second quarter alone. You can see all the other digital metrics and trends on Slide [22] (corrected).

Turning to Wealth Management on Slide 16. You can see we produced strong results, earning $1.2 billion and producing 16% year-over-year growth. Revenue growth was 7% as NII generated through our banking assistance for these clients more than offset modest declines in assets under management fees from market impacts during a challenging quarter.

Clients and advisors recognize this value of a holistic financial relationship across investments and banking. And doing that at Bank of America differentiates both Merrill and the Private Bank, and it helps to diversify and differentiate our earnings in this business compared to other brokers.

Our talented group of financial advisors, coupled with powerful digital capabilities, allowed modern Merrill to gain nearly 4,500 net new households. We also gained 650 more in the Private Bank this quarter. And that’s a very solid showing by both, given the complexities of serving our clients in challenging market conditions over the past 90 days.

We added $25 billion of loans over the last year, growing 13%, and marking 49 consecutive quarters of loans growth in the business. And that is consistent and sustained performance. Assets under management flows and deposit growth were a little more muted this quarter as clients paid taxes, impacting the quarter-to-quarter comparison. Year-over-year, our deposits were up $17 billion. And overall investment flows were $78 billion over the past 4 quarters, with total flows of $110 billion. Expenses increased 2%, driven by higher employee-related costs, and resulted in operating leverage of 6%.

Turning to Slide 17 and Global Banking. You’ll see the business earned $1.5 billion in the second quarter, down $918 million year-over-year and driven by the absence of a large prior-period reserve release and lower investment banking revenue. As you know, it was a tough comparative quarter for the business as the industry investment banking fee pool declined 50%.

And while we acknowledge that’s a big drop, we just want to remind you that before the pandemic, our quarterly average for investment banking fees was in the range of $1.3 billion to $1.5 billion compared to
the $1.1 billion we put up in the second quarter. So we view this level as temporary, and we believe it can rise back to more normal levels in the next few quarters when economic uncertainty becomes more muted. While the company’s overall investment banking fees declined, we held on to our #3 ranking in overall fees. And we maintained our market share through the first half of the year compared to 2021.

At the same time, we saw very strong loans growth. Ending loans grew $18 billion linked quarter and are up $62 billion or 19% year-over-year. That loans growth and higher rates drove net interest income growth, which was able to offset the drop in investment banking fees, leaving revenues in the business fairly flat year-over-year.

Also impacting revenue was half of the firm’s $300 million leveraged finance valuation marks. The market turmoil and abrupt slowdown in the second quarter sparked a downturn in the leveraged finance markets, causing a number of the deals across various market participants to get marked down. Some of those deals have been funded, and we’re working through any remaining exposure to get them through the market.

The provision expense increase reflects a reserve build of $143 million in Q2 compared to an $834 million release in the year-ago period. And finally, we saw expenses increase by 8%, driven by higher personnel costs and a share of the noted expenses for regulatory matters.

Switching to Global Markets on Slide 18. And as we usually do, we’ll talk about the segment results, excluding DVA. Second quarter net income of $900 million reflects a solid quarter of sales and trading revenue. It was another quarter that favored macro trading, while the credit trading business has faced a more challenging market environment with widening spreads in the face of increased inflation fears and recession beliefs.

Focusing on year-over-year, sales and trading contributed $4 billion to revenue, improving 11%. FICC was up 19%, while equities was up 2%. That FICC improvement was primarily driven by growth in our macro products, while credit-traded products were down. We’ve been investing heavily over the past year in several of the macro businesses identified as opportunities for us, and we were rewarded for that this quarter.

Our strength in equities was driven by good performance in derivatives and offset by a weaker trading performance in cash. Lastly, also impacting revenue was the other half of the firm’s $300 million in leveraged finance markdowns.

Year-over-year expense declined, reflecting the absence of costs associated with the realignment of a liquidating business activity, partially offset by that share of the regulatory costs. Absent these impacts, expense was relatively unchanged. And the business generated an 8% return in Q2, impacted by both the elevated leveraged finance marks and regulatory matter expense.

Finally, on Slide 19, we show All Other which reported a loss of $318 million, declining from the year-ago period, driven by the prior period $2 billion tax benefit from that U.K. tax law change. Revenue is roughly a couple of hundred million higher than Q2 ’21 due to the absence of some prior-period structured note losses. Expense increased as a result of the regulatory matters and the realignment of liquidating activity last year to All Other.

And as a reminder, for the financial statement presentation in this release, the business segments all are taxed on the standard fully taxable equivalent basis. And in All Other, we incorporate the impact of our ESG tax credits and any other unusual items.

For the quarter, our effective tax rate was 9%. That benefited from 2 things: first, ESG investment tax credits; and second, roughly $300 million of discrete tax benefits that applied to this quarter. Excluding those tax credits and discrete items, our tax rate would have been 26%.

And with that, we’ll jump into Q&A, please. Thank you.
Q&A

Operator
(Operator Instructions) We’ll take our first question today from Glenn Schorr with Evercore.

Glenn Schorr
So I’m looking at all your credit metrics improving on a modest reserve release in the quarter. And everything you said about responsible growth, it’s all great. But my question is, how do you balance making sure that you’re not looking too much in the back, the rearview mirror, and see where we came from versus what we’re going towards and people’s obvious concerns about the go forward and the economy?

And maybe within that, let’s just talk about what leading indicators you’d look at that drive, say, if you thought about putting up a CECL reserve on the go forward. You don’t sound that concerned, but like a lot of obviously people looking at a recession here.

Brian Moynihan
Glenn, thanks for the question. Remember, the reserve methodology is a forward-looking methodology. And our core scenario is weighted part to the baseline, part to the adverse. And it ends up, just to give you a sense, with unemployment rate this year, in the actual reserve setting scenario, not an adverse case, but the actual, when we set the reserves, was with 5% unemployment within the next 5 months, so 3.6% to 5%.

So it’s a -- there’s a conservative aspect of how the reserves are set. And so basically, the high quality of the loan book is not only what we talk about and show you all the stats and you can assess and look at, but also, you can look at the stress test results on a relative 10% unemployment overnight, yada, yada, yada, and you see all the different statistics there.

And you see that page on page 5 or 6 or whatever it is, in the slide, you can see us lower than everybody else’s. That’s because of many, many years of responsible growth and why we showed you those pages comparing the different points in time.

And so I think -- you said something, our reserve is not set looking backwards, it’s set looking forward based on the books, based on the CECL methodology. We even do a comparison to where CECL Day 1, as we call it, what happened then, and it’s consistent. It’s consistent. It’s just that the credit quality book continues to improve, honestly.

Glenn Schorr
I love the Seinfeld reference, thank you. Maybe just one follow-up on RWA. You didn’t seem to need to do much. I appreciate the comments you made on the prepared remarks. So the question I have is, there seems to be a much higher intent across the Street to mitigate RWA, for obvious reasons, everybody’s capital requirements are going up.

So the question I have for you is, have you balance doing more of belt tightening versus using your, okay, relative capital position to continue to grow while others are tightening the belt?

Alastair Borthwick
Thanks, Glenn. So obviously, we’re in a little different place in that we have the capital already. And we feel like, over the course of the past several years, we’ve been quite disciplined around our RWAs. It just remains important for us to stay at it.

So you saw us do a couple of things this quarter. We sold a portfolio of loans that were non-core. We’ve changed a little bit in terms of -- as the -- some of the 20% risk-weighted assets in our securities portfolio
are rolling off, we can replace them with 0% risk-weighted like treasuries with essentially the same yield at this point.

So you saw what we did this quarter, we grew loans, we built capital, we created some RWA flex in the background, and we think we can do the same going forward.

Operator
We'll go next to Jim Mitchell with Seaport Global.

Jim Mitchell
Maybe just if I look at the -- you're still projecting relatively healthy asset sensitivity even with the forward curve at a high level. So it doesn't -- I think when I look at the comparison versus the spot, it implies not a real big degradation in betas in the forward versus the spot. So can you discuss how you think about deposit betas as Fed Funds gets above 300 basis points?

Alastair Borthwick
Yes. So we talked about -- the last time we were together, we talked about the fact we're looking backwards to 2015 to 2019, and you saw what our deposit beta was at the time. It was in that sort of low 20s percent, and we said we hope to do better. We have done better than that so far.

Now just as a reminder, generally speaking, we think about how we price so that we grow deposits. Now that growth last year was 7%. We're expecting growth this year that we said in the low single digits. But we're going to have to see how the rate structure develops. We've been pretty clear on that as well. And we're going to be competing in the market with others, so we just have to watch that develop over time.

The core operating balances, Consumer, we continue to add there over time. And if we're seeing any kind of runoff, Jim, it's really only in the very high end of Wealth Management, and it's in the non-operating balances in commercial. So we're keeping a tight eye on it, but our NII reflects, we think, are reasonable assumptions around deposit pricing.

Jim Mitchell
But -- so just to clarify, you -- go ahead.

Brian Moynihan
And Jim, just look at page 10, and you can see -- if you look at the upper right-hand corner and see the size of the noninterest-bearing and interest checking, which is different than money that moves, and you think about that even in the Wealth Management deposits on the lower left and then in the operating deposits and the commercial book, we just have a lot of these deposits that are money in movement in the household.

And we've gone through this discussion a lot a few years ago. And so they're very intensive to rates, only because the money is always moving. And it's just the average collective balances in these households, as opposed to money that's for investment purposes, which will move. And you saw it move a little bit in the Wealth Management business this quarter. And some of the corporates will continue to position them for more investment-oriented cash, for lack of a better term. And so we'd expect that to occur.

But I think history is some guide here. But also, at the end of the day, we've grown 1 million new checking accounts year-over-year. So that brings them more and more stable core checking balances, which don't move around much. And so think about all that, and we've been through it before. And as rates go up, the stuff that moves due to rate is relatively modest. And we have a huge bucket of noninterest-bearing that sits with us.
Jim Mitchell
Right. So I mean, clearly, you guys have a high-quality deposit base. So I think the implication is, even over 300 basis points, you think, betas can stay sort of in that well under 50% range, if not putting words in your mouth.

Brian Moynihan
We tell our team to price consistently so they can grow faster, slightly faster than the market. They have been growing a lot faster than the market because of the stimulus and stuff like that. But that’s -- even the market, they will grow much faster. But that’s what we tell them. And so we don’t do things to hurt the franchise.

Jim Mitchell
Right. And then on the capital side, just trying to get a sense of how quickly you want to get to a buffer and how to think about a buffer on your -- whether it’s 2024 minimum or ‘23, can you still do some buybacks between now and then?

Alastair Borthwick
So we already have a modest buffer relative to what we expect at the end of October. And then we’ve got, obviously, future capital generation, and we’ve got some balance sheet optimization we can do. So we feel like we’ve got a lot of flexibility. So we feel like we’ve got some ability to do some share repurchase.

And then in terms of where we end up, I’d say, go fast forward to January of 2024, that’s when we get the next 50 basis point step-up. So we’ve got to generate that 50 basis points over the next 6 quarters. So we think we’ll have some ability to do a little bit of everything.

Operator
We’ll go now to Mike Mayo with Wells Fargo.

Mike Mayo
Well, thanks for the NII guide. I guess my -- well, first, we’re going to be here -- it’s probably January 18, 2023, 2 quarters from now, we’ll be on the earnings call, and we’ll see if your guidance is correct or not. And I know you don’t want to give guidance that you don’t meet.

But you just guided for almost $2 billion in higher NII in the next 2 quarters, implying an $8 billion uptick in the annualized run rate for NII. I just want to make sure I heard that correctly. And then on your definition of majority of that should fall in the bottom line, how do you define majority? Is that 50.1%? Or is it more than that?

Alastair Borthwick
So I’ll answer the question. Yes, I think you’re right. We said $900 million to $1 billion this quarter coming up and then at least that the following quarter. So yes, you’re right to think about that as a couple of billion. We’ll get a little more precise with fourth quarter as we get to, obviously, a quarter from now. And with respect to falling to the bottom line, I’d say that’s going to be the vast majority, but I’ll leave that to Brian.

Brian Moynihan
Yes. I think, Mike, we’re bouncing around $15 billion to $15.5 billion of quarterly operating costs. And you can look backwards and see that, that’s been fairly constant. And so you’d expect that to continue. And so the vast, vast majority falls to the bottom line. It’s out of the business model.

And you know, Mike, as well as anybody that, that revenue comes through the businesses that don’t need to add people or activity to get the value of it, i.e., the Consumer business and the Wealth Management business and Commercial Banking business. And you saw that year-over-year. I mean, as much as it’s a strong projection going forward, we captured like $2 billion last year’s second quarter, this year’s second quarter. And I think a lot of it fell to the bottom line on an apples-to-apples basis.
Mike Mayo

I mean—just as one follow-up. I mean, look, you've changed the firm since the global financial crisis when the company overpromised and underdelivered. And you've really gone out of your way to underpromise and overdeliver. And so when you say phrases like vast, vast majority, don't you want to hedge a little bit?

I mean, you have a lot of inflationary pressures. You're hearing talk about it's harder to hire people, harder to retain people. You have rents. You have all sorts of things happening here. And you're saying vast, vast majority of these additional revenues should fall to the bottom line. Any hedging at all you'd like to give here?

Brian Moynihan

I think, basically, what--I don't--I'd look at the quarter-to-quarter linkage expenses of $15.3 billion. And NII, we told you, it was up--what did we say, $650 million last quarter, turned up $850 million. So we exceed our estimates. That's why we stayed in the next couple of quarters because we've got a pretty good line of sight to those, Mike. So we feel pretty good about it.

The question that you asked—-all of you kept asking me last quarter is how you do this and keep investing in franchise. So we increased marketing, we added people in the places we want to add people and took people out of the places that we didn't need them so much. We continue to add new branches in the many cities and towns that we didn't have the branch structure in and repositioned in others.

We invested this quarter $800 million in technology co-development that got implemented. And so--but it's--this is--the confidence in the next quarter, frankly, is--it's already 3 weeks in, almost, and it's pretty well set up. So we feel pretty good.

Operator

Our next question comes from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Two questions. First is just on the investments that you're making in expanding your market share and capital markets activities. You've obviously made a decision to do that, and it's panned out. And I wanted to understand, at this stage, given the higher SCB that you have, will you still be leaning into investing and trying--and looking to take more share in the capital markets-related businesses?

Brian Moynihan

Yes, they're largely--as Jim DeMare would say, if the so-called growth plan that we talked about starting almost 2.5 years ago was implemented. In other words, we increased the size of the balance sheet. You can see a little bit on page 18 trading-related assets, but you'd have to go back a quarter, a year before that and see it have increased.

And so he's built the balance sheet up to the size he thinks is relevant. We built the product capabilities out. He continues to hire people in certain areas. And so we feel pretty good that we're pretty well built. It's just that we've done it, in market times, it got pretty interesting pretty fast.

And that being said, if you look at the trading revenue sort of first half of the year over the last 3 years has been relatively stable at $8 billion I'm sure, or something like that. So it's--so he's done a good job. They build it up. And so it doesn't need another big hump--chunk of balance sheet on top of that. It's really in pretty good shape now. And so its relative size of the platform is pretty well set.

Betsy Graseck

Okay. And then as we think about the capital ratio and the buffer, I think you had been running with a 100 bps buffer. And should we now expect that you're going to be running with 50 bps over?
Brian Moynihan
Yes. You should. That’s -- frankly, as it gets larger and larger, it gets to be a little bit -- you don’t need quite the buffer. And so that 50 basis points is to the -- if you think about, we get to 1/1/24, put 50 basis points on top of your required, and that’s what we’re trying to end up.

Operator
We’ll take our next question from Matt O’Connor with Deutsche Bank.

Matt O’Connor
Just a follow-up on the expenses. How are you thinking about costs in the back half of the year? And then I think you had full year guidance out there of around $60 billion. Obviously, you had some higher reg costs this quarter. So how are you thinking about that?

Alastair Borthwick
So we haven’t changed much, Matt, in terms of the way we think about running the company. Brian mentioned already, if you look at the last 6 quarters, we’re sort of running the place right around $15 billion either side. So we still feel like that’s the right place, that $60 billion flattish year-over-year. And then I just make sure you back out and add that reg matter. That’s all. The core remains the same.

Matt O’Connor
Okay. Just want to clarify that. That’s helpful. And then within credit, I guess, what types of mortgages did you sell that generated those losses? And then in All Other consumer, you had higher losses. And you did mention there were some other actions that you took, and I was just wondering what those were.

Alastair Borthwick
So on the resi mortgage side, that’s -- we sold an old portfolio of residential mortgages that we put in All Other some number of years ago. So this allowed us an opportunity just to exit that. We do that periodically anyway. But in this case, it was about $3.3 billion, I want to say. And we did have a loss, so you see that loss running through. But just so you’re aware, it was largely offset by a gain somewhere else.

So I wouldn’t think about it as much of an economic loss, but it did temporarily inflate the charge-offs, which is why we called it out. And then there are a couple of other things in there that related to write-downs around pandemic and stimulus and offsets with overdraft. But again, not what I would consider to be anywhere near the core consumer credit portfolio that we run.

Matt O’Connor
Okay. Some of that overdraft really shows up in the All Other consumer charge-offs, right?

Alastair Borthwick
In this case, yes.

Operator
We’ll go now to Erika Najarian with UBS.

Erika Najarian
I just wanted to keep on Mike’s theme of underpromising and overdelivering. So I’m going to try to ask the NII question another way. Alastair, one of your peers has started to frame NII with regards to an exit rate in the fourth quarter.

So -- and as I’m just thinking about the rate sensitivity and the forward curve in your comments about loans and deposits and deposit repricing, obviously, you’re alluding to $13.5 billion by third quarter. Is it possible by the fourth quarter, relative to everything that you’re seeing going on in the company right now, that the exit rate for NII could approach $15 billion?
**Alastair Borthwick**
Well, I'd say it's too early for us to tell you that right now. So one of the reasons that we're comfortable giving you next quarter's guide is we have a pretty good sense for where loans are, deposits are, what we think the growth will look like, et cetera. The further we go out, the less we control. So we try to give you that spot sensitivity, and we try to give you the forward sensitivity so you just get a general sense.

And then what we're comfortable saying right now is it's going to be in that $900 million to $1 billion for Q3. And Q4, it's just a little early to say with that kind of precision. So we just wanted to say we think it will accelerate again in Q3 -- sorry, in Q4. So that's as precise as we want to be right now, Erika. And it's less about underpromising and overdelivering, it's more about there's just a lot going on right now in the markets generally, and we'd prefer to be precise -- more precise about it. That's all.

**Erika Najarian**
Fair enough. Fair enough.

**Alastair Borthwick**
And I think all we're trying to convey, though, is we think the fourth quarter is going to be higher than the third quarter increase. And that's just something -- I think we'll give you -- we'll be able to give you more sense for that based on the rate structure and what we see in deposits and loans over the course of this quarter when we meet in 3 months' time.

**Brian Moynihan**
Erika, this isn't been gloried to give you specific NII guidance. We're just trying to make sure you guys see the leverage in the platform for a quarter or 2. And you guys can take that and extrapolate based on your own economic projections. But it's meant just to give you a sense of what we see in terms of loans, deposits and the pricing dynamics, et cetera, in the near term as we're more sure. Just like last quarter, we said it'd be $600-odd million, and it turned out to be $800 million. It's because we're careful what we think and what we give you.

**Erika Najarian**
Got it. And my second question is a follow-up on capital. I guess the first is, are you working to actively reduce the stress capital buffer? And maybe remind us where you think the pain points were for this year's test that you think you could address for next year?

And second, should we -- what is the pacing of buybacks like from here as you potentially -- as you -- or not potentially, as you build towards that January 1, 2024, new hire minimum?

**Brian Moynihan**
So on the second question, that's going to be dictated by our LOBs' use of the balance sheet. Our #1 goal is to keep them in the market winning every day and let the capital support that. That's what we do because what they're doing is providing good returns and stuff. So that requires us to -- well, it will be driven by, frankly, loan growth, more than anything else, in the near term because the markets business will bounce around but won't move much.

In terms of the stress test, look, the losses and stuff are pretty good. It's the operating expenses, and that's more continuing to point out the differences between how we run the company, et cetera. And we'll continue to -- as we look at the next year's test fashion, there's not a lot we can do on the loan book and stuff. It's the best in the business as dictated by their results. So it's going to be more on convincing on operating expenses and operational losses and things like that over time.

**Operator**
We can go now to Gerard Cassidy with RBC Capital Markets.
Gerard Cassidy
Can you guys share with me, if you look at your deposits at the end -- or the average deposits in your fourth quarter of ’19, I think they totaled about $1.4 trillion. Today, you have $2 trillion. And granted, consumer has grown very nicely, as you pointed out, Brian. I think it’s up $358 billion over that time period.

Can you share with us your color or your guys’ outlook on -- as quantitative tightening goes into full speed of $95 billion or so a month, how do you think that could affect your balance sheet as you look out over the next 12 to 18 months?

Alastair Borthwick
Well, we’re obviously curious with that trajectory as well. We haven’t seen any great shift yet in deposits. This second quarter was largely just a return to the normal second quarter seasonality we see. We didn’t see the last 2 years because there was pandemic cash inflow, fiscal monetary stimulus. And this quarter, it was probably a little more elevated.

You saw the headlines talking about tax receipts this year were bigger than normal. So we felt that. But we haven’t seen a great deal of impact from QT just yet. And it feels like our customers still want to hold a pretty healthy deposit balance.

So I think it’s natural to think about -- go back to Q4 ‘19, you think about the fact that the economy is bigger, you think about the fact that the monetary base is bigger. So there’s probably a floor, but we’ll be watching things from here in the same way that you are.

Brian Moynihan
Gerard, we can’t really go widdershins against the market here because, at the end of the day, that growth affects the monetary accommodation, the fiscal stimulus, et cetera. But remember, as you’re thinking about that $1.4 trillion, $1.5 trillion and today, $1.9 trillion to $2 trillion, you do have to remember that it’s 3 years and with inflation and the economy is bigger, it was at $21 trillion in the economy back then, I think it’s $25-ish trillion now.

So you got to kind of not only put your normal growth rate, which you mentioned, but you also got to add to that sort of the size of the economy and our market share because DDR deposits reflect the economy moving in and out of the system and across different -- money movement from consumers to businesses, businesses to consumers, there’s paychecks and stuff. So I think I’d be careful just saying, “Oh, let’s go back to normalized growth rate off that.”

You have 2% GDP and 2%, 3% because you’re missing that there’s a step up in size that we picked up and kept, and we grew market share. So it will be higher, we know that. But there will be some impact from monetary tightening, or else it wouldn’t occur. And it wouldn’t be the way the Fed actually controls the economy, to some degree.

Gerard Cassidy
Okay. Very good. Very helpful. And then as a follow-up, your loan-to-deposit ratio, I think, is around 50% today. Is there an optimal level you think you can get to over the next 2 years? And then do you fund that primarily by drawing down liquidity on the balance sheet? What’s your guys’ view on that?

Brian Moynihan
Gerard, we don’t manage that number. We manage the liquidity resources and leave that aside. But we have a deposit business that generates deposits from customers, not from pricing, and not from going into sort of broker deposits or secondary markets. These are all core deposits coming in from core customers. So that dictates our overall size.

Then we turn around and make loans to the customers based on the credit standards and capabilities we have and their demand for credit, and that turns into $1 trillion of loans. And so it’s not a number Alastair or
I or others at the top of the house say if that number is 62, it’s good, and if 50, it’s bad. It’s just -- it is the result of running the customer franchise.

The amount of liquidity we have, that is much more planned, obviously, and planned by the microsecond every day. And you can see that our ratios and stuff, over the course of time, we run far in excess of what we need. And that will come back down. That’s probably going to be more apt to come down as part of the monetary tightening process and things like that.

But that’s basically what we’re doing now to manage the capital of all this is taking RWA lower -- 20% RWA assets and moving them into 0% RWA to help that and give the rooms -- the businesses more room to grow the core loan book. But we never manage to a precise number. We let the businesses operate and then we balance the interest rate risk and the capital risk, capital questions and the liquidity question at the top of the house, but it works pretty well right now.

Gerard Cassidy
Very good. Yes, go ahead.

Alastair Borthwick
And if you just look at the last couple of quarters -- if you just look at the last 2 quarters, you sort of see, as the loans growth has continued to return, we’ve -- as the securities have matured and prepaid, we’ve just taken some of that liquidity and put it against loans. Because remember, that would always have been our first choice, even in pandemic. It’s just that the loans growth wasn’t there. It’s back, so we’re using those securities and replacing them with higher-yielding loans.

Operator
We’ll take our final question today from Ken Usdin with Jefferies.

Ken Usdin
Just a couple of follow-ups on the balance sheet. So just following up on the deposit side, Alastair, in your prepared remarks, you talked about modest growth in loans, modest -- and deposits from here. So I’m just wondering, should we be thinking about -- when you talk about modest growth in deposits, is that off of your period end balance when you think about that after we get past this tax seasonality?

Brian Moynihan
Yes, think about period end because that’s where we are. We’ve seen the deposits in the first few weeks of July here be relatively stable. But yes, you got to go off period end because that’s what you got. You don’t -- there’s some fluctuations as you get the month end and all that stuff as you well know, but that’s where you start from. And we feel sure that was it.

Alastair Borthwick
And Q3 and Q4 seasonally tend to be the place where we build deposits.

Ken Usdin
Yes. Okay. And then on the NII side -- sorry, on the loan growth side, again, obviously, you’re putting up very strong results as a big industry, especially in commercial and in card. Can you just talk about what you’re thinking in terms of how loan growth looks in the second half relative to the last couple of quarters? And any changes you’re just sensing good or bad within the customer base and across the various loan buckets?

Alastair Borthwick
Well, not a tremendous amount of change. We’ve had good loans growth. We anticipate we’ll see good loans growth. That said, obviously, full year, we’re kind of at 12%. We said we thought that we’d have mid- to high single digits. That’s kind of what we’re still expecting is mid- to high single digits.

There are a couple of places where, for example, our mortgage pipeline is down just with higher rates. I think it’d be natural to think that in some areas, where other areas like securities-based lending, as rates go
up, that might damage some loans demand there. And it feels like business leaders may talk themselves into less confidence, so that may dampen loans growth. But as of right now, we think it's still in that kind of mid-to high single digits.

Ken Usdin
Got it. And then just one cleanup, last cleanup here. Premium am was about a $300 million helper to $0.6 billion. How much more improvement could you see? And is that built into your expectation for third and fourth quarter?

Alastair Borthwick
Yes. It’s built in. It will keep going down, obviously, as rates go up, but it's going to -- it's not a linear relationship. It's more curved. So it's -- and it's -- our expectations are all built into our NII guidance.

Brian Moynihan
There -- seeing no more questions, let me just close by thanking you for your time and attention. As you think about Bank of America for the second quarter of 2022, as we said earlier, the pre-pandemic growth engine has kicked back in. We're mindful of the debate about a future recession, and we have prepared the company across the last decade-plus through responsible growth to be prepared for that.

But as we see our current customer base, we are not seeing them slow down in terms of their activities. So the story is one of organic growth with operating leverage, driven by -- and using our capital wisely. Thank you.

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

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