BANK OF AMERICA

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Participants

Host

John McDonald – Autonomous Research

Participants

Brian Moynihan – Bank of America, Chair and CEO

Q&A

John McDonald

As always, we'll start off asking you your views on the macro. This time last year, we were talking about whether the Fed will be able to tighten and also engineer a soft landing while killing inflation. A year later, we've hiked 500 basis points. Inflation is still high, maybe coming down and unemployment remains very low. How do you size up the Fed's task from here? How much has been done? What needs be done and your outlook for the macro in general?

Brian Moynihan

So I think if you back up this time last year, we'd have been talking about the Feds battling the American consumer who had lots of money, lots of spending, getting wage increases, et cetera. And so they were spending double digit, so May of '22 without going back and look at over May '21, it's probably 10% to 15% in terms of spending going out. So if you look at that data through -- not quite, don't have all of May yet, nearly all of May -- and that's across all means of payment and it's $4 trillion plus a year -- that's only up about 3% this month. And so in the last 3 months, it's fallen from a 9% growth rate year-over-year to 3%.

So the American consumer spending has slowed down. And when you go on the commercial side, you see that uses of lines is flatter now and that there's not as much loan demand out there. And obviously, the most rate sensitive things, homes and autos and stuff, slowed down. So I think they've -- and you see all the inflation statistics tipping over. So I think they've largely done the task. And interesting enough, they've had the things added to the -- that we wish they wouldn't have happened, but they were, which is tremendous capacity taken out of the industry in terms of failure of -- 3 bank failures and disruption.

And if you're a historian and you go back and look at what Paul Volcker did around Continental Illinois, is he paused for a while in the middle of one of the biggest fights on inflation in 1984. If you go back and look at the press conference, he said "I'm pausing" because I don't know the impact of this failure and the distress. And I think I would say at this point, that's where they are. They've done enough. You're seeing the signs of it come over. The near-term data is saying even though employment is pretty strong – we can talk about that – it's still -- wage growth is slowing, employment, new claims are up a little bit. You're seeing it start to come through the system, and things like spending at restaurants, which creates a lot of employment because it takes a lot of people to run a restaurant, is down to 3% year-over-year growth versus 17% 3 or 4 months ago.

So I think they've won the war. Now the question is -- they've got to probably maintain, and we don't have a drop in rates until March or April next year. We have a recession, slight, in the second -- third, fourth and first quarter, negative growth. And it seems like that's setting up. And meanwhile, credit is strong. And meanwhile, consumers have money in their accounts. They haven't depleted them, but the tightness is causing them not to spend, which then slows down a major part of the economy.

John McDonald

Your point is what we're seeing on the spending is consistent with inflation coming down further towards that target?

Brian Moynihan

Simply put, they have -- it seems like they've won the battle and -- on consumer spending continuing to fuel inflation. And now you got to be careful you don't win the battle too much.

John McDonald

And just a little bit more on the savings levels. We're 2 years past the last COVID stimulus, but those actions still have a lingering impact on deposit levels. Just give us an update of how much of that pandemic surge is left in customer accounts.

Brian Moynihan

So when we were looking around this a couple of years ago -- and we keep refreshing and trying to figure out what's the right way to think about aggregate deposit levels in the industry and in our share of that if we gain little share or lose a little share, et cetera. So simply put, as of the end of March, the industry was up about 31% since the start of the pandemic, and we were up about 34%. Let's back and unwind that. From '14 to '19, the industry grew about a 5% growth rate for those 5 years from around $10 trillion to, I think, around '14. And then -- from then to the beginning of '22, so after all the stimulus, it leapt up to about $18 trillion.

Now it's down to $17 trillion. And so it's dropped by 5% after a couple of years. But if you drew that 5% line out, you'd say there's another $0.75 trillion to get back on the trend line. And so you can have very interesting debates with economists about nominal GDP and real GDP and all the things. And you would have -- but if you really sort of say that trend reflected a rate rise period in '17, '18 and reflected an economy growing at low single digits and an inflation of 2% and what happened – you had a 5% growth rate of deposits in the system – it would seem that there's still another 5% to go. And so our job is to get our share out of that like we've done so far by outgrowing the industry, and that's what we're up too. But we don't -- you won't see our deposits be much different than large banks, largely because we honestly don't have anything to do with the money. And -- so it's -- if you think about -- the consumer gives you deposits for 2 reasons. They want to transact and then they have excess cash. And we, as a company and banks, in general, have 2 uses for the money to fund our core operations or to invest our excess cash.

