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Bank of America
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BANK OF AMERICA

Participants

Presenters
Brian Moynihan – Bank of America, CEO
Paul Donofrio – Bank of America, CFO
Lee McEntire – Bank of America, Investor Relations

Q&A Participants
John McDonald – Autonomous Research
Mike Mayo – Wells Fargo
Glenn Schorr – Evercore ISI
Matthew O'Connor – Deutsche Bank
Betsy Graseck – Morgan Stanley
Vivek Juneja – J.P. Morgan
Ken Usdin – Jefferies
James Mitchell – Seaport Global Securities
Gerard Cassidy – RBC Capital Markets
Brian Kleinhanzl – Keefe, Bruyette, & Woods, Inc.
Charles Peabody – Portales Partners

Presentation

Operator

Good day, everyone, and welcome to today's Bank of America Fourth Quarter Earnings Announcement's Conference Call. Please note today's call is being recorded.

And it's now my pleasure to turn the conference over to Lee McEntire. Please go ahead.

Lee McEntire

Good morning. Welcome, and thank you for joining the call to review our fourth quarter results. I hope by now, you've all had a chance to review the earnings release documents. As usual, they're available, including the earnings presentation that we'll be referring to during the call, on the Investor Relations section of bankofamerica.com's website.

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

Before I turn the call over to Brian and Paul, just let me remind you that we may make forward-looking statements and refer to non-GAAP financial measures during the call that regards various elements of our financial results. Forward-looking statements are based on our management's current expectations and assumptions that are subject to risks and uncertainties and particularly as we continue to operate during this pandemic period. Factors that may cause actual results to materially differ from expectations are detailed in our earnings materials and SEC filings that are available on the website. Information about our non-GAAP financial measures, including reconciliations to U.S. GAAP, can also be found in those materials.

With that, I am happy to turn the call over to Brian. Take it away, Brian.

Brian Moynihan

Thank you, Lee, and good morning to all of you, and thank you for joining us today. Before I pass the call to Paul to review the fourth quarter, I want to hit a few points. First, I want to provide some brief commentary on 2020 for the full year, then talk about what we see in the economy as we enter 2021 and then highlight some areas where I believe we made strong strategic progress that will drive momentum into 2021 and beyond.

So starting on Slide 2. 2020 was a tough operating environment, as you all know. In that period, we generated net income of nearly $18 billion or $1.87 in EPS and earned a return above our cost of capital. Our EPS was down 32% compared to 2019 driven by the impacts of coronavirus pandemic on the company and the economy.

As you know, the Fed dropped rates to nearly 0. Longer rates also fell to historic lows. Loan demand surged and then waned as the panic subsided. That reduced net interest income. But as we told you last quarter that we believed NII had likely bottomed in the third quarter of 2019. In fact, we saw a modest improvement this quarter, which Paul will cover later, despite the challenges from lower loans.

Noninterest revenue declined slightly but included some interesting dynamics, highlighting diversity of Bank of America's model. Consumer fees declined driven by the activity levels of clients but also by higher account balances and customer accounts. That's a good thing for the economy going forward.

Our business mix allowed us to benefit from more market-related activities in sales and trading, investment banking and investment brokerage in the wealth management businesses. Our full year revenue of $15 billion from sales and trading rose 17%, and we generated more than $7 billion of Investment Banking revenues this year, an increase of 27% over last year. Investment and brokerage revenue grew 5% to nearly $15 billion. Our expenses were higher as a result of the many costs associated with COVID and the support for our teams, our clients and our communities we serve.

For a comparison of '19 and '20, 2019 and 2020, 2020 included the third quarter addition of merchant service costs following dissolution of joint venture in the third quarter of 2019. These costs were always incurred as a net revenue deduction under joint venture accounting but now will come through our expense line.

Setting aside the elevated -- net elevated COVID-related expense and the change in accounting for merchant services, our teams continued to do a good job managing costs, and you'll see that later and Paul will talk about it; and maintained a focus on using productivity gains to fund all the investments we're making across the franchise, and including increasing client flows. Expenses then remained relatively flat year-over-year. We expect them to be flat for '21 versus '20.

Provision was higher as a result of reserves built given the macroeconomic deterioration experienced in the first part of the year. This also reflects the new CECL accounting rules which were adopted as of January 1, 2020. But as the macroeconomic outlook improved, we released some reserves in the fourth quarter.

As we look at share count, it declined 7% driven by the momentum in shares bought as we moved in the second half of '19 and then in the first quarter of '20 prior to time of suspending share repurchases. With $36 billion in excess capital above our common CET1 minimum requirements and excess capital above -- SLR reverting back to its normal calculation and completion of the CCAR exam, we'll once again begin repurchasing shares starting today.

As you know, our first priority of use of all our capital is to grow our business organically. And we have funded growth in many areas and we have funded expanded minimum wages to $20 an hour for all our teammates, we expanded increased COVID benefits, and we've taken care of all that. Now we're looking to return as much capital to our shareholders as we're allowed and as our Board deems prudent.

So you saw this morning the beginning of that in a separate press release, that our Board has approved share repurchase in the first quarter of up to $3.2 billion, including shares issued to employees. This is in addition to maintaining our quarterly dividend $0.18 per quarter, and that accounts for a return of another $1.6 billion of capital. This is the maximum allowed under Fed's guidelines established for the first quarter 2020 -- '21. Before -- beyond the first quarter, we -- when we find out what the rules are, we'll continue to change our authorizations to reflect those rules.

In summary, it was a good year given the circumstance of the health crisis and the impact on the economy and the markets around the world. I want to thank my teammates for the hard work they did to serve our clients, to serve our communities and to help each other.

As we begin the new year, let's turn to the economy -- that -- and what we see is the continued recovery occurring. Consumer spending by our clients and asset quality continue to improve. Our companies are highly liquid and generally in pretty good shape, except of course for those industries that are focused on -- that are most hard hit by COVID. As the economy continues to push ahead, these companies that are operating well will need operating capital, and we saw early signs of loan demand stabilizing as we went through the fourth quarter.

As we all know, there's one priority, and that's to get everyone vaccinated so the health care crisis is behind us, and therefore, the economy can regain its strength.

Our research team has, just this past week, has upgraded the 2021 forecast. And their view is that U.S. GDP growth will be around 5% and global forecast for growth are 5.4%. Let me give you a snapshot of what we see in our customer data that supports some of our views for growth.

On Slide 5 -- excuse me, Slide 3, you can see the consumer payments. With 66 million consumer and small business clients making payments across all our channels, we have a rich data set that provides a deep view of the U.S. consumer payment trends and small business trends. You can see this on Slide 3. This chart shows solid lines, reflecting cumulative change for the year in spending. The dotted line shows the year-over-year change for each month during the year in total spending.

Consumer payment activity began and ended the year very strong. In the first 2 months of the year, payments were up high single digits year-over-year. By April, given the early spread of the pandemic and the full across-the-board economic lockdowns, which is different in the status we are now, payments troughed then were down 26%. By early summer, payments snapped back, and you can see that here, with the reopening of the economies in many areas, the impact of government stimulus and increased unemployment.

As some of those funds were depleted and ran off, and the volumes in fact grew back to normal levels, we saw a slowdown in the rate of the recovery. But still, spending managed to grow at a level consistent with pre-pandemic prior year periods. And as we entered the holiday period, lengthened -- which was lengthened here by the difference in activity of retail purchasing, the trends continue to strengthen. Total payments in the month of December hit a high of $304 billion, up 8% year-over-year, driven by a record volume of holiday spending. Full year payments reached a new high of $3.1 trillion, up 2% year-over-year.

So one of the things we have done here is provide a pie chart on the lower left-hand side of this page for an important reason. When we think about consumer spending, we think about all the ways consumers take money and consume -- and spend it to do things. This is outside of just debit and credit spending habits, which tend to get all the discussion because they're easier to track, quite frankly. But they represent 75% of transaction volume but only about 20% of the dollar volume of transactions. And you can see that they make up that smaller amount on the lower left-hand side. And especially, as travel has -- travel and entertainment spending has shifted away, you've actually even seen debit spending outgrow credit spend.

So 80% of the dollar volume of payments made by our consumers happens through person-to-person payments, person-to-business payments, ACH, wires and many other means, including cash taken out of the ATMs and spent and checks written. So in terms of transaction, you can see at the bottom right of this chart, how the physical payments of cash and checks have moved to more digital forms, which creates operational efficiencies for us and has been a strategic initiative for many years and one that was moved forward by the crisis. Full year 2020 cash and check transaction volume fell to the lowest on record, down 21%, as COVID accelerated the migration to digital card-based payments.

2021 has begun as a strong year for payments. The new stimulus checks started hitting customers' accounts in the first weeks of January. More than 11 million of those payments have hit our accounts, about $11 billion, and they flowed into the accounts, mostly from digital transfers to IRS.

So how payments performed in the first half of January? The first half of January, across all these payment types, is up 6.7% from 2020. In good news, debit and credit is up 5.6%. Growth rates in total exceed pre-COVID levels of growth rates, and they are larger dollar amounts. So bigger dollars and faster growth rates. And that is with about 30% of the $600 payments being spent by our primary checking customers, so 70% more to be spent.

As we move to Slide 4, we can see the activity on the commercial side. In the closing weeks of 2020, we continued to see some stabilization mainly driven by our middle market auto finance clients as inventories have gotten low and they rebuilt them.

The chart on the top of Slide 5 reflects the total Global Banking loans across all segments: Business Banking, Global Commercial Banking, Global Corporate Investment Banking. As you recall, in the first quarter of the year, we experienced a heightened level of client draws on commitments as the panic-borrowing set in with the crisis. And that was about 3 years of normalized commercial loan growth in a single month. And as you know, driven by capital markets for the high -- the GCIB clients and soft loan demand as people gathered their wits about them and the crisis moved to a different stage, we saw significant paydowns in loan balances.

During the last 2 months of the year, we have seen more stable results that we hope can continue to turn into increased demand and growth as we look forward. In the chart on the bottom of the page, you can see that middle market and Business Banking, that core part of the American economy, has started to tip up, but the larger corporate loans continue to be affected by the markets and declines of the period.

A decade of operating under our responsible growth principles has prepared us well for this crisis and allowed us to remain focused on our customer on our well-understood risk framework and support them and the communities they live in. And in fact, we have basically reopened all the credit underwriting to the standards we have before the crisis. We are well positioned against this improving economic backdrop because of the progress we made in respect of our strategic initiatives over the many years.

Let's go to the next slide, Slide 5, and we'll talk about the strategic process. We can start with the Consumer Bank in the upper left. As you know, we retained the #1 deposit share position for retail deposits. That's $800 billion-plus. And coupled with our Wealth Management deposits for American consumers, we have $1 trillion of deposits now. We grew average checking consumer deposits -- we grew our average consumer deposits $166 billion or 23%. $108 billion of that $166 billion was low-cost checking accounts.

Customer satisfaction ended the year at a new all-time high. In 25 of the top 30 markets across America, representing over half the U.S. population, we now hold the #1, 2 or 3 leadership position; including in 14 of those markets, the #1 position, which is twice as many markets as our closest peer.

Another important consumer objective has been the focus on digital banking. Digital engagement expanded throughout all our businesses through the year. 69% of our consumer and wealth management households are now digitally active, not just enrolled but active. That's up a couple hundred basis points in this deep penetration of the customer base. These clients signed in 9 billion times this year, representing double-digit growth. And they aren't just signing in for transactions or looking at their balances, they are also buying things. 42% of the sales this year were digital sales. It expanded in areas of checking account sales, auto sales and mortgage loan sales.

Erica, our digital assistant, users grew 67% to 17 million. They spent 1.4 million hours, those clients did, talking to Erica, interacting with it.

In Zelle, the payment -- the P2P payment form, P2B payment form also, is up 80% year-over-year. Remember those earlier payments charts on the early pages. There's a lot of growth ahead here, and it helps us move from higher-cost to lower-cost means. What's interesting about the Zelle customers is the depth of the relationship they have with us. On average, they have 3 accounts with Bank of America, an average checking balance of more than $9,000 and an average investment balances of $400,000 when they have investment balances.

Now switching more broadly. Consumer investment balances, these are investment balances, the mass affluent in our consumer business, surpassed a major milestone and moved over $300 billion with 3 million accounts. We added 537 new funded accounts in 2020 in that mass affluent segment. That's up 27% year-over-year.

In September, we rolled out Life Plan, our financial planning that helps people prioritize their financial goals. And we've had 2 million-plus plans created already, one of the fastest rollouts of product we've ever had.

As we move to the Wealth Management group, we saw record client balances of $3.3 trillion through both market appreciation and flows. Product integration continued to improve as Merrill clients utilized our checking services, and their checking balances at Bank of America were up 28% year-over-year. And digital adoption by Merrill clients increased as 43% of the checks deposited by Merrill clients were done digitally. In the Private Bank, clients continued a strong adoption, with 70% of the checks they deposited were deposit digitally.

Despite the virtual environment, the inability to have face-to-face meetings, and inherently, the Wealth Management business is a face-to-face business, household growth accelerated through the second half of the year, with Merrill adding 22,000 net new households and the Private Bank adding 1,800. And indeed, we had a record year for $10 million-plus new relationships across the 2 businesses.

When we turn to our commercial businesses. In Global Banking, we focused on virtual services for clients through the COVID crisis, increased our calling efforts 60% this year in terms of numbers of engagements with clients. We saw a significant gain in our Investment Banking market share. Overall, in all areas, but particularly in our middle market clients, we've achieved a strong position this year. This has been a multiyear effort of hiring more and dedicating more bankers, investment bankers, to partner with the Commercial Banking relationship managers across the country.

Given the nature of clients and staff working from home, the digital capabilities we had allowed our client development to continue. We saw record sign-ons through our CashPro app. This is the way a commercial customer accesses that app in the commercial cash management businesses. In December alone, 14 of 22 business days, there were over $1 billion moved on that app. This shows our clients' growing comfort level with the system.

We reported record Investment Banking fees with 3 of our strongest quarters in the company's history this year. We improved our overall fee ranking to #3 as market share grew 70 basis points and is up for 2 consecutive years in a row. These market share improvements include our highest-ever shares in equity capital markets and M&A advice.

In fixed income trading and markets business, the trading side of the house, we continue to enhance our e-trading capabilities, increase our system speed and ability to process customer trades even faster. In the equities trading side of the house, we had our best year since 2009 when the merger of Merrill and Bank of America took place, and we gained market share even while the market was growing in cash equities. We estimate we picked up 200 basis points in cash equities in the fourth quarter of '20 compared to the fourth quarter last year.

The last point I want to mention is all the work we continue to do with our clients surround our activities in environmental, social and governance, including our award-winning proprietary research from the #1 research platform in the world as well as the sustainable financing initiatives, including green bonds, sustainable bonds and COVID-related bonds. Our team also committed $1 billion to further economic opportunities and address racial injustice in the middle of the COVID pandemic. We've made significant progress and made announcements over the last 6 months on the strong work done there.

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

Paul Donofrio

Thanks, Brian. Hello, everyone. I'm starting on Slide 6 and 7 together. As I did last quarter, I will mostly compare our results relative to Q3 as most investors we speak with are more interested in our progress as we transverse the pandemic rather than in comparison to pre-pandemic periods.

In Q4, we earned $5.5 billion or $0.59 per share, which compares to $4.9 billion or $0.51 a share in Q3. Compared to Q3, the earnings improvement was driven by lower provision expense as we released $828 million in reserves, nearly offsetting net charge-offs, which also declined. Also benefiting earnings, expenses declined $474 million from Q3 on lower litigation costs, and NII moved from Q3 -- from the Q3 trough. Noninterest income declined from Q3, but results across individual line items were mixed. First, the decline in other income was driven by seasonal client activity with respect to ESG investments, which created higher partnership losses but benefited our annual tax rate, as I have described in previous discussions. Our tax rate for the year was 6%. If we adjust for the tax benefit of our portfolio of ESG investments, our tax rate would have been roughly 21%. I point this out to emphasize that the full year tax benefits of the socially responsible investments more than offset the portion of losses recorded in other income throughout the year.

Relative to Q3, noninterest income was also impacted by lower sales and trading, which typically slows from Q3 to Q4. But while sales and trading revenue was down linked-quarter, year-over-year, it was up 7%. On the positive side, noninterest income benefited from higher asset management fees as the market improved. And we grew net new households again this year.

And finally, we had another good quarter of Investment Banking revenue, which increased from both the strong Q3 levels and year-over-year. Also, when comparing net income to Q3, remember, the Q3 tax expense benefited by $700 million from the revaluation of our U.K. deferred tax asset. Finally, with respect to returns, note that our ROTCE was 11.7%, and our ROA approached 80 basis points.

Moving to Slide 8. The balance sheet expanded $81 billion versus Q3 to $2.8 trillion in assets, total assets. The main point is that deposits are driving and funding substantially all of this growth. Deposits grew $93 billion in the quarter and are up $361 billion from Q4 '19. On the other hand, loans declined from Q3. With deposits up, loans down, excess liquidity is piling up in our cash and securities portfolios. Global liquidity sources are up $367 billion year-over-year and $84 billion just from Q3. In fact, global liquidity is up so much that it now exceeds total loans.

With respect to regulatory ratios, the standardized approach remains binding at 11.9%, consistent with Q3. Shareholders' equity increased $4 billion as earnings were more than 3x the amount of common dividends paid, plus, we issued preferred stock totaling $1.1 billion. But this was offset by higher RWA as we invested more cash in securities. At 11.9%, our CET1 ratio is 240 basis points above our minimum requirement, which equates to a $36 billion capital cushion. Our TLAC ratio also increased and remains comfortably above our requirements.

Before leaving the balance sheet, as usual, we provide the charts on Slide 9 and 10 to show the historical trends with respect to average loans and deposits. For reference, we included these same charts on an end-of-period basis in the appendix. Overall, year-over-year, total loans are down 4%. And in the lines of business, they are down 2%. The decline year-over-year was driven by lower revolver utilization and other paydowns in commercial and by pullback in credit card activity.

On Slide 10, we provide the same trends by line of business for deposits. Brian already made a number of points on deposits, and you can see the tremendous year-over-year growth in every line of business that led to 23% growth in deposits for the company. At $1.7 trillion in deposits, far surpasses any previous record for deposits. We believe our strong deposit growth reflects our customers' overall experience with us as we continue to innovate around digital capabilities as well as enhance our nationwide physical footprint of financial centers and ATMs, which have continued to prove important to customers and clients.

I will just add that given historically low interest rates, our rate paid on deposits declined modestly linked-quarter, and we are now lower than the rate paid to customers in 2015 before the Fed began raising rates. And I will point out that our interest cost on $1.7 trillion of deposits this quarter was only $159 million.

Turning to Slide 11 and net interest income. On a GAAP non-FTE basis, NII in Q4 was $10.25 billion, $10.37 billion on an FTE basis, while net interest income declined $1.9 billion year-on-year given the lower rate environment, it improved $124 Million from Q3. The improvement from Q3 was driven by the increased deployment of excess deposits into securities. Lower loan balances, lower reinvestment rates and modestly higher mortgage-backed securities, premium write-offs mitigated the improvement in NII. The net interest yield was relatively stable, declining only 1 basis point from the Q3 level. Note that given all the deposit growth plus the low starting point with respect to interest rates, our asset sensitivity to rising rates remains quite large and is a good reminder of the value of these deposit relationships.

Now with respect to NII. As we move into 2021, we offer the following perspectives. Our perspective on NIIs assume that net interest rates follow the forward curve and do not move lower than current levels and that the economy does not take a meaningful step backwards as a result of recent negative COVID developments. With that said, first, I would remind everyone that Q1 will be impacted by 2 less days of interest, which is a headwind of nearly $200 million. Also, seasonally, we would expect to see payments related to holiday spending result in lower card balances. We also have the continuing impact of higher-yielding assets maturing or paying off and being replaced with lower-yielding ones. Offsetting these headwinds, we currently intend to again invest a portion of our excess deposits, which continued to grow in Q4, into securities.

Having listed those specific Q1 impacts, NII improvement more generally will depend on all the factors we are all focused on, such as loan growth, PPP loan forgiveness and PPP new originations and mortgage refinancings as well as mortgage-backed security payment speeds which impact the write-off of bond premiums. Should those trends develop in a positive way, our NII and earnings will benefit.

One final note on NII. We added a slide in the appendix that shows the difference between 2015 when short-term rates were last this low and today. The important difference between then and now is the growth in our balance sheet which improved NII and the decline in expenses since then.

Speaking of expenses and turning to Slide 12. Q4 expenses were $13.9 billion, $474 million lower than Q3. The decline was driven by a reduction in litigation expense. We also saw a reduction in COVID-related expenses, primarily those associated with processing claims for unemployment insurance. Higher planned marketing costs across the firm and revenue-related processing and incentives mitigated the reductions. As we move into 2021, remember, Q1 will include seasonally higher payroll tax expense, which we estimate at roughly $350 million.

Given the resurgence of COVID cases across the U.S. and in Europe, we estimate that $300 million to $400 million of net COVID-related expense remained in our Q4 expenses. We continue to work hard to lower these types of expense but not at the expense of the safety of our employees and customers. And outside of these COVID costs, we continue to manage expense tightly, using gains in productivity and digital activity to mitigate other increases.

Turning to asset quality on Slide 13. Our total net charge-offs this quarter were $881 million or 38 basis points of average loans. Net charge-offs continued to benefit from years of responsible growth as well as government stimulus and loan deferral programs. A $91 million decline in net charge-offs was driven by lower credit card losses. The loss rate on credit card declined to a 20-year low of 206 basis points of average loans. Provision expense was $53 million, which not only reflected an improvement in macroeconomic projections, but also incorporated uncertainties that remain in the economy due to the health crisis. These considerations resulted in an [$828] million reserve release this quarter, reducing consumer loan reserves by $621 million and commercial by $207 million. Our allowance as a percentage of loans and leases ended the year at 2.04%, which is well above the 1.27% where we began the year following our day 1 adoption of the CECL accounting standards.

With respect to key variables used in setting our reserve. As done in previous quarters, we continued to include a number of downside scenarios. Based on our Q4 '20 weighting of those scenarios, GDP is forecasted to return to its Q4 '19 level in the early part of 2022. This improved by a couple of quarters relative to Q3. The weighting scenario also resulted in an unemployment rate at the end of 2021 consistent where it is today, just north of 6.5%.

On Slide 14, we break out credit quality metrics for both our consumer and commercial portfolios. On the consumer front, COVID's effects on net charge-offs continued to remain benign. Overall, consumer net charge-offs declined 800 -- excuse me, declined $82 million driven by card losses and remained near historic lows. We experienced modest increases in delinquency and NPL levels, but they remained low and were expected, given the deferral activity of customers.

While expired deferrals drove consumer 30-day delinquency modestly higher compared to Q3, importantly, they remain 22% below the year-ago level. And consumer deferral balances continued to decline in Q4, ending the year at $8 billion. Moreover, balances are now mostly consumer real estate-related with strong underlying collateral values.

We added a slide in our appendix which further highlights delinquency trends for credit card. It shows a modest bulge of the expected deferral-related delinquencies moving their way through time and into the 90-plus bucket at year-end. As the bulge of deferral-related delinquencies passed through time periods, delinquencies receded. As an example, in Q4, 5-day delinquencies were down more than 30% year-over-year, which shows that after deferrals passed through this time period, delinquencies fell and stayed lower. So assuming net losses follow their historical relationship to delinquencies in the 90-plus day bucket and no other changes in card payment trends, we would expect card losses to be higher in Q1 but then decline in Q2.

Moving to commercial. Net charge-offs were relatively flat to Q3 even as we sold some loans in affected industries, crystallizing losses but reducing risk. Overall, given the environment, the asset quality of our commercial loan book remained solid, and 89% of exposures were either investment-grade or collateralized. Our reservable criticized exposure metric continue to be the most heavily impacted by COVID and increased this quarter by $3 billion from Q3 led by downgrades -- downgraded exposures in commercial real estate, primarily hotels. Importantly, commercial NPLs, while up modestly, remained low at only 45 basis points of loans.

Turning to the business segments and starting with Consumer Banking on Slide 15. Consumer Banking throughout 2020 has been the segment most impacted -- most heavily impacted by COVID. It bore the brunt of revenue disruption from interest rates, customer activity and fee waivers. Reserve-building impacted provision expense, and expenses increased for PPP programs and protection of associates and customers.

In Q4 compared to Q3, revenue, expenses and provision all improved. We earned 6 -- $2.6 billion in Consumer Banking in Q4 versus $2.1 billion in Q3. But with earnings still below prior year pre-pandemic levels, we know we still have plenty of room for improvement. Client momentum in this business continued to show strength around deposits and investment flows, while near-term loan growth was -- has been impacted by the decline in mortgage balances from heightened refinance activity.

Looking at the components of the P&L, linked-quarter. Revenue growth included both higher NII and fees. Consumer fees reflected an increased level of holiday spending as well as higher investment account activity. Even as revenue moved higher, expenses moved modestly lower as we had a reduction in pandemic costs and continued to realize the benefits of a more digitally engaged customer base.

As Brian noted, and as you can see on Slide 17, we saw improvement in digital enrollment. Most importantly, customer use of our digital capabilities increased with not only more sign-ons and higher digital sales but also more service fulfillment through digital channels as reflected by volume growth in both Erica and Zelle.

Note also that both our rate paid and cost of deposit declined. Cost of deposits is now 135 basis points. In the past year, we added over 500,000 net new checking accounts, grew deposits 23% and dropped our cost of deposits 17 basis points, even with the increase in costs associated with the pandemic.

Let's skip to Wealth Management on Slide 18 and 19, and I will refer to both slides as I speak. Okay. Here again, the impact of lower rates on a large deposit book pressured NII, impacting an otherwise solid quarter with positive AUM flows, market appreciation and solid deposit and loan growth. Net income of $836 million improved 12% from Q3 as revenue growth and improvement in provision exceeded a modest increase in expense.

With respect to revenue, NII grew driven by solid growth of both loans and deposits. And asset management fees grew to a new record on higher market valuations and solid flows. Expenses increased driven by revenue-related expense and investments in our sales force.

Merrill Lynch and the Private Bank both continue to grow households as we remain a provider of choice for affluent clients. Client balances rose to a record of more than $3.3 trillion, up $302 billion year-over-year driven by higher market levels as well as positive client flows.

Let's move to our Global Banking results on Slide 20. COVID has also heavily impacted Global Banking due to lower interest rates, softer loan demand and higher credit costs. But here again, we saw improvement. The business earned nearly $1.7 billion in Q4, improving $751 million from Q3 driven by lower provision expense and improved revenue. On a year-over-year basis, earnings were $341 million lower, driven by NII.

Looking at revenue and comparing to Q3, revenue improvement was driven by higher Investment Banking fees as well as more leasing activity associated with our clients' ESG investments. Investment Banking fees for the company of nearly $1.9 billion grew 5% from Q3 and were up 26% year-over-year. As Brian noted, this performance led to improved market share overall and in a number of key products.

Provision expense reflected a reserve release of $266 million in Q4 compared to a build in reserves of $555 million in Q3. Noninterest expense was higher compared to the linked quarter and year-over-year, primarily reflecting investments in the platform as well as support for the PPP program and also reflecting the recording of merchant services expense given the change in accounting versus the year-ago quarter.

As Brian noted earlier, customers continued to appreciate the ease, safety and convenience of our digital banking capabilities. And usage continued to grow, helping defray other costs. We present some digital highlights on Slide 22.

As noted earlier, loans declined but saw stabilization late in the quarter. And continuing to trend since Q2, the spread of the loan portfolio continued to tick higher as spreads on new originations on average exceeded the average spread of the portfolio. Average deposits increased 26% relative to Q3 (sic) [4Q19] as businesses remained highly liquid.

Okay. Switching to Global Markets on Slide 23. Results reflect solid year-over-year improvement in revenue from sales and trading but declined from the robust levels of Q3. As I usually do, I will talk about segment results, excluding DVA. This quarter, net DVA was a small loss of $56 million. On that basis, Global Markets produced $834 million of earnings in Q4, a decline from the more robust trading in Q3 but up markedly from Q4 '19.

Focusing on year-over-year, revenue was up 13% on higher sales and trading. The year-over-year expense increase was driven by higher activity-based costs for both trading and unemployment claims processing. Sales and trading contributed $3.1 billion to revenue, increasing 7% year-over-year driven by a 30% improvement in equities and a 5% decline in FICC. The strength in equities was driven by market volatility and investment repositioning, which drove client activity higher. The decline in FICC reflected strong credit trading performance, which was more than offset by declines across most macro products and mortgage trading.

As Brian noted, the year-over-year performance of this business has been strong in every quarter of 2020. You can see that on Slide 24, and that produced strong segment returns of 15% on allocated capital for the year.

Okay. Finally, on Slide 25, we show All Other, which reported a loss of $425 million. Compared to Q3, the decline in net income was driven primarily by the prior quarter's tax benefit of $700 million associated with our U.K. deferred tax asset. Revenue declined from Q3 driven by the accounting for wind and solar and other ESG investments. We also experienced some modest equity investment losses. Expenses declined from Q3 on lower litigation expense but were partially offset by higher marketing costs. For 2021, absent any changes in the current tax laws or unusual items, we would expect the effective tax rate to be in the low double digits driven by the level of ESG client activity relative to pretax earnings.

And with that, I'll turn it back to Lee and Brian for Q&A.

Q&A

Operator

We'll take our first question today from John McDonald with Autonomous Research.

John McDonald

I wanted to ask a question on expenses. Brian mentioned expecting the cost number to be flattish in 2021 versus 2020. Just kind of wondering, is that all-in expenses, Paul, or some kind of core metric? If you could give an outlook for the expenses that you expect and the COVID -- trend for COVID expenses this year.

Brian Moynihan

Yes, John, that's all in, given the -- so around $55 billion both years, since we feel good about the ability to keep bringing down COVID. It came out a little slower this quarter largely due to the fact that, if you go back and think where we were in October on case counts, the need to continue to provide strong benefits to our teammates, including the child care in their homes so they could be effective, that's why we get those customer scores and why the growth in checking sales was 70%, 80% of a normal year, even with half to 40% of the branches closed.

So yes, flat year-over-year, all-in number. And then we're working the dynamics underneath it. But importantly, remember, we are investing: $3.5 billion in technology next year, new financial centers, expansion, employees to help sell more, and we'll continue to drive it through. So you'll see sort of a change in the COVID cost coming down hopefully as we move through the year, but we've got some work to do. But flat over year-over-year overall.

John McDonald

Okay. And then longer term, Brian, you've talked about getting back to a low $54 billion as kind of a run rate ex COVID. Is that still how you're thinking about things?

Brian Moynihan

Yes. We should start to work down. Again, as we said many years ago, as we get in the out years and get more and more efficient, the day-to-day, the quotidian costs of rent increases and payroll pay increases work at you. But the idea is to have the net expense grow sort of at 1% a year. So 3% up from just day-today cost to manage a couple of percents out. And so we'll continue to work that down in the future. We've got work to do on getting these COVID expenses out of here.

Operator

Our next question comes from Mike Mayo with Wells Fargo.

Mike Mayo

I also wanted to follow up on the efficiency. I mean, you're making big strides with digital banking in so many ways with 39 million digital households are engaged. And you go through all those metrics, and you see efficiency ratio for the quarter of 69%. And if you take out your $400 million of COVID cost, maybe it would be 67%, but that's still a far cry from the 57% to 59% where you had been.

I know low rates hurt a little bit, but either you're investing more than your -- you've disclosed. Or are there some other COVID costs in there? Or you're not getting -- becoming more efficient, as you said in your opening comments, Brian. So help me kind of reconcile your current efficiency or my adjusted efficiency ratio with a more normal level.

Brian Moynihan

So Mike, I take you back to Page 11 on the net interest yield and net interest income, and realize that basically in the 4 quarters of last year, we lost $2 billion of revenue per quarter, which is the bridge from -- a lot of that bridge. And so as we work that back up, and ultimately as rates rise, that $2 billion, that's per quarter, so $8 billion in revenue with really no cost. That will go up.

So we continue to get more efficient in the branch as the cost of operating over the deposit base is now at 1.35%, and we added 700,000 of checking accounts. So you're right, it's -- but it's more affected by the revenue impact to NII than it is by anything else in terms of expenses. Remember, we're saying net COVID cost of $300 million or $400 million. That includes offsetting against that whole savings on travel and stuff. The gross costs are obviously much higher.

We've got about -- just we opened up PPP today. We've got 5,000 employees ready to go to complete the next round of PPP and the forgiveness process. And as that finishes off, that stuff will come out of the system. So we got you.

Mike Mayo

And then the follow-up to that is going to NII. I'm not sure if you gave a specific outlook or not, Paul, when you went through that. I mean, as you said, liquidity is now greater than loans. Your loan-to-deposit ratio at close to 50%, I think it's the lowest in history, like ever, right now. So there's a lot of dry powder there.

But did you give guidance for NII for this year, assuming the forward yield curve stays where it is? And do you think you can somehow pull out positive operating leverage this year? Or is that too tough given the rate environment?

Paul Donofrio

We didn't give specific guidance. I can give you a little more color on our perspectives on 2021. But I do think, as you think about how you want to estimate and model NII and how it may unfold in '21, I think it's really sort of helpful to kind of review the progress we made in 2020. There's a lot of clues there.

Remember, in Q1 of '20, interest rates fell to historically low levels. Short rates were down 150 and long rates were down 100 basis points, plus, loans declined significantly beginning in Q2 as demand weakened and larger companies accessed the capital markets to pay down debt and build liquidity.

In the past, when we've had situations like this where interest rates and/or loans have declined, it's always taken sort of several quarters to reach a point where renewed balance sheet growth was significant enough to compensate. We believe we found that NII bottom in Q3, and NII indeed moved higher in Q4. All else equal, day count, et cetera, it should become easier from here to grow NII.

I think what helped us to start to grow again quickly in this crisis was the tremendous influx of deposits and our relatively recent confidence to invest the excess in securities instead of holding that excess in cash. So our continued investment of that cash in Q4 leads us to believe that we can offset the headwinds of low loan demand in the near term, recent reinvestment yields and 2 less days of NII in Q1, leaving NII relatively flat in Q1 versus Q4, before moving up through the balance of the year.

Remember, in Q2 and Q3, we picked back up those days of interest we lost in Q1. As Brian reviewed, we also saw commercial loans stabilize at the end of Q4, providing hope that increased loan demand will soon follow. Given that we expect some loan demand through the year and using the existing rate curve, which has steepened over the past 90 days, we would expect NII in Q4 '21, for example, to be much higher than Q1 '21. And when we get to the second half of '21, year-over-year quarterly comparisons to 2020, as well as the second half of '21 compared to the first half of ['21] should be quite favorable.

Mike Mayo

Okay. That's helpful. And then when you say a lot higher in Q4 than Q1, bigger than a bread box? Or I mean, any sizing to that?

Paul Donofrio

I would...

Brian Moynihan

Once we get the -- the simple way to think about it, Mike, is once you sort of get to -- get underneath the levels, you start growing the loan growth. And we said we'll outgrow the economy in loan growth in normalized times and that leads to NII. So -- but we've got to work it back up from here. It's a 4- or 5-quarter fight to kind of get this huge balance sheet turned and repositioned, and just fight it down and then to have it grow back out. So we'll see.

Operator

Our next question is from Glenn Schorr with Evercore.

Glenn Schorr

You guys are pretty predictable and steady on this front. But I'm curious on your thoughts on capital. I don't -- I'm not sure your CET1 has ever been higher, and your requirements are not going up. So as capital continues to build and your G-SIB target is reasonably low relative to your big peers, just what are you thinking in terms of how aggressive do you get on the capital return versus -- we don't talk much about bolt-on acquisitions with you, but curious how you think about that. And if you might address asset management in particular given your great distribution franchise.

Brian Moynihan

Glenn, let's go backwards to that one. The big leverage point would be more deposit acquisitions in markets we're not and stuff like that, but we can't do it. It's illegal and has been for all the way back since GLBA or whatever it was 20, 30 years ago, so even before.

But -- and then asset management. Remember, we sold asset management because we believed that being the large distributor is the priority. So don't expect us -- we look at stuff from time to time like everybody does. But the way we're going to -- we built this company was organic growth and then delivering the capital back to the shareholders.

And what's interesting, we'll see what the rules change. But remember that things like the SLR and the accommodations that were given, we didn't need, and we have plenty of SLR. It doesn't have any constraint.

It doesn't become an issue. Like you said, even if you look at the SCB recalcs and stuff, we've got plenty over that. So we will be aggressive on returning capital. We got basically 2 months to return those $3 billion and change we've got to return now. And then we'll see what the Fed instructions are, and then we'll get after it as we move forward.

And we look at things from time to time, but they -- there just isn't much to consider in the United States right now, and the best answer is to develop -- continue development of this franchise on an organic basis.

And it works. If you look in the markets we've expanded our brand system to, we're averaging $100 million or more in deposits per branch in the ones that have been open a couple of years and moving share up literally year by year by year. And so we think that that's where we got to keep driving.

Glenn Schorr

I appreciate all that. Is there a specific either buffer above the CET1 and/or you want to put it in the $36 billion excess? Where is a natural resting ground? Not tomorrow, but just whenever you get there.

Brian Moynihan

Yes. We always said sort of 50 basis points above the relevant binding criterias where you'd start to slow down. But remember, we're basically only getting back to earnings. And so we got a lot of room between us and whatever the requirement is plus 50 basis points. And from time to time, those move around, advanced to standardized, SLR, whatever is binding. But think about that's where the Board targets are.

Operator

Our next question is from Matt O'Connor with Deutsche Bank. Please go ahead.

Matt O'Connor

Can you talk a bit about the timing of the liquidity deployment in the fourth quarter? I think mortgage rates actually came down. And one can argue, if you look out 6 to 12 months, longer-term rates will be higher as kind of vaccines get rolled out, the economy picks up. So obviously, you have tons of deposits, but it's also pretty long-duration assets, I would think, that you're buying. So if you could talk about that.

Paul Donofrio

Yes. You're absolutely right. The 10-year was up in the quarter, but rates of mortgage-backed securities -- well, certainly, mortgage rates to customers declined; and rates on mortgage-backed securities, I think, declined slightly. Having said that, we're always going to balance liquidity, capital and returns and profits. And we did deploy, and as we said on our third quarter call, approximately $100 million of our cash into securities. It went into both mortgage-backed securities and some treasuries in the quarter. And we -- yes, we think that was the right thing to do.

We understand the rate structure. We did get probably an improvement on our yield on that $100 billion of approximately 125 basis points. So -- and I would say we've still got a lot of excess cash, Matt. If you look at our balance sheet, cash grew by $70 billion, $80 billion this quarter. So I mean, that was the growth on top of what we already had net of deployment. So we still have a lot of room to invest in the future. And we plan to do some more investments in [Q1], but we're obviously always looking at the rate environment.

Matt O'Connor

And then I guess somewhat related, is there a point where you just say, "We don't want some of these deposits? It's better to kind of free up even more capital." Or just have a little bit more of an efficient balance sheet and not have to kind of make some of these tough decisions? Or charge for the deposits?

Brian Moynihan

Well, so why -- if a customer comes to you to open a checking account and start a lifetime relationship, you'd never turn that down, whether it's a commercial customer or a consumer customer for core deposits. And so if you look at the growth, we're not bidding for CDs or -- and money markets on the consumer side. You can see that $108 billion of the $160 billion was checking account balance growth.

And by the way, when rates rose before, we continued our checking account growth, and we would expect that to continue because these are core customer relationships. So if you go back and look as rates rose, '16, '17, '18, we continued to grow checking in double-digit type of numbers quarter after quarter after quarter, which means you're just taking market share.

And so on the commercial side, the same thing in the GTS business. We are not out in the market taking short-term deposits from people. Haven't been. And that's -- and so this is all real core stuff that we're getting paid to take. And albeit it gets sandwiched a little bit as the 0 floors are hit in the commercial side, frankly, that services overcome the 0 floor, but you'd be hard pressed to turn it down. So it's not like we have a lot of, here's a few billion dollars, can you put it on your balance sheet and give us yield? That just doesn't happen. We don't do that. We turned that down already.

Operator

Our next question is from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Paul, just first off, a follow-on question to the last one around the reinvestment into securities. Like you mentioned, you did $92 billion or so this past quarter. So as we're thinking about the NII guidance you just gave, should we be anticipating an increase into the securities book that's above and beyond that roughly $100 million run rate that you did in 4Q?

Paul Donofrio

Look, we continue to access -- assess the excess deposits, and we do expect to continue to deploy more cash into securities. We're not really planning on disclosing how much more, but there is a meaningful amount in that guidance that we gave you. The size and pace of the purchases are obviously going to be influenced by a number of judgments, including things like the like expected loan demand and customer deposit behavior. So yes, I mean, I'm not going to give you a number, but it's a meaningful increase that we're expecting to do in Q2 -- excuse me, in this quarter.

Betsy Graseck

Yes. Okay. Got it. And then just separately in talking about credit, you indicated that the delinquencies are suggesting that your NCOs are going to be coming down Q-on-Q in 2Q. And that's a pretty stunning statement given that we still have this unemployment rate where it is. Can you just talk a little bit about what -- why you expect that's happening in your book of business? Do you just have a population that's really not being impacted by the unemployment rate? Maybe you could give us some color there.

Paul Donofrio

Sure. Now I want to correct -- I think I heard you say something -- you may not have said it, but I want to make sure everybody heard it. We expect NCOs for card to be up in

(technical difficulty)

it's not going to be down in Q1. And the reason for that -- yes?

Brian Moynihan

Hey, Paul. We lost you there for a second, just if you could say what you were saying.

Paul Donofrio

Okay. Sorry. What I wanted to make sure everybody heard because I thought I heard you say something different. We expect net charge-offs for card, which obviously the primary driver of consumer loans, we expect those to be up in Q1 and then decline in Q2. And the uptick...

Betsy Graseck

Yes. That's what I thought I said, so sorry about that.

Paul Donofrio

Okay. And that expectation is being driven by what we see in the 90-plus bucket in terms of delinquencies. And those delinquencies are -- that have sort of -- if you look at the other buckets, you'll see in the 90-plus bucket, they're higher than the other bucket. And that's the deferrals have worked their way from the 5-day to 30-day, the 30- to the 60-day, they're now in the 90 bucket. And we can look back historically and say x percent of our delinquencies in the 90 bucket show up as losses in the next quarter because you get to 180 days.

And so that's all we're seeing. But importantly, when you look behind the 90-day bucket, you don't see the same elevated levels. In fact, if you look at the 30-day bucket, you're down meaningfully year-over-year in terms of levels. So that's why we think Q2 will have to come down. Probably maybe have to is too strong a word, all else equal, what you think would come down.

And the question is really, if you think about it, the people who have been affected by this health crisis, who are unemployed, who have been helped by stimulus, will this new stimulus carry them to the point where they get vaccinated and they get jobs back? And will we ever see those losses? Or will they just be pushed out into future periods?

Brian Moynihan

So Betsy, just to give you some extra information we included. If you look at Page 27 of the deck in the appendix. And the 4 charts at the bottom were put in specifically because this question, we knew, would arise. So if you look across the buckets and you look from the mid '19 to the end of '20, you can see the different delinquency buckets are all down, even the 90-plus days, down in gross dollar amount year-over-year. But you can see that the -- what people thought was sort of the analogy of a pig through a snake is probably more of a mouse through the snake in that it went up, it's still a lower dollar amount. And then it would come back down because you move from the left to the right side of the page.

And if you go back to Page 14, you can actually see in the top chart that the total charge-offs in consumer this quarter were $482 million. If you look in the red bars, which is the credit card, you can see that they're down dramatically year-over-year in terms of gross dollar amounts, and then this will bode well in the future. So when we talk about going back up, they're going up from a -- to a level that was much below where they have ever been historically in terms of dollar amounts.

And so the last point you made, just so you have it, is that the unemployment rate in our customer base is below the unemployment rate in American society. And that's just due to the -- especially on the borrowing customer base, due to the client selection and being in the prime business.

Paul Donofrio

Hey, Betsy, maybe just to complete the conversation with respect to commercial. We have seen increases in reservable criticized, but they haven't -- we haven't seen NPLs increase significantly. They're at 45 basis points of loans right now. So we think commercial losses in future quarters are going to be driven by really company-specific events that play out over the coming quarters, and will obviously likely be concentrated in industries more heavily impacted by COVID.

I would point out that in this quarter, we took some losses as we chose to reduce exposures in industries that were affected by COVID. And that crystallized some losses and showed up in our NCOs this quarter. If we hadn't take those losses, we would have -- hadn't sold those credits, we would have had even lower NCOs in commercial.

Betsy Graseck

Yes. Yes. No, I got it. I mean, we're forecasting NCOs peaking some time in the end of '21. But given your comments, maybe the question is, have they already peaked? Or will they have peaked for you in like 1Q?

Brian Moynihan

The care there is to think the consumer is, really at this point, sort of run the course. And the commercial, the reserves have built and the activity may occur in the out quarters. But the consumer runs the course by just straight throughput, 5 to 30, 30 to 60, 60 to 90. So we're showing you the charts that really tell you what's going to happen in the first half, and because it's a pretty mathematical calculation.

Operator

Next question from Vivek Juneja with JPMorgan.

Vivek Juneja

Brian, a question for you. Can you talk a little bit about your FICC trading? You've lost share in 2020, including in 4Q. What are you thinking about this business? What are your plans for it?

Brian Moynihan

Well, our plans are to keep running it the way we do. And if you look at it year-over-year, it's an integrated business, markets. Jimmy does a good job. It's up -- we showed you on that chart. It's up -- it's one of the highest years it's ever had, 15% or whatever it is up year-over-year. So they do a great job.

We don't play in certain areas, which run on a given quarter. Interesting enough, when they don't run, people forget about that. And so we have a more of a stable level of revenue. So if you look on Page 24, you'll see that $13.2 billion, $13.3 billion, $12.9 billion, $15.2 billion, so we had a good year. And the FICC was up from $8.4 billion to $9.7 billion in revenue, which is substantial, and some of the areas we don't trade in.

So we're more credit-driven, and that's what -- that drives us versus some of the competitors. We're happy with the business. They do a great job. And it's really there to help drive the connectivity between our issuing clients and our investing clients. And we'll continue to do -- drive it.

Paul Donofrio

Can I just add one point -- happy to sort of see what data you're looking at, but I don't think we're losing market share in FICC. I think we're actually gaining market share. And perhaps not as much as we're gaining in equities, but we're gaining market share, certainly in the segments where we're investing within FICC.

Vivek Juneja

Paul, your growth rates have been below peers. So are you doing that by segment of business, like Brian was talking about, and passing that out between commodities and macro and credit products? Or is it something else? Because certainly, if we look at year-on-year growth rates, you've been below your peers through several quarters in 2020.

Paul Donofrio

Some of the peers, but not all of the peers. There's Lots of peers in Europe...

Vivek Juneja

Right. But the bigger ones -- yes, but -- yes, I guess...

Paul Donofrio

Add up. I think if you look at global fee pools, you'll see that we are gaining market share in FICC.

Vivek Juneja

Okay. Okay. We'll go back and compare with the Europeans.

Different question, Paul, for you. MBS premium amortization expense, how much -- what was that this quarter?

Paul Donofrio

I don't think we're giving the exact number, but it was up. And it did impact, I would say meaningfully, NII. From here, we're going to need to see mortgage -- customer mortgage rates stabilize and go higher for that number to stabilize and go higher -- excuse me. For that number to stabilize and go lower.

Vivek Juneja

I understood what you meant. Yes.

Paul Donofrio

Yes. But if you -- I'll give you this sense of its impact, though. If you look at the decline in net interest yield for the company, 1/3 of it was due to premium amortization in the quarter.

Vivek Juneja

And so by a time -- the fourth quarter guide that you were giving us for NII to be much better, how much of a reversal are you forecasting in that MBS premium amortization in that guide?

Paul Donofrio

Well, I would look at the forward rates to get it -- for you to estimate that. We're not assuming that it goes up in that guidance. Because if you look at the forward curve, rates by the end of the year are up from where they are today...

Vivek Juneja

Yes, yes. No, I was -- yes, my question was, how much are you expecting it to decline, Paul? I know that you do not expect them to grow.

Paul Donofrio

No, I understand you were asking for the dollar amount, and I'm not going to give you the dollar amount.

Vivek Juneja

Not the dollar amount, but any sense of percentage, since you said 1/3 of the decline came from that. Any sense of -- I'm not asking for a precise element, I'm not expecting that. But any sense.

Paul Donofrio

Maybe we can follow up. I mean, I don't have it off the top of my head. I'll probably give you some sense of how much, what percent of the improvement is from that. But I don't -- I just don't have it off the top of my head.

The other thing that I would point out just to keep in mind as you're thinking about the write-off of premium, is that it's not just at this point due to the decline in rates. You have to remember that the portfolio has gotten bigger, too.

Vivek Juneja

Right. But you've been hurt more than others by it. So obviously, that should turn around for you later in the year if refinance is going to slow.

Paul Donofrio

That's a meaningful sort of tailwind if mortgage-backed -- if mortgage rates increase.

Operator

Next question is from Ken Usdin with Jefferies.

Ken Usdin

Just one accounting follow-up for you, Paul. Just you mentioned the low double-digit tax rate. And that other fee line for where the ESG investments go through has been pretty volatile but a pretty big negative number. And I just wanted to see if there's any way you can help us understand just what that looks like when you're helping us understand the tax rate as the other side of it.

Paul Donofrio

Yes, sure. I can try to help you with that. I guess there's 2 ways to triangulate on it. The -- look at the other income line for the company, okay? And with respect to modeling that line, it's going to bounce around a lot quarter-to-quarter. But for modeling purposes, a good assumption going forward, absent unusual items, would be about a loss of $200 million in that line, except the fourth quarter will normally be higher as it was this year given the seasonal increase in partnership investments that we saw this quarter. I can give you a lot more -- there's lots of things in that line item, but the volatility is often driven, certainly in the fourth quarter, by those partnership losses.

Other things in that line are equity investment gains, gains and losses on the sale of debt securities. And there's some mark-to-market income in there on our FVL loans -- our fair value loans and related hedges. So there's going to be volatility in there. I would use a loss of around $200 million per quarter with a larger loss in the fourth quarter.

Ken Usdin

Yes. Understood. Okay. Great. And then just a follow-up just on -- you mentioned the progress that has been happening in the franchise as we kind of get a little bit closer to reopening. A lot of those card- and consumer-related fee items are still kind of hanging in there, plus or minus. What do we think needs to happen for those to start moving the right way?

Obviously, you've got all this excess liquidity still weighing on fees and overdrafts, et cetera. So is this a new normal? Or with the economic improvement, do you expect to see also that stuff start -- mass of fees start to improve as well?

Brian Moynihan

I think the biggest line item is the interchange-type dynamics in both debit and credit. And they're growing, but they are recovering from a deficit, as I spoke about earlier. So that -- yes, that should help. And then the numbers of transaction accounts go up.

But remember, we've had a strategy that is to lower clients' overcharges -- overdraft charges by our safe balance account, which were 3 million accounts, round numbers. And we're trying to get customers to really use our services in a way that benefits them the most. And so that works against the overdraft line as the sheer dollar volume goes up. So we'll see.

But what's really also driving us is just sheer numbers of growth in accounts, will be the driver. It will grow slowly though, because we have been constantly taking down. We have the lowest percentage of overdrafts as total fees in consumer of any of the large peers, and we'll continue to drive that down because that means the customer's in good shape.

Ken Usdin

Got it. Okay. Last thing, any quick update on the merchant and how that's progressing along as well? And now that, that we've seen another kind of full quarter of that broken out?

Brian Moynihan

Yes. I think it's still getting -- we put the new system, and we're starting to sell it, that we feel okay. We feel it's a core part of our business. But one of the things that's held it back is that's a sales process which is more integral to the types of people who use merchant services to be open more, and that's obviously affected by COVID. So it's okay, but we need to improve it.

Operator

Next question is from Jim Mitchell with Seaport Global.

Jim Mitchell

Maybe just a little bit on consumer loan growth. It seems like you deliberately shrunk residential mortgage. Auto looked pretty good. But credit card was a little sluggish, I think, given typical seasonality. So customers are flush with cash. How do we think about the demand for lending going forward? You gave some nice color on the commercial side on a monthly basis. How do we think about the consumer side?

Brian Moynihan

Well, let me just -- the issue was, if you think about being a large consumer lender and especially you watch the unsecured space, when March, April, May hit, you pulled in, and even in the small business space. So the good news is, is that we're reverting to norm. And so in December, for example, we had 198,000 booked accounts in credit card. That -- 191,000. That's the highest really going back to pre-COVID days, but we were running 300,000 back then. So we got some work to do to get it back to the full amount on the card side, for example.

In terms of mortgage. Again, we are careful there, but also we're conservative on rates, and we gone to look at that. So we booked about $7 billion in the secured lending side, including mortgage in the core consumer business. And so we feel better about that. Auto picked back up, but home equity is down to $0.5 billion a quarter or something like that, when it was running $3 billion or something. So we've got some room to go.

But the good news is the card is stable, the balances are sort of stabilized. And at the 85 million, you have some seasonality, but at least they stabilize there. And then the mortgage looks like we're picking back up a bit as we've made some adjustments and gone back to the more normalized underwriting. And auto has been strong. So we'll see it play out.

But you're right, we had to pull back and have lost about half the credit card volume on a given month. And we're picked back up to -- from 150 million at the low point to 200 million, but we've got some work to do.

Jim Mitchell

So is the uptick in marketing spend sort of reflective of that push to reengage with consumer, and we should expect some nice sort of improvement going forward?

Brian Moynihan

All our marketing really is around consumer product capabilities. So yes.

Operator

Next question is from Gerard Cassidy with RBC Capital Markets.

Gerard Cassidy

Brian, just a follow-up on that consumer commentary you gave. And in your prepared remarks, I think you said that you brought your underwriting -- you're bringing your underwriting standards back to the pre-COVID levels. Two questions, I guess, or 2 parts to it.

Can you give us some color of how they changed? When you tightened them up, now they're back to normal? Was it FICO scores on the consumer side?

And was it also on the commercial side, did you do the same thing? And some color on what's changed today there.

Brian Moynihan

Yes. So let me start with the commercial side. And this is about sort of the relationship side of commercial business, Business Banking, Global Commercial Banking, Global Corporate Investment Banking. Basically, in March, April, we stopped prospecting, frankly, because it was sort of impossible to do plus you want to make sure you understood the portfolios.

We've done quarterly portfolio reviews, every single loan going through to make sure the ratings are right, make sure we understood with the customer, to make sure we understood whether they're going to need covenant waivers. That, over the course of the time here, has sorted the group of customers, which are in the industries that Paul talked about, that are difficult. And the rest of the customers are solid, in good shape. And frankly, their credit has been improving as we looked at it by quarter.

And so about 4 months ago, we moved into prospecting with very narrow list of prospects for Business Banking and Global Commercial Banking, think for middle market and upper end of small business across all our markets. But then recently, we flipped, and they can go back to full prospecting except for limited industries that you'd expect.

On the small business side, because of the nature of the business, it was a little more dramatic, and we've opened back up. And we're getting -- we're up, I think, in the fourth quarter to give you a sense, we were up 50% in terms of the originations quarter-over-quarter. But we're still -- we were up a lot more than that, more than 50%. We're still down 50% year-over-year, up 100-plus percent in quarter -- linked-quarter, I think. And so new commitments, up 135%; but year-over-year, still down 47%. So that shows you that's coming through and we will see that happen in the small business side. So that was probably the slowest because it's -- they are the most risk. And so that's the commercial side.

When you go to the consumer side, the reality was we basically -- we stayed on LTVs on the commercial -- on the consumer mortgage side. We basically stopped with the FICO requirements, we slowed down and do the market dynamics, home equity slowed down. Auto, we went back out more quickly just because of the secured nature of and short-term nature of it. So we felt good about that. And probably we're always super prime and stayed there.

But it's really what's changed in consumer in the last several -- last few months has been the move. And we're back to probably 80%, 90% of the ability to generate that we had. We were down probably 20% and we moved back up, and so we'll see that flow through.

But it was really just, until you had some clarity where this thing was going, you had to be careful for a while. So that bodes well to economic activity and loan growth in the future.

Gerard Cassidy

Very good. And then, Paul, in your comments, you were talking about having greater confidence with the deposits to go further out on the yield curve. You talked a little bit about that already. I guess the question is what changed on the confidence side that now you're comfortable to take those deposits and move them further out versus maybe 6 months ago?

Paul Donofrio

Sure. So what's changed is, a, the level of deposits, right? We continue to get more and more deposits in. B, reviewing, as Brian noted earlier, where the deposits are coming from, predominantly high-quality deposits, checking, et cetera, new accounts. Three, when you look at just the sheer growth of the money supply, coupled with the expectation as we come out of this recession that the velocity of money will likely increase, it's hard to build a case that we're going to see a significant decline in deposits in the U.S. And we're going to get our fair share, if not more, of those deposits. So because of how we run our business on both commercial and the retail side in terms of focusing on high-quality deposits, we just feel good about the deposits we have.

Brian Moynihan

Yes. And Gerard, just to make it sort of straightforward. Once you got by the feeling this was an ephemeral move; and especially on the corporate side, that this was going to be liquidity that stayed with you, you could be a little more interested. On the consumer side, you always know those are going to hang, but the reality is the big inflow on the commercial side, you had to make sure it wasn't ephemeral.

Operator

Next question is from Brian Kleinhanzl with KBW.

Brian Kleinhanzl

I just have one question. It's regarding the reserve levels overall. I guess, when you think about it, I know there was some changes with this quarter driven, I think, by qualitative factors. But I guess when you look at relative to the base case, how much of the reserve is still related to qualitative factors? Meaning that if the base case comes true, that could be released over time.

Brian Moynihan

Yes. I don't -- I'm not sure we -- well, I'm not sure we give the exact methodology, but let me just give you a sense. If you take our reserve setting weighting, in other words, what we set the reserve by December, for year-end 2020 because we set it before the statistics. The unemployment rate was 7.8%, and for year-end 2021, it was 6.6%. And obviously, the actual was 100 basis points-plus below that.

So you would expect, as you have more confidence, that the forward path is into a narrower range. And the forward probability, two things are going to happen as you go forward. One is the sheer dollar volumes of site activity has changed, and so you're dealing with less in terms of charge-offs and things like that, which gives you confidence of where the path is.

But most importantly, as you think about real reserve setting and lifetime reserves, is that the economic assumptions are clarifying, and the end of the COVID era is clarified with the vaccine. And as we see that, you'll see the uncertainty come down pretty quickly on the other side of that when that shows up in our assumptions.

So we weighted downside nearly 50% of the elements. That weighting will come down over time. And so when that comes down over time, you'll see the reserves releases come away from that. The second thing is, as the duration of the rest of the crisis comes in with more certainty, i.e., more people vaccinated, you also see the lifetime calculation include the other side of the river to a bigger and bigger portion, and so that will drive it. So both of those things will change it.

And as Paul said earlier, if you look at our underlying economics team, they have the economy crossing over where it was before and growing past in terms of sheer size at the end of this year, and our reserve setting takes it into next year and things like that. So we are using a more conservative case, which implies judgment.

Operator

We'll take today's last question from Charles Peabody with Portales.

Charles Peabody

The first deals with what's going on in the regulatory front. Recently, we just had 2 new potential appointees, one to the SEC and one to the CFPB. Wondering what sort of issues you thought might emerge with these appointees. And more on the consumer side because that's what I'm hearing where the biggest (push) is going to be. Some of the things I'm hearing, there's going to be a crackdown on payday lending, overdraft fees, usurious rates, artificial intelligence used in redlining. Most of those probably (don't affect you) overdraft fees. But are there anything you can think of that might affect you? And specifically, what sort of things might affect overdraft fees?

Brian Moynihan

Well, a decade-plus ago, we started changing, before the rules were changed, our posture in overdraft fees, realizing that a more stable customer base was vastly better for the franchise in the operating deficiency. And so we welcome an industry which has a great consumer-oriented path to it because that's how we run our company. We've been doing it that way for a long time.

So our fees on overdrafts have been declining really as a percentage of fees every year and probably in gross dollar amounts most years. And so we're not depending on those largely because of how we run the business, being core customer checks, 90%-plus, the primary checking account in the household. And therefore, they tend to overdraft less. And this year with the stimulus and stuff, it's even lower.

So we welcome -- we introduced this new loan product that basically gives a right to get an emergency loan for $5. And that is our response to allowing our customers who've been with us for a while to access their money for really no interest at all and use it in anticipation of paying us back quickly. These are things we've done to really help our retail customer segment, which is the mass market customer segment, on manage their lives effectively.

And so we don't have a business built on those kind of fee structures, and that's we're not -- that's why we not -- we welcome any regulation that brings the market to us because, as the most efficient and the best brand and the best customer service, the largest franchise, that's fine with us.

Charles Peabody

And my follow-up question deals with -- I recognize the fourth quarter on a historical basis was very, very strong. (inaudible) for all banks -- or big trading revenues didn't. And so my question is (inaudible) a little more conservative in the fourth quarter. We already had the year, something that's making it more difficult (to achieve) expectations.

Lee McEntire

Charlie, you're really cutting out. This is Lee. You're really cutting out. I'm not sure we picked up. I think you were asking a question about FICC and something, but we couldn't hear you.

Charles Peabody

Yes. Basically, the FICC trading results in the fourth quarter on a historical basis were very strong. But they did miss analyst estimates, not just at BofA, but at JPMorgan, at City at Goldman, everybody. And what I'm trying to understand, is there something in the environment that's changing, that's making it more difficult (inaudible) too aggressive in their expectations?

Brian Moynihan

That, I don't develop those expectations. But our team had a good year and Jimmy and the team drove the business well. They do it consistent with how we run the franchise, keeping the balance sheet -- 1/3 of the balance sheet in the $30-odd billion of capital we have in the Markets business. And for the year, we earned above -- well above our cost of capital, and they did it -- think about the environments almost by month that were shaped. So we feel good about it.

And so I'll let Lee follow you offline to some of the broader questions, but we don't set other people's estimates, we only set our own.

So let me -- I think that was the last caller, Lee?

Lee McEntire

That's right, Brian.

Brian Moynihan

Okay. Thanks. Let me finish here and let you get back to your day. 2020, let's close the book on that. It was a strong year by the team. As we think about what we faced: A wild operating environment with work-from-home, massive customer deferrals that diminished over the course of the year, massive borrowing that paid us back, deposit inflows, government programs to implement, changes in those government programs, multiple cases of those government programs, and yet, the team did a great job. So I thank the team for all the hard work they did.

We finished the year stronger than -- the stronger quarter of the 3 during the crisis. We continue to see asset quality and -- mitigate now. And so we feel good. We're back in the market buying back stock today. We told you we'll buy $3 billion-plus this quarter. Our strong balance sheet capital ratios allow us to do that. And as we also said, NII troughed in the third quarter, and we continue to push up from here. And expenses year-over-year will be flattish despite the fact we're investing heavily to have the best franchise.

So thank you for your support. We look forward to talking to you next time. Thanks.

Operator

And this will conclude today's program. Thank you for your participation. You may now disconnect.