

Bank of America

Goldman Sachs US Financial Services
Conference

December 5, 2023

Participants

Host

Richard Ramsden – Goldman Sachs - MD

Participant

Brian Moynihan – Bank of America, Chair and CEO

Q&A

Richard Ramsden

We're going to get started. I'm delighted to welcome back Bank of America's Chairman and CEO, Brian Moynihan. Brian absolutely needs no introduction whatsoever. This is his 14th consecutive year. I know, Brian, it makes us feel old, but it's -- we really do appreciate you coming back.

Brian Moynihan

I was a lot younger then.

Richard Ramsden

So consistently. You're a lot wiser now. So thank you for joining us. So let me just start off with a very broad question, which is, look, I know it's been a very turbulent year for the banking industry, especially for the regional banks. Can you just start off with some of your -- some of the things that you've learned from the events of this year, maybe touch on the role that banks play in the broader economy and society. Just talk about how that's evolved from your perspective over the 14 years that you've been CEO.

Brian Moynihan

Sure. I think at the end of the day, Richard, what you saw in this year and what you saw during the pandemic because -- was that the banking system support the economy and did the things we had to do. And so if you think about it from -- anything from distribution, to government benefits from taking care of clients and waiving fees at the toughest times then helping people through it, then supporting the economies that regrew through it, then this year dealing with some of the excessive fiscal monetary policy that ended up causing inflation and rate movements never seen, and the industry is very resilient. And that comes back to what we do is we serve our clients. And if the American economy is going to be strong, the American banking system has to be strong and vice versa. And I think the last 12 months, 24 months, 36 months, 48 months have continued to prove that.

And then on top of that, the capital, liquidity, and other things in the industry have been strong. And at the end of the day, it comes down to helping lead our clients and helping deliver, in our case, a lot of money, a lot of earnings and do it with a purpose in helping clients live their lives. And "what would you like the power to do?" is what we ask our clients. And when they give us the answer, we try to help them do it, whether it's about their day-to-day lives, open a checking account, learning how to manage their household finances or the biggest companies in the world doing offerings to help make the transition take place in the environment or whatever the things are.

And so I think the keys are good capital, good liquidity, managed well, got through a crisis, help solve the crisis, especially the larger banks as opposed to being part of it, which is a good place to be. And by the way, the U.S. economy compared to the European economy pre-pandemic to now is -- grown by leaps and bounds over the economies around the world, and that's due to the financial services system. We're at large in the banking system supporting.

Richard Ramsden

So let's talk a little bit about the economy. So obviously, we're in this transition to a world of higher interest rates, potentially, I guess, higher inflation as well. Can you just touch on what you're seeing both in terms of spending trends, both consumer and corporate, but also talk a little bit about how consumer and corporate balance sheets are holding up in this world of structurally higher interest rates?

Brian Moynihan

Yes. So first of all, I have to apologize for saying, but it's true. We're the #1 research firm in the world. So -- and Candace Browning and the team have done a great job. But they're basically -- they've come around to the soft landing, and they weren't there. They had a recession predicted always like 2 to 4 quarters away from when I was speaking. I'd speak, and then they pushed out a couple of quarters. So it was one of those things I was chasing it.

But the reality is there's going to be a slowdown, but it's -- we haven't been positive. So think about this quarter, I guess, the final reading is, what, 5% in the third quarter, the -- most recently. It drops to 1.5, then to 0.5, 0.5, 0.5 kind of chugging through this U.S. economy, and it starts building back up. So it's a pretty fast slowdown from 2.5% growth and then its peak of 5% and then slowing down to 1.5% and 0.5%. But it's positive, and that's what we're seeing.

So there's a lot of reasons for that. And so if you think about how that reflects in our customer base, what we see today is on the consumer side, the spending from 2021 to 2022 across nearly \$3 trillion to \$4 trillion of money moving out of customers' accounts in the economy grew at 9%. Year-to-date, the same -- the volumes up. It's only going about 4% now. In the month of November, it grew about 3% to 4%.

Now that being said, Black Friday was a record Black Friday, up 3.5% versus last year, which was a record. The Cyber Monday was a record. The whole weekend was a record. But it's much more consistent with that money moving out of customers' accounts with a lower growth, low inflation economy, and that's what you're seeing. So then you dig in, services being spent more, entertainment being spent more. You're seeing the rental payments going out of our customers' accounts. Your growth rate tipping down, which doesn't sound good because it's still going up, but it's going up at a less high rate. You're seeing -- the way customers are spending their money is leveled out. In other words, there's not this good service -- this massive change. So some things are growing faster, but it's leveled out, meaning that all the categories are kind of growing plus or minus the average.

And so that's all good news that the economy is normalized. When you go to the commercial side, kind of interesting because the draw rate on the revolvers and lines of credit, that's just using simple math even though it's different by business, 40% pre-pandemic, dropped to 30%, moved back up to 36%, 37% is now back down by a couple of hundred basis points in the last 3 months or so. That means corporations because of the higher cost of borrowing will be more judicious in managing their balance sheets more tightly.

And therefore -- and I got to hire somebody who buy this piece of equipment. Things that would cause them to borrow, they're being more careful about. And that again means -- but that's consistent with supporting growth in the economy and supporting their businesses, and they're making money and everything. It's not a credit risk question. It's just their appetite of credit's down.

And so you put that all together, I think the engineering, the economy has engineered a soft landing. It's set up. We've got to be careful about overshooting the fight on inflation because we don't have inflation getting down to the 2% target at the end of '25. And so this will be higher for longer, but higher in the context that we sort of won the war inflation. We've got to be careful not to win it by too much right now.

That's -- the danger now is the policy mistake is on the other side. And by the way, I'm not saying anything that people that set the policy don't understand, that's the risk. And that's why we're trying to maintain more balance with the view that they'll fight inflation if it kicks back in. But right now, you don't see those attributes coming through.

Richard Ramsden

Okay. Great. So let's talk about your strategic priorities. I mean, I ask you this question every year. You're very consistent usually in your answer. But I'm curious, look, what is top of mind strategically heading into next year? And also in your answer, maybe you can just talk a little bit about some of the growth initiatives and where those have got to because I do feel that those really have started to bear fruit over the last few years.

Brian Moynihan

Yes. So if you go back 10 years ago, we said -- almost we said we got to drive responsible growth. And what people -- we have to remind people at the time that, that was a drive towards growth, not a drive towards responsible. We're already responsible, we'd reshape the company. And so that's been going on. And so '16, '17, '18, '19, that's clicking through. Pandemic hits, music stops. Everybody have to run around, do stuff, and then you come back out and do it. But underneath that, you've seen it.

So what have we been doing? We've entered -- if you think about the priorities are to continue to grow the massive consumer franchise, how do you do that? Digitization continues to invest heavily in future functionality capabilities, a new mobile banking site, et cetera, more and more mobile customers, but at the same time, more branches. And so as we've been looking over the last few years, we've built out a lot of places. As we look to the next few years, by '26, we'll be at 90% of the top 100 -- 90 of the top 100 markets will be fully complete. Those markets are growing well.

When we go to the market, it's not a branch just to say they're there. It's 25 branches in Columbus from zero 4 years ago. It's 15 or 17 in Cincinnati. It's like in the other states. So we're driving that. And then Merrill Edge is over \$400 billion of assets and driving good account growth there. So we drive that, the investment side that's setting it up. So -- and in credit card, we're investing more in card, and it's growing a bit in response.

So in the consumer business, it's basically drive the core checking franchise, drive the core borrowing attributes that produce good value credit card, home equity and things like that, although people aren't using a line. And then drive the digitization of all to make it more efficient. And over the last 10, 15 years, we're down from 100,000 people in the consumer franchise to 60,000. And it's not going up, yet the amount of people selling and servicing and the sales levels are going up.

Go to wealth management, it's net new accounts and 110,000 net new accounts of wealth management [since 4Q 2019] (corrected). It's the Merrill teammates and the Private Bank teammates is driving it, better alternative more -- better alternatives practice, lack of better term, continuing to drive the investment management, but also building out the offices and places in conjunction with the consumer business we're adding. So in Columbus, we had a bunch of financial advisers, but we didn't have a consumer franchise. Now you get it. So half the Merrill accounts -- the Merrill customers have their core banking account with us.

What does that mean? The other half don't. And so how do you drive that? So we're working on that lending to those customers. And then in GCIB and Commercial Banking, we've added a bunch of commercial bankers. They've added 1,000-plus accounts, new customers issue, new logos as we call it. They're doing a great job. And then effectively, the GTS business, the cash management business, investing several hundred million dollars in that to build out our capabilities around the world because we were not as good as we want to be outside the United States. That's initiative.

And then the markets business, Jim DeMare has done a good job. That's just more balance sheet, more capital. He made a step change, and they've returned on it nicely, and he'll keep growing it. And it's rounding out the franchise deeper intensity with clients and things like that, but it's not like it's a change in what they do. It's getting the levels right. And then obviously, the digitization of that practice goes up. And then efficiency across all businesses grow with efficiency, and that's what we try to do.

Richard Ramsden

Okay. Great. So before we start going through some of the details around interest rates and how they're going to move, perhaps you can just give us some high-level thoughts on the fourth quarter, if anything has changed from the last time that you spoke.

Brian Moynihan

Well, if you think about the fourth quarter, we still feel good about the NII guidance, \$14 billion, which was what we said. We feel good -- the big issue on expenses, the FDIC resolution came through. So that's \$2.1 billion to \$2.2 billion, slightly higher than the original estimates, but that's -- just due to the math of the calculation in our expense of 15.6. So that sort of brings the total expense base to \$17.7 billion to \$17.8 billion depending on where the FDIC settles in. So we hit the \$15.6 billion, which we feel good about.

When you think about things like the investment banking, the fee pool looks to be down 10% to 15%. We'll be at about \$1 billion in fees this quarter as our best estimate now, which puts us just down low single digits, which outperforms the industry. And we've been doing that. Frankly, we've been gaining share in that business, and Matthew and the team -- Matthew Koder and the team have done a good job.

On the markets and trading, now we're this late in the quarter, you can look at it and say, it looks like we'll be up low single digits year-over-year, which is good performance by Jim and team, probably the best fourth quarter we ever had. It still has a seasonality from third quarter, but they've done a good job.

And I think the other thing that we're just trying to get people sort of on par with us is the -- these tax deals. So we have been a major financier of renewable energy. So 10, 15, 20, some percentage of all the renewables sits on our balance sheet tax equity, and that's what we've been doing to drive that business. And so the benefits have been coming through a tax line all year. But what happens in the fourth quarter, you get a ramp up of the deals that closed because everybody rushed to get stuff closed by year-end. And that looks like it would be \$1.2 billion to \$1.3 billion of negative other income, which is like rise in other years, but it's a big change from the third quarter, and we're just trying to get people straight there.

There's always confusion about it. So where are the tax benefits? The tax benefits, you take a more pro rata, and that comes in all at once just by when the deal is closed. So those are 4, 5 major things. And the company's around while everything else, those are pretty much in par with what we said.

Richard Ramsden

Okay. Great. So let's go a little bit deeper on your thoughts around NII. I think last time you spoke, I think you said your expectation is that NII is going to trough in the first half of 2024, and then it will start to grow in the middle of next year. I mean I think since you last spoke, obviously, interest rate structures have moved around all over the place. So is that still your view? And maybe you can just unpack some of the drivers for that growth.

Brian Moynihan

Yes, it's still our view that rates have come down, especially in the sort of short or intermediate term, 10-year and 2-year and 2-year and 5-year. But basically, we had rate cuts in that scenario. So we always follow the curve, and that's what we're trying to be careful about that we follow the curve. And so there was a rate increase in the curve that went out and other things. But we still feel good. Troughs in the first half grows in the second half, and that's just loan-to-deposit balance.

So what drives that? And it's deposit balance. So it was -- think about this early last year, I think we talked heavily about, you had a trajectory of 5% growth in deposits in the industry. And the industry has shot up above that and was coming down. And frankly, the belief of most participants out there would go right through it and get back to sort of on par with the pre-pandemic. And you said, "No, it's going to start to flatten out." What's happened a year later is you're seeing our deposit balances actually flatten out. So in the businesses, which had like the banking business, the commercial banking business, those balances are actually growing again.

GWIM's relatively flat. Consumer for the last 6 to 8 weeks, it looks like it sort of bounced around the same level. And it was -- it's the slowest because you have people spending money and sort of has more dynamics to it. But that total number of \$1.9 trillion versus \$1.5 trillion is a lot bigger deposit franchise. And we were sitting here last year at the debate of whether that would come through and end up back to \$1.5 trillion. So we're up 30-odd percent pandemic to date. The industry is up about 27%. That shows you the industry has done a good job at handling this up and down and stuff. So we feel good about that.

As we look forward, it appears that those deposit balances are the key. And as they sort of hit the balance levels and stabilize and the pricing stabilizes and then you reflect that, but we're reflecting rate cuts in those estimates and say we flatten out and then grow from there.

Richard Ramsden

So maybe -- you talked about deposits, so let's spend a bit of time on that. So how would you characterize the competitive dynamic for deposits today? Obviously, there's a very competitive bid for deposits, obviously, in the early part of this year. How has that evolved?

And I think, look, specifically for you, more than half of your deposit funding is obviously consumer deposits where the rate paid is very, very low. Now that we've been in this world of structurally higher interest rates, are you starting to see changes in customer behavior in terms of yield seeking?

Brian Moynihan

No. So we get caught up in all the different names for deposits, but there's basically 2 ways a human being, a wealthy human being or a company manage their money. They have the transactional cash, and they have investment cash. And there's a little bit between that called the cushion for your transaction, okay.

We are the largest generation of transactional cash relationships with our consumers and our companies, and that's what we do. That's why we have a low cost of deposits because those are generally 0 interest in the consumer side or very low interest in other parts. And they've come in and help the money comes in. It's just for us, that's \$1 trillion type of numbers straight into deposit numbers as opposed to the CDs and money market funds and stuff which price up. So if you look what happens is that stuff is priced up.

So in our GTS business at the margin, the noninterest-bearing -- the interest-bearing accounts are priced competitively, and we're growing those. But you still have the noninterest-bearing and middle market companies and small businesses and stuff that are very advantaged to us. And then the earnings credit rate, which we move up and down to adjust to that, yes, we'll come right back down with deposits, so -- with rate structure. So we feel good about that. But you have to think about the 2 differences, and that's what makes us different, and that's why our all-in cost of deposit seems to be lower than others. It's because of that. We just don't have a lot of CDs in the consumer business, and we don't have a lot.

Now what we've seen is that rate of increase is slowing down as rates fall off. And frankly, it would start to come back down, frankly, if rates happen. But the money people are taking out of the market and even you look at the consumer balances, we get this great debate that people have more money in their accounts or less from pre-pandemic. The reality is all the movement on the consumer side is the higher accounts that went into the market. The lower-end accounts are still sitting with multiples what they have -- lower average balance. The higher are down 25% because they moved all that money to the market because it was investment cash, it wasn't transactional cash. And so that's gone out of the system, and we put that all together. We have \$1.9 trillion deposits. We used to have \$1.5 trillion. Consumer went from 700 to 950 to 960.

And the cost has gone up. And I'd rather have the franchise in the industry and our company that against the 5.5% cost of funds is only paid \$1.50, it's 400 basis points of gross spread. Will that even out over time? Sure it will, but it's a pretty nice place to be.

Richard Ramsden

So you talked a little about deposit flows, and it does seem as if they're coming in a little bit better. So can you just spend a minute on what you would attribute that to relative to the debate that we were having last year around just how much was going to leave the system.

And then specifically, as we think about 2024, if QT is going to remain a feature, if you like, of Fed policy, how much of a liquidity rate for the banking system do you think we could see?

Brian Moynihan

So on the first, if you look at what's going on, just to give you a simple -- if you think about over the last 19 [quarters] (corrected) or something like that, we produced 3.4 million net new checking accounts.

Richard Ramsden

Wow.

Brian Moynihan

An average balance of \$4,500 in those net new ones, not in the aged ones. The aged ones are like \$10,000 average balance. So that's like the core franchise is growing, the net checking account production. And we're grabbing people who are using as a primary bank and getting there. And that's what happens. The 1,000-plus logos that we got in the -- it's 1,000-plus logos in the middle market and GCIB space all bring us operational corporate accounts. I mean that's -- it's borrowing.

And GTS, so you're seeing that business well above \$500 billion now. And it's still -- it's all in. The rate is 2.5, 2.6 or something last quarter. Think about that. So it's very advantaged. But that's a blend of all different types.

So I think we're seeing the flows across everything. It's really by one customer at a time, net new checking, getting the account balances from our wealth management customers in the house, getting more GTS relationships here and around the world. And some of it's more pricey. Some of it is not so pricey. When you put it all together, you see what you get. And that's -- it's a very advantaged process.

When you think about QT, that's always affecting the far end of the question, which is the RRP rate versus the overnight rate versus the bank deposit rate. That's always going to affect that. It's not going to affect the fact that the employees of Goldman Sachs are getting paid more money than they were pre-pandemic. It's running through their accounts. Guys like you are spending on all those wonderful stuff. You don't know you have the money, honestly. Why? Because it's always going in and out. You've got to keep that plus the cushion.

That piece doesn't change much. But at the margin, the withdrawal liquidity comes from money going to -- off balance sheet and things like that because of the relative attractiveness. But that's a small part of what we do in our company. Other companies affects their cost of funds more, not in ours.

Richard Ramsden

Okay. So let's talk a little bit about the rate environment as we head into next year because I think there's a real debate around what this means for the banking system. The market is obviously now pricing in a series of rate cuts for next year. But I think a higher-for-longer rate environment is obviously still a potential outcome. So maybe you can spend a couple of minutes talking about what structurally higher interest rates mean when you think about the trajectory of NII versus a scenario where the Fed actually does start to cut rates as we head into next year.

Brian Moynihan

Well, so our base assumption in the market have rate cuts. We internally just to give -- have 2 to 3 cuts next year and then 4 the next year. And let's say it's 2 and 4, that's 150 basis points. That's still a pretty high rate to your point. And that's what's needed to do it. But if you go back and look at periods of time when that was going on, yes, we had 3% Fed funds rate and say, 4.5%, 10-year or something like that. It was a good place to be because all these 0 interest deposits, these transaction accounts, now they're worth a lot more.

What's hurt since post financial crisis and barely got there in '18 and '19 was the rate structure got there, what, 2.5% peak on the Fed funds or something. It just didn't open up quite the value. So you ought to see the restoration away from the fighting for a 2% NIM to back to 2.30 and 2.40 potentially, which is a big expansion, but that's going to be by the 0 interest -- by the stuff staying above the floors at a higher level.

And yes, there'll be more competitive rate structure sort of permanently embedded in the other stuff. But that transactional cash, again, is washing through. There's no interest rate paid. And so in consumer, the checking \$500 billion, \$600 billion or something like that or more out of the \$900 billion, \$500 billion, I think the \$900 billion. So that's really coming at very low cost. Even some of the other stuff is too, but that really doesn't change.

And so I think as rates stay higher, that's worth more. And you forget it sounds like more, but when you're saying 0 versus 4 or let's say, 15 basis points versus 4%, that's a huge nominal spread difference versus when rates were 2% versus 10, 15 basis points to 185 versus 385. That's a huge difference for our profitability over time. And that's what happened. Now there'll be more competition and other things will happen, but that's more on the non-transactional side. And that's where I think it's a little bit different than people think when you really think about how consumers, companies and wealthy people use their money.

Richard Ramsden

Got it. So look, I know there's been a lot of focus on the HTM portfolio this year as rates have risen. And obviously, losses on that portfolio have increased. But obviously, they do pull to par over time. But can you just spend a minute or two talking about how you're thinking about managing the balance sheet over the next couple of years, just given the amount of uncertainty over where rates are going to settle out?

Brian Moynihan

Well, right now, we have \$3.3 trillion. Our interest rate sensitivity today in the last quarter is sort of up 100, up \$3 billion to the good, down 100, \$3 billion to the bad. It hasn't really changed that much. And that's because the focus on that portfolio at \$600 billion that's been running down is just \$3.3 trillion in assets, all those stuff going on.

And so we manage it to keep in a quarter that we think is acceptable based on the realities of where we think it's going. We run millions of simulations and all that stuff. But if you think about what happens is we have \$2 trillion -- \$1.9 trillion plus of deposits. We have \$1.050 trillion of loans. We have \$1 trillion plus to put to work every day, and basically it's barbelled.

At some point, with new liquidity rules and everything, that's going to go on and people are talking about -- you're probably going to have to take that long-term portfolio and ladder more, and that will give up some yield. But that will be reflected a bit in deposit pricing, too, because if you can't make money on the asset here, you're going to have to take more deposit out to make the money.

And so we'll see this play out in the industry, but I think it's no different we have, which is how do you manage the whole balance sheet, the banking book for NII and even the markets book, but how do you manage the whole balance sheet, how you think about the relative pricing. And my guess is when you throw it all through a regional bank, we have a NIM around 3 something of -- a big bank like ours have a NIM around 2.25, 2.5. And because they're all sort of settle out in the wash, it just will feel funny going through it because this pace of rate up and down is something we haven't seen.

Richard Ramsden

Okay. So let's talk about expenses. I think you've done a great job managing expenses really over the duration of your tenure as CEO, driven a lot of operating leverage. Maybe you can unpack a little bit what's happening below the surface in terms of continued investment spend versus efficiency saves. And maybe talk a little bit about how some of the inflationary pressures are maybe either starting to ease or still are in place, given the competitive environment for talent heading into next year.

Brian Moynihan

So just overall, we had about 15 or so, I think, to today, 15 or something, maybe 16 -- 14 and 15. We're running the company with the same nominal expense dollars. That's kind of interesting when you think about it, right? So 8, 10 years out. Now what's happened is it came down to low 53, and it's moved back up. That's partly inflation. If you actually look at our -- what's going on, the inflation's caused us to go from \$53 billion, \$54 billion up to \$63 billion, \$64 billion in concept and the investments.

And so if you look at -- if you went back and looked at that nominal dollar amount years ago even pre-pandemic, we're probably doing \$2.8 billion to \$3 billion a year in technology initiative development. Now we're at \$3.8 billion. We were probably doing 70% of the marketing we do now. The charity was 60%, which is part marketing, too. And so all that's increased, and the wage has increased dramatically in the incentive compensation.

So we invest in technology because that makes us more efficient and more effective, and that number is huge. We cost about \$11 billion, \$12 billion to run the technology platform, of which \$3.8 billion this year and \$3.8 billion plus next year will be invested in pure initiatives. We have 6,100 patents on technology in our company. We have hundreds and hundreds of inventors and stuff, and we keep deploying that. So that's the investment.

The second thing we invest is people. And so if you look at the headcount for our business banking, which is companies up to 50 million, that's gone from 600, 800 last year. If you look at -- even GCIB, the corporate investment bank, we're up 1,500 people over the last couple of -- last 4, 5 years, and that's Matthew building out the franchise of commercial bankers, corporate bankers. If you look at the sales trading team up. So we invest in that, what do we do? We take it out of the work and so we'll get there.

And then the other thing is invest in real estate and capabilities, not office buildings. But -- and that's a net interesting play because if you think about the branch counts come down probably from that time, I'd say probably high 4,000 to like 3,800, 3,900 today. But in there is complete refurbishment of all the branches, a complete deployment to all these markets we weren't in, and you're paying for that by doing it. So broad scopes that we invest in those types of things, technology, people, the physical plan for those people to work. And then you say, okay, then inflation. Inflation has been high, but it's leveling back off, quite frankly, in terms of wage growth in the population generally. Our turnover might hit an all-time low.

So then the question is how do you manage your expenses or having to make adjustments? So we started last year at this time having come through The Great Resignation, which again is 15 months ago, we're all talking about this. It's like -- if you forget, it was literally second, third quarter of 2022. We're all worried that every person is going to quit our company. We turned up the hiring. We come through the end of '22, and all of a sudden, we overachieved it higher. We just ran right through the turnover rate as the turnover rates start coming down, and then we adjust it. So we hit a peak. We went from 208,000 people to 219,000 people probably from, say, March or April of '22 to January of '23. We're back down to 212,000 people, and that's just by managing the headcount carefully.

And in there, you're still adding those bankers, you're still adding those financial advisers, you're still adding them. But what you're doing is you're taking it out of the operations, and that's the efficiency move, the OpEx movement. And so we're down to 212,900, I think, at the end of November, including 2,500 new kids that came in, in September -- in August and September. And we just manage the headcount. We have not take big charges. We haven't had to lay off a lot of people because I think that's just bad management.

So how do we manage it? We manage headcount 3 years out by month, by every position, by every heartbeat as we call it, by taking managers out. We're down 200 to 300 managers this year, maybe -- actually, we're down 500 managers this year because we've gotten -- overachieved our management hiring, and you just manage it. And that allows you to kind of keep that expense base. That sets us up for 15.5.

15.6, 16.2, 16, 15.8, 15.6, last year was 15.5. And so you've leveled back out, and now you can invest to grow off of that, but you got to get baseline to start with.

So I don't know if that helps think through, but it's all OpEx. We have \$2.5 billion of takeout of expenses, '26 and beyond an annualized run rate that are going through the system, '23, '24 and '25 that you won't see that hit the bottom line because it takes that much investment to keep the company going across \$64 billion. But that's how you pay for it and keep the expenses relatively flat.

Richard Ramsden

So just a quick follow-up. I mean given what you mentioned about turnover rates being very, very low, should we expect any type of larger severance charges versus what you've taken in the past?

Brian Moynihan

We always do a little bit around the markets and banking business, just the usual stuff that you guys all do at the beginning of the year. But other than that, we just -- all of it, it's redeployments. So we'll have -- we wanted to add some people in AML. We took 400 people out of -- one of the other operations and moved them over. And we've gotten pretty good at moving people around. Really from the pandemic, we had tens of thousands of people work on the special programs.

And so it's -- and we're paying for 212,900 people. They may be doing different things next year. And that's the key to keep that headcount flat is to redeploy because the problem -- typically managers say, I need 50 people, and they hire 50 then somebody else says I want to get rid of 50 people. We're now saying how many of those people fit that hole. And when you go across 200,000-plus people and you'd be a little more location-agnostic than you could because of what we learned in the pandemic. They'll work in our buildings, but they can work different place in our buildings and still work -- it's much more flexible. And so all we're doing is watching the fill rate versus the attrition rate. So we got to keep the headcount level. So we'll have to hire 1,100 people to sort of stay running in place. And -- but you're just watching it, but you have to watch it way out there and be adjusting all the time.

Richard Ramsden

So let's talk a little bit about your investment banking and capital markets businesses. So a 2-part question. The first is, look, are you expecting a significant pickup in primary activity next year, so M&A and ECM? And then secondly, I think one of the growth initiatives that really has worked is the investment that you've made in the capital market business. You've clearly taken the market share in there in those businesses. Look, the Basel III proposal increases the capital requirements in some of those businesses quite significantly. Does it in any way change your view of the attractiveness of growing in those businesses going forward?

Brian Moynihan

So if we separate the markets business, Jimmy DeMare and his team away from Matthew Koder and the team -- Matthew and the team, as we look at the pipelines are still very full. The dynamics around large company acquisition are real in terms of getting deals approved and when they get that slows down. But if you look at the financing dynamics, they kick back up. And pre-pandemic, we'd run \$1.3 billion to \$1.5 billion a quarter in investment banking fees in the firm. Now we're running -- run down \$1 billion, run up to \$2 billion plus and down, but that had to do with a lot of just the stuff flying through. But you're seeing it fundamentally set up well. We've got the coverage we have. We build our middle market coverage, which is -- which they've done a good job from 60 people to 200. We'll keep growing that, which helps with the middle market franchise.

So I think the investments we made in the corporate investment banking are still places we got to invest are strong, and they've got a good return. But if you look at that business as a set of customers, it's loans, deposits and in capital markets and M&A. And right now, you're seeing a rebound in the debt capital markets activity picked up. You're seeing some equity deals get done.

The M&A deals are coming a little faster, but they're still -- there's a lot more out there it could go through, frankly, if you get a stability in the interest rate environment, stability and belief of the economy because right now, you're in this transition. And corporate CEOs are sort of look at it and saying, "Yes, but what if that's wrong? Do I really want to make a deal now?" And then find out that the -- that everybody's prediction of the soft landing isn't quite true, and then I have to pay for it. So that's going to -- but they've moved up to a given category or whatever, there's #3 in fees, #4 in fees. And they've pushed through. And so Matthew and the team have done a good job there.

Jimmy, what's happened if you think about it from 20 years ago to now is the consolidation industry from the -- this is a hard business. Now with all this capital, with all the risk around it, with all the technology investment with a separate rules requiring you to do things differently in different countries and separate

legal structures and Brexit breaking, all the stuff. So frankly, the scale players have it. And so what we've done is we just have to be building out when the market share was moving our way. And Jim and the team have done a good job. I don't see us changing that course.

And as we look at -- they'll pick up some more capital. And their returns are -- we return 15%. Return on tangible common equity of 12-ish. They're at the low end, but that's because they occupy a bunch of capital. But they offset -- honestly, the mix together optimizes the total cap of the company and the expertise and capabilities. So you're going to let them invest up, and we always said they'd be 30-ish percent of the company. Actually, it shrank down a little bit and push them back up, and we'll keep pushing them. But I think the market share is coming from how hard this business is to do now.

So the firms, when you look at operator chart, firms on the left are gathering share away from the firms on the right because it's just gotten hard. And I can understand the people on the right saying, this has gotten difficult. And it affects my enterprise differently than it affects ours because of the balance we have in the businesses.

Richard Ramsden

Okay. So we've got a few minutes left. So let me ask you a couple of questions. First is, let's talk about credit. Obviously, a lot of focus on commercial real estate, a lot of focus on office. Can you give us an update as to what you've seen over the course of the last few months in terms of deterioration? Are you seeing any contagion outside of office into other parts of your commercial real estate portfolio? And just broadly, how are you thinking about the trajectory of charge-offs?

Brian Moynihan

So starting with a broader point to the narrow point, if you look at the charge-off rate for third quarter and so far this quarter looks holding in line, it's still below where it was pre-pandemic, which you're trying to have people remember. That was like a 4-year low. So 30 to 40 basis point charge-off rate for a company has \$100 billion of credit cards driving that as some of our companies do, that's still very strong credit performance. We built some reserves.

So then you go -- so the consumer side other than that is kind of uninteresting mortgage loans, home equity loans. Cards are very much under control that it's a smaller book and contribute some, but not cards are always going to be the dominant part of the actual month-by-month charge-off. And the delinquency rates on there are still not quite back to where they were pre-pandemic, which is very good times. And that's -- and quite honestly, are we smart? Yes, we believe we are. But what's really happening?

Unemployment rate of 3.9% does not generate a lot of card charge-offs. But you have to let that charge-off rate come back in because that's how you invest in the business. Cards or our cost of goods sold is part of credit.

When you go to the commercial real estate side, it's just -- it's a small book for us. We have rerated it. As we rerate, you have to do new appraisals. New appraisal come in, 80% LTV, the original appraiser 50%. So we feel good about that business. We put up some specific reserves, charges come through and take away those reserves, but it won't be that eventful. And we're not seeing it creep into other stuff at all. And so we have \$5 billion of its criticized, and that's all been reappraised fully, \$5 billion, \$6 billion of this, really \$15 billion of credit risk in there. There's some stuff that's more securities.

And so we feel good about it. And we're not seeing it in other parts of commercial real estate, and we're not seeing it leak out of really the -- the 8 quality office is still hanging in their major cities. So it's really a BC quality office. And for us, it's just such a small part of the table. It's not something whereas general commercial credit is very good shape. I mean, the ratings and stuff are solid. The SNC review has come through, and nothing is getting rerated for us. It's all good stuff. And the team has done a great job there. And in fact, we're pushing ourselves and saying, are we taking the right amount of risk now, given how strong the risk parameter is. And so we're pushing team, is it time to help some of our commercial real estate clients as time -- that are very well structured deals today because 75% LTV the day after a markdown is actually an interesting question.

Richard Ramsden

So final question. I know we're kind of running out of time, but can you talk about the Basel III proposal? It does seem as if the consensus view is that it is likely to change. Is that your view? But maybe you can also just talk more broadly about how you're thinking about managing capital returns, just given the uncertainty around where capital requirements could end up.

Brian Moynihan

So simply put, we -- if you say our requirement is 10% and you do that math times the implied increase in RWA, we have that capital as of the third quarter. So we don't need to "raise capital" to get there. We don't have to change the balance sheet, then we can have capital for dividends, capital for growth and capital for share buybacks and grow a little bit of cushion. So this is not in there.

The problem is I just think that it raises capital, captures \$30 billion of capital that our shareholders deserve to have the right to get back with no real risk change in the company. And so if you look at it from advanced -- one of the things everybody looks at from standardized, if you look at it from advanced, the credit risk in the industry is going up a lot.

And one thing the industry is beating themselves up on with CCAR, with everything, with the models, with the model risk management, with advanced approaches, with parallel run, all the stuff we talked about from 2010 to 2015 and '18, '19, you just throw it all away. It doesn't make sense. And it will restrain the U.S. economy and make the U.S. middle market company less competitive than the European middle market company or the Asian middle market company, all supplying into the same supply chains. The world is a global place despite what people say.

So that's why I think they've got to be properly balanced in it. From our standpoint, we earn 15% ROTCE on the capital that's required. We'll be fine, but that's not the right answer for the economy.

Richard Ramsden

Got it. With that, we're out of time. But Brian, thank you so much for coming back. Look forward to seeing you next year.

Brian Moynihan

Thank you.

Disclaimer

Certain statements contained in this document constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect management's current beliefs and expectations, are not guarantees of future results or performance and involve certain known and unknown uncertainties and assumptions that are difficult to predict and are often beyond the control of Bank of America. Actual outcomes and results may differ materially from those expressed in, or implied by, forward-looking statements. You should not place undue reliance on any forward-looking statement and should consider the risks and uncertainties discussed in our most recent Annual Report on Form 10-K and subsequent Securities and Exchange Commission (SEC) filings, available on the Bank of America and SEC websites.

[Terms of Use](#)