And so as long as you have enough transactional cash to cover the core operations plus, all the other cash is really discretionary whether you take it. And so chasing rate and then paying a rate that's equivalent to the rate you can earn is not exactly a great business. So we take our customer's money and put them in the market. And in fact, we do that for other customers of other companies. We raise money for them in the markets for their deposit base, and that's what we do. And so you'll see us perform like everybody else. But the interesting thing is I think the expectation of the industry of growing deposits off that 17% growth rate for a couple of years -- the Fed can't achieve its goals of taking on inflation without taking that cash out of the system, and they're doing it now. And then the question is, it's probably half to three-quarters of a trillion left to go based on sort of broad estimates.

John McDonald

Yes. So you're kind of pointing to this is an expected cyclical thing that -- that is not an existential issue. It's just outflow that you'd expect to happen given what the Fed is doing.

Brian Moynihan

Yes. And that's -- so that's -- and so why wouldn't it happen? If they're tightening conditions, they got to get that money out of the system. And frankly, it's sitting at the Fed or sitting in the RRP and sitting in money funds, which -- none of which provide a lot of fuel to the economy because they're basically going to T-bills and things like that.

John McDonald

So is it kind of a 2% to 3% deposit decline is what we're kind of looking at in terms of H.8.?

Brian Moynihan

We'll be in line with that more or less. And -- but the good news is the core deposit franchise continues to grow. And you sort of say, well, balances. But we had 1 million net new checking accounts the last 12 months, 130,000 in the first quarter alone. 35,000 new banking relationships in our GWIM business, lots of new logos in the cash management business – those are new companies doing business with us. And -- so you're having the most rate-sensitive stuff, you're putting it into the market for the customers, but you continue to build underneath that a core customer base that is why we're at 34% and the industry is at 31% through last quarter. We'll see where we end up this quarter.

John McDonald

And you've been able to manage your deposit betas very well: 12 basis points paid on consumer deposits, 90 bps on deposits overall. How much harder is it getting to kind of keep that rates paid low. And in some ways, it could be viewed as a disadvantage in that the market is expecting reprice to happen, and you're very low.

Brian Moynihan

That goes back to what's the customer have the cash for and what you have for the use of cash. So if it's the customer's excess cash, they're going to want to earn more yield on it, because it's investment cash. Think of it that way. And by the way, that's just not checking, that's checking plus the cushion. Your mother told you to keep a cushion, your grandmother told you, you have to keep that cushion. And by the way, a company does it too, because they can't take the risk of a payment bouncing or check bouncing, whether small or large companies -- so across -- or a wealthy individual has the same thing, the numbers just get bigger. So you look across each space, you have the sort of core transaction cushion, and then you have the excess, which is really investment cash. And so the beta on the excess is always going to move because that money is -- your competition is us putting it in a money market fund for the customer. But the beta on the other stuff doesn't move because it's either noninterest to a large degree, or basically is -- quite frankly, there's money in motion that people really don't know they have in the broadest context. So they're in the clearing system, paying bills. And so even with a business that's running, running through, so doctors' offices: money is going out, money is coming in. If they get too careful and miss that cushion, they have a problem, and that's what they're trying to avoid.

So I think you should see us really handle our pricing decisions based on that. It will equal some number that you'll calculate on a cumulative basis relative to the Fed funds rate. It's not the way we actually do it. It's every product, literally customer by customer, but every product and then how the relationship works. So the preferred rewards business that require balances of x -- if people take out those balances, they lose rate benefits, they lose other things. So there's a mixture of ways you get there and likewise in other areas.

John McDonald

And how about on the loan growth side, what are you seeing in terms of the industry loan growth, things are slowing when we look at H.8. and the loan officer survey. And so it's kind of also probably naturally expected, but just talk about what you're seeing on the loan growth side.

Brian Moynihan

I think we're seeing consumers sort of flattish. Largely that's because mortgages are sort of dead; a little better in card. Everything else is sort of floating around. On the commercial, like the line usage dropped about 1,000 basis points in pandemic, got back about half of that. And then I thought -- everybody thought well, they will just go back up, that's like, say, it's 42% to 32%. Everybody thought it would just sort of march up there. It sort of flattened out in the 36% range sort of in the aggregate to give you a sense.

And that means, going back to the inflation rate, that means companies are not seeing the need to draw on our lines, and it's more expensive. They will be much more careful. So whether it's hiring, whether it's inventory builds or whether it's equipment purchases or whether it's facilities, whatever they do with the

lines before they put permanent financing, you just see it. So loan growth will be flattish this quarter. And that's probably a little bit less than we expected, but generally in line.

John McDonald

And what about pricing? Are we starting to see some wider spreads? Is that contributing to the demand? And how fast can that be helpful as the book doesn't turn over that quickly, obviously?

Brian Moynihan

Yes. So in the floating rate area, it moves with the market because it's floating rate, but the problem is the spread you have -- in the loan agreement, you can't change until you get to a point where you renew it or it gets redone. So that takes -- that's a multiyear process. But you are seeing better, what we call putting on spreads. So new -- spreads of new originated middle-market loans and small business loans and even large corporate loans is wider than the old spreads. It just takes a while to turn them over.

But it's in a good direction, and hopefully, the industry will keep its discipline.

John McDonald

Is that recent that the loan spreads have grown?

Brian Moynihan

Yes, it really started probably, I'd say -- towards the end of last year. As the markets got disrupted, you start to -- are able to get a little bit more spread. And as capacity for lending in the industry, again, was taken down on purpose by the monetary policy and the quantitative tightening, et cetera, et cetera. People are going to be more careful how to use their balance sheet and have to get paid on it in order to pay the deposit-side pricing, which is increasing.

John McDonald

And looking out beyond this quarter and beyond just Bank of America, do you feel like industry loan growth is going to be flattish or very low for the foreseeable future?

Brian Moynihan

That's going to be the economic path, honestly. And so I think we've always built our thought on loans to sort of outgrow the economy by a bit, because you're sort of slightly gaining -- you're constantly gaining market share at a rational level based on the credit. And so I think if you have like we have, which is a recession predicted for the third, fourth and first quarter, even though it's slight, it's hard to predict loan growth in the face of that.

And so we thought we -- where you had the recovery in loans from, I think we had $1.04T starting the pandemic. It's surged because of the borrowing and then fell all the way to $950B or something like that. It's back up at $1.04T. So you've kind of recovered, that's kind of through the system, and that was sort of the 14% annualized growth type of numbers. So we're now into single digits. And I think this quarter will be a little bit lest. I think last quarter was consistent with that. I think we'll kind of fall back in a range of, say, 3% to 5%, 6%. We'll probably be at the low end of that range in the industry.

But as the economy recovers and we have a recovery next year, you'll see it kick back up.

John McDonald

And just back on the pricing of deposits, are you seeing different behavior from small banks versus big banks? It seems like the bigger banks have been able to hold deposit pricing.

Brian Moynihan

It really is mix and what you need it for. So the idea of chasing balances with higher rates when you really don't have anything to do with the money -- it's not exactly -- and for the customer, it's better just to put them in the market-based instruments. And so think about our wealth management platform, $300-odd billion of deposits still in there. That number ran up in the pandemic, a lot higher than that because we had

$80 billion of sweeps – I think it ran up to $175 billion – now it's back down to $80 billion, all that money we just pushed into the market because we just couldn't use it.

So I think I would say, if I need that money to fund my corporations, I'm an institution, I have to pay up. And that's -- so I think -- so I don't think we're seeing as much in a way. But we're -- look, we're not above for customers and relationships, we'll pay for deposits when it makes sense at the customer level. And then on the corporate side, it re-prices like that. So it's really a mix of where you are in terms of the customer segment.

John McDonald

So bringing that all to the P&L just a little bit. For net interest income for Bank of America, you talked about in the next quarter, you'd be down maybe 2% from the first quarter, given all these dynamics with loan growth and deposits. Is that still the outlook? Any tweaking on that?

Brian Moynihan

Not substantial. I think we're fighting to hang on to that but not by much. It's just -- it's a dog fight, plus or minus 100 or something like that. And it's largely, frankly, just due to the little bit less loan growth, deposit growth, the industry, a little more disruption. All that stuff is a little hard to get precise across $14.6 billion, plus -- minus 2%. So -- but we're doing everything we can to maximize and optimize it.

John McDonald

Yes. Yes. So if you did come in at that level that you were targeting, that $14.3B or whatever for the -- what's the path for the kind of -- given your outlook for the rest of the year, you leak down a little bit like going forward?

Brian Moynihan

We've studiously ignored you when you asked that question each quarter because the answer is it's really hard to predict until you see everything settle in and is the Fed going to overshoot or they going to undershoot. So we're trying to give you the feeling of what we see and then sort of look at it 1 quarter in advance. And in a few -- a year or so ago, we went the other way. We said it was going to be down in a session like this. It turned out it was back up. So it's got a volatility around a quarter. It's not like it's a $1 billion difference, it's $100 million, $200 million difference.

So we said it would sort of drift at this lower level in the low 14 type of level and bounce around. And whether that's up or down is really going to depend a lot on the environment around us. But it's -- the good news is it seems it's coming out largely what we said, and that's good news.

John McDonald

Yes. I guess just bigger picture, for kind of a generalist audience, is the positioning for rates. For many years, you were positioned benefit from rising rates. And how should people think about that front?

Brian Moynihan

We're balanced. We test up and down 100, up and down 200, we stress test it and all that stuff. But we're balanced. And so we've sold a lot of hedged securities just put them into cash because it effectively is simpler and yields more and stuff. And so we're pretty much balanced equal up and down. I think right now it's -- and it will be like that because just because the nominal amount of rates and how fast they move.

And then we still have a lot of 0 interest rate deposits that they get squeezed whenever you come down, and $300-plus billion in consumer alone plus the rest of the franchise. So it's a big amount of money that doesn't move at all up or down, so when rates come down a little bit, it hurts you and rates go up, you can make money on it.

John McDonald

Yes. And just one more on deposit mix. And one of the kind of concerns for investors is that for the industry, the mix of noninterest-bearing is high relative to the last time rates were this high. Are consumers just slow to kind of mix out of noninterest-bearing? You mentioned the cushion and your mom and grandmother want cushion but...

Brian Moynihan

That's -- so it's really different for each business because the sort of transactional amount, which is the checking balances plus the cushions that may have in the money market in the consumer environment or they may have in some sweep accounts in the wealth management environment or they just have in the balance sheet of which we're doing. So starting with commercial bank, you have -- people have to pay you for their services or else they've also got to cut you a check. And so that required amount when rates went from -- the earnings credit went from x to 3x, can be 1/3 of size.

So that piece is down to more traditionally where it is. And of the noninterest-bearing, that's like half it, the rest of it is that cushion, and then the amount above that is the money that's with us that is more rate sensitive, and we manage that. So I think it really depends on the customer and what you're using it for. But I think a lot of the movement of money in our platform is done in the sense that we had -- in '22, we had $70 billion in taxes paid, and this quarter, it's more back to -- this year, it was more back to normal. There's some timing between the things.

The money that has moved to get rate is largely there, and what's left is sort of in the commercial bank, especially, it's bouncing around the same level for months. And so what's left is probably the higher end of the consumer business as people keep tiding up and figure out where they are and et cetera, and what's a little bit left might be in the wealth management business. It's been pretty flat for a while, which means that the money that’s moved has moved. So the stuff that's noninterest-bearing today is probably there because it wasn't movable back then and probably still isn't movable.

The way we drive that, though, is to get 130,000 new checking customers each quarter, one after another and then deeper relationships on the wealth management side and the new logos, and that keeps that cash building, which adds all deposits, including noninterest-bearing.

John McDonald

Just shift gears, talk a little bit about your capital markets business. Just maybe some comments on the environment. The investment banking landscape has been challenged. Any changes that you're seeing deal activity or just overall comment kind of on what’s happening in investment banking?

Brian Moynihan

Matthew Koder that runs the Corporate Investment Bank, so corporate bank and treasury services and the investment banking has done a good job. So we've moved up to #3, and that would make you feel good except for we went from $2 billion in revenue down to about $1.2-1.3B. Right now, we see this quarter coming in $1.x billion sort of in that same range. The good news is it's not moving around down much. It's just sort of bumping along that level. And oddly enough, if you went back about 4 or 5 years ago, you'd say, that was a decent level of investment banking fees in the second quarter of the year.

It's just that we've had this major move in fee pools in the industry. So we feel good. We still -- by all the external data, we're still sitting #3, the team’s out there firing away and doing a good job. So I think we're probably consistent with that sort of low $1B, and that's been sort of bumping around -- the -- so I think that's where it is. When you ask them what's going on, the amount of activity and discussions and -- with our junior teammates, they're fully deployed and busy because we were redeploying them to other parts of the company, doing some different stuff, and now people are saying we can't do that anymore because we need them all because so many pitches are going on. So there's a lot of activity. Your question – will it result in deals and stuff. And there's people lining up equity raises and there's people lining up other stuff, it's just -- you just got to get, I think, a notion that the tightening’s pretty stopped or the incremental from here to

there will be small enough that people can sort of adjust it, and I think it will come through. But we actually gained share as the world came down. We kept more flat.

And on the sales and trading side, frankly, I think we'll be flattish this quarter, which it may be very strong performance. Jimmy DeMare and the team have done a great job of sort of stabilizing that business and keeping it a little less up and down than some of our comparisons. And that then holds us in good stead. So -- whether we end up exactly flat or not, I think it's kind of -- right now, it's down a little bit, but the next month is typically a little stronger month for us. And so think about flattish, and that's a pretty good performance.

John McDonald

Yes. I mean we've heard from a couple of folks this week with double-digit declines expected in the second quarter in sales and trading year-over-year. So that'd be quite nice outperformance. Is there things about the mix that you'd point to? Or...

Brian Moynihan

Part of it is the mix, but also we are now compounding in a multiyear investment in that business, expansion of balance sheet, expansion of RWA, expansion of capital deployed, hundreds of millions of dollars of technology like $500 million, $600 million just in that business per year. All that's compounding in the sales capacity. And Jim and the team have done a good job, and Soofian on the equity side and Jim and the team on the fixed income side -- fixed income. And now if you looked in the products, mortgage and things like -- mortgages and some of the other stuff are performing better, and that may favor us over some others. But the reality is they've done a good job.

John McDonald

Yes. I mean a few years ago, you mentioned you weren't allocating enough to that business and capital, and you've increased that -- you just said the investments. Are you at where you want to be now?

Brian Moynihan

Yes. I think -- we probably -- yes, I mean, they've still got capacity left from where we said. So it's not like they're constrained on a given -- we watch the RWA, but that's like meaningless in the grand scheme of things, I think you could give them another $5 billion or $10 billion of RWA capacity. And so they've done a good job, but they have capacity left to use. And so they will use it when they think there's opportunity. And I think Jim has had a very strong approach being balanced about that, not just trying to grow the balance sheet sake, but grow where we had advantage.

And then thinking in the markets around the world. And frankly, they've avoided some of the pitfalls and some of the ups and downs, and they've done a good job. And so they could take more but to use it fully, the capacity we already said, they could take, they’ve got a little room to go. And then we could give more because we have the capital to do it. And returns in that business, if you look across all our businesses, it's always going to be lower because it's so capital intensive. But as you optimize some of the business mix, we used to struggle to get it to double digits and now sort of sits above that all the time. So you're more comfortable that it doesn't dilute the ROTCE of the whole company. They're actually contributing -- doing a better job at getting up near the edge. So therefore, they're not dragging it so you can have -- put more capital. For a while, it would have dragged down the returns too much to do it. Now the returns are better.

John McDonald

Yes. So talk a little bit about expenses. You've had in operating leverage, good success, generating operating leverage over the years. I think your 7 quarters consecutive now with positive operating leverage. I assume that gets a little tougher with the environment. So I know you're pushing the team to manage cost and headcount this year, and you've kind of set a bogey for $63 billion in expenses or so. Just talk a little bit about how you're managing that with the investments you want to make and driving the headcount to where you want to get to.

Brian Moynihan

So we -- we -- at the end of the day, our company has in its $60-odd billion expenses, $36 billion in comp. And then, of the other $20-odd billion -- $25 billion or so, it is basically a lot for the buildings and a lot of the computers that the team works on. And so it's all about the people count. And so what happened during the pandemic is we went into the pandemic, I don't know, 205,000, 207,000 and pushed up as high as 218,000. And some of that was considered investments here. Some was just frankly, the ineffectiveness of things going on and then some of the specialized programs we had to put people against and all that stuff.

That's all coming out of the system, and we're redeploying those people. When I talk about reductions in heads, it's not layoffs, it's actually moving people in the company around, and we have a very -- Sheri Bronstein and team run a very disciplined process to redeploy. So -- so we -- Alastair said at the earnings call, we'd be at 213K at the end of the quarter, and we're there and that looks like it's well in hand. Now in a broader economic sense, just to give you a sense, May last year, we hired 3,000 people. May this year, we'll hire 600 or 700.

Think about that in the market in terms of us and all these other employers doing it. That's the softness in the labor market. So even the statistics today, ADP, I happened to have the ADP economist talking to a group I was with this morning, and she said, look, it's the small employers that are adding people. The big employers are relatively neutral: manufacturing and stuff. So it's kind of interesting. And so you'd say what's -- how does that all work? And how that all works is the attrition has come down dramatically. And so we were targeting to reduce the heads in these areas we didn't redeploy.

So if we'll hire 600, 700, we'll have like 1,300, 1,400 leave the company, part for attrition, part for retirements, part for leaves of absence, whatever reasons and that'll get your head count down. So we've engineered that down. We close to -- we'll get to 213K plus the interns who we can exclude because they come in this month and go out next quarter, and it's great 2,500 -- 2,600 talented kids showing up to -- we're a people company. And we're doing it. And then you work in -- your operational excellence work. We invest hundreds of millions of dollars a year in the efficiency of the platform. And you're working on real estate at the margin, we haven't – we continue to shed real estate $130 million in 2010, $60-odd million, keep shedding real estate, compacting people.

But you take part of that and redeploy it into -- we've probably got a $500 million a year in marketing over the last couple of years. We've gone up just last year, this year, probably $400 million in technology initiative expense to almost $3.8 billion. And then that grew probably from $3 billion a few years ago up. And so we're trying to redeploy it. And even on people, we went from 600 business bankers -- so think $50 million in revenue size companies -- up to 800 over the last 24 months. We kept adding them, and that positions us well in the current environment. So we're always trying to add where we need it and take out where we don't, and that then allows us to manage expenses.

But look, we -- the expenses grew during the pandemic, inflation, all these other things, and we got to flatten it back out. We think we should get 7 quarters of operating leverage this quarter, and we plan to keep doing that. It gets a little trickier as NII flattens out and you got to bring expenses back in line. And we think that's just good discipline, honestly. And meanwhile, we're investing a bucket load in the company. I mean the digital capacity of our company, we talk about AI or something. Erica just went through its fifth year. It is an AI predictive language technology thing that has 150 million, 160 million interfaces with consumers every quarter.

So believe me, we've been applying that technology elsewhere in the company, and we're bringing in the new technologies and trying to make ourselves more efficient. And these have great things down the road, but near term, you can use it in ways that can help you today, and that's kind of interesting. And then just the general reengineering of grind: look at every process, what can you take out -- look at...

John McDonald

A lot of runway there, right?...

Brian Moynihan

You're not trying to take it down, you're trying to keep it flat while you're investing, and that's – we were able to bring it down a lot from, say, '15 to -- '14, '15 and '19, we said we'd be down. You guys all thought we were crazy, and we showed you how -- and we did it. The reality is that if you look across that period of time, the company's expense base across the last decade is basically flat, which is kind of interesting when you think about all the activity that goes on and the trading businesses, the numbers of trades through the roof and the wealth management business, same things. So we've been able to engineer out a lot of costs and the digital has helped us across the board.

John McDonald

Where is it from here? Like is it kind of still the branches and (inaudible) all the checks around...

Brian Moynihan

But the good news is Zelle is now past checks written in numbers, which is kind of interesting. So Zelle transactions have passed checks written. And it's -- my guess is we'll exceed Venmo's volume just on our own Zelle overall, and the industry exceeds it by a lot, but just on our own, in relatively short order. And on top of that, it will actually exceed the amount of transactions taking out cash out of the ATMs.

And that's kind of an interesting question, which is now you're starting to see this thing become a core way, and we've got it in the small business environment and stuff like that. So it's very -- we still have 14% of checks deposited at the branch. The good news is checks are down 25% '19 to now. So the more we take -- people quit writing checks, the less go into the branch to be deposited. And so you just working the system hard and hard, and that's all on the retail side. So branches, I think over the last year came down like 300 or something like that.

And yet, we just deployed a new branch literally today, in Minneapolis -- we're deploying. And so in Columbus, we deployed, I think, 15, 20 branches. We're up to 5 billion deposits in Columbus from scratch 3 or 4 years ago, 100 million size branches that we put deployed in the last few years. And that's a pretty efficient system. So you never want to give up on that opportunity. Meanwhile, you're taking them out of places where the density is different now. It's everything.

John McDonald

And how -- talk a little bit about that how it's driving customer growth. I think you had 130,000 new checking accounts in the first quarter. That's a long stretch of new account growth. What are the biggest drivers for customer growth? Is it expansion into new territories? Is it just being in good markets? Maybe just a combination of things?

Brian Moynihan

Yes. So we're -- of the top 30 markets, we're top 3 share in multiples of the other competitors in the top -- we've been looking at this for years, building the franchise to cover more markets. I mean we looked at the markets we were in, we start picking them up. And so that's helping on the one side, then the work we do with young people, we're attracting young people and young people 10 years ago are not so young. So we've been doing this for many years to -- and we -- in the 16- to 25-year-old -- 24-year-old segment, we open accounts twice the rate of the population.

And so we're gaining share. And that doesn't mean a lot of balances, but that's the future. And then you're working hard in the wealth management business, so 35,000 banking products deployed in the last quarter in that area. Meanwhile, 13,000, 14,000 new customers loaded in that business, a record in the first quarter. And then in the commercial business, it's the same sort of drill new logos are, I think, up 40% in the first quarter or something like that over the last year. So you're just driving it all these places.

So it comes from every single thing. But remember, digital now is, in the consumer space, is well over 50%. And so that's where the -- advertising has gotten deployed to drive the digital engagement, and the acceptance in all our consumer products, you can do it digitally. You can take on digitally. That doesn't mean

the branch is not critical import because people bounce in and out of the process. So that's helped us because that's really a 24/7 limitless acquisition vehicle, and so we drive activity there and volume.

So the team has done a good job. And so it's a little bit of everything. I mean, it really is. Merrill Edge is growing strong and record net flows, and it's getting to become interesting in terms of numbers of customers and $375, $400 billion of AUM, and they're aside from the wealth management platform. But most importantly, it's the customer of the future starts there and moves to wealth management. And that continuum, we have is very unique. And that's -- and that we have that in the personal business. We have it in small business, we have it in large businesses. And so we have where we can follow customers their whole life, so we can take on that 16-year-old and not have to be too worried about what happens as they go to college and stuff because when they come out the other side, no matter what their career path or even if they never go to college, we can have them as a customer for life and that's a powerful model, and that's what we're just materializing on.

John McDonald

And you're seeing that migration from the folks that come in with self-directed and progress up?

Brian Moynihan

Yes. I mean the numbers that we count the -- we call them referrals between the businesses and the hundreds of thousands a year are looked at. Those that really need the personal service are brought out, and that's a smaller number. But meanwhile, we're also deploying that product set into the wealth management client base because a lot of individuals have a direct account. And so we keep suiting that up at the same time. And then behind that is the 401 (k) platform and Bank at Work platforms and things like that, and it provides vehicles. So these are all -- we have 8 lines of business, and we have these huge vehicles, whether it's the cash management business, whether it's the wealth management platform across the businesses or whether it's deposit business across platform, whether it's Merchant, that's growing – that's still going to be -- we're 5 or 6 in the business or something – we've got to push up. 401 (k), same thing we're growing and we're 6 in the business.

Those are places that we have, but it's the integration of franchise allows us to materialize on it. So it's a part of our products that we offer through cash management opposed to stand-alone merchant acquisition business, for example.

John McDonald

In terms of credit quality, are you seeing anything in consumer delinquencies outside of expected normalization? Maybe just talk about what you expect for a path on consumer credit.

Brian Moynihan

One of the things that we've all fallen in the trap is we go back and compare to '19. In 2019, I think it was like a 40-year low of credit costs in the industry and our company. And so -- and we're still not back there yet. And so the credit quality is still very strong. And so everybody is like well, it can't stay this strong -- but it is, in the delinquencies. And so from responsible growth across many, many years now, and we have underwritten to standards, which are looked at through our own stress testing, through the -- Fed stress testing, through the model designs in the consumer space, especially and commercial underwriting.

And it's -- but it's not normalizing because normal would have been to a higher level. It's basically reverting to where it was ahead of pandemic, which is a very low thing. And I think that's kind of a debate. As we look at it, remember, our reserves today are set on a 60-40 weighting to base case and adverse. The base case now has the recession because that's -- that's the blue chip economic thing. It has a mild recession. So you kind of look at it, so unemployment, our weighting, I think it reaches 5% or something like that. So -- which is not -- in many people's models individually, but you do all the average to get there. And so it's very conservative. We're not seeing any delinquency kick ups of any sort. We are prime. And so that's the behavior we see is among prime customers. And so we feel very good about it. And it's just -- you keep

managing it well. But what we did in 2014, '15, '16, '17, '18, '19, '20 will serve us well. There's really not much you do right now, because the portfolio is set. And we've stressed it, and we feel very good about.

John McDonald

And on the commercial side, commercial real estate office is not a big exposure for you, but can you just talk about how you see the office environment playing out for banks in general and just comment on your exposure.

Brian Moynihan

We're $73 billion in real estate and $18B, $19B in office, and it's 2% or whatever the portfolio. It's 50% LTV at origination, and it's A quality and it's this stuff. The interesting thing is as we -- when a loan goes into reservable criticized, it gets downgraded, you have to reappraise it today, and we have really appraised those loans, and those appraisals are still at 70% LTV today in the last -- not literally today, but in the last 6 months or so. And so we feel very good about our portfolio. That being said, when I talk to -- this is one of the most interesting topics when we talk to people in the business: I was just in the Midwest the other day. I'd say more than anything else, when I hear the experts talk to me about it and listen and try to sort it all out, it's more recent buildings, A office space versus not A office space, which cities, where the building is.

And so it's a very complex outcome -- against the basic backdrop that people are squeezing real estate because of all the dynamics that went on and the learning about location of work questions. And so -- so that's going to be a downward pressure. But on the other hand, if the building is a great building, you see them leased up and fine. And -- but in our portfolio, we just we basically made a conscious decision from 2009 financial crisis to push commercial real estate into a place where we really wouldn't have to worry about it. We -- people say, what's your reserve level to this that, and you say, wait a second, it's a quality of portfolio.

So you can -- you don't have to worry about the top 30 banks. You can literally look at this every single year: they've been stress tested under a set of criteria you can look at 30% down, 40% down, and the output is 9 quarters of losses. And you can see them. So there's no mystery. And that's -- that's a lot of the banking system. Interesting enough, it's not a lot of the commercial real estate loans in the banking system, because they tend to be in the more midsized banks and down. So I don't think this is -- this will be an issue, it'll be a concern. It will be a fight, and we'll never convince the outside world it's not until it's over type of thing.

But on the other hand, for us, it's not much -- it's nothing. I worry about other things more. But -- and I can see why people are concerned about it. But overall, even the experts say it's a very nuanced question. People are just lumping it all together, and that's going to be the interesting question is how that nuance plays out. And then you have half of it is not in the industry, and then you have time, right? So everybody thinks this is all comes due tomorrow and this stuff rolls out over time. And so we'll see it play out. But for us, it's just not that big a deal.

John McDonald

Yes. It's a slow movie to play.

Brian Moynihan

And it's fairly transparent for the top, I don't know, 30 banks or whatever do the stress test, I mean, you can go look at the data and compare year-by-year.

John McDonald

So overall, I mean, you sound pretty good on credit like in terms of like projecting a recession, but you think we'll have a very manageable credit cycle associated with that from everything you've seen.

Brian Moynihan

If it's a slight recession, because of the quality we play in, because of how we manage our portfolios, it should be -- we're up to $1 billion of credit cost a quarter now. It was $1 billion pre-pandemic. Charge-offs

are 800-ish, and they were almost $1 billion in the pre-pandemic. It's in that level, but that was pretty good times. And then -- so I'd say, yes, it's going to -- it will kick up and required. But the reserve, the reserve methodology now, CECL is different.

It's because you put up so much. We're sitting at probably twice the reserves we had, 3x, going to financial crisis. So the need to build reserves on a trillion loan book is much different, and it'll be more volatile because of the way CECL operates. But it's -- we feel generally pretty good. And frankly, the whole industry, because the stress testing, the work that's gone on for the years, I think is a much more solid industry, and that's why it'll take -- getting through this all to do it. But if it's the recession that's predicted by the blue chip indicators and what not, it looks like the industry should fare well.

John McDonald

Yes. Bank stock investors are pretty anxious and beaten down a bit. But so on the credit front, things sound pretty good. So it's really the concerns on the earnings front related to just funding costs normalizing and coming up and then just the lack of balance sheet growth?

Brian Moynihan

We're in a twist. I mean, we're in a place that inverted rate curve unusual, fast rate rise, inflation that was highest it's been in years. How is all this run through the system? You had failures of these different business models. And so you can see why people in -- and you have a recession predicted and banks shouldn't do okay in a recession. But against that, you've had years of positioning the companies generally across all the -- especially any institution of any size is examined and stress tests and stuff.

So I think that countervails it. And we just -- but we just went through the most pretty unusual environment. So it's -- there's still work to do. There's still pluses and minus, ahead of us. There's still a recession to get through. But you watch these companies and you watch the industry, and by and large, it's got a lot of capital, a lot of reserves, and we just got to manage through it. Meanwhile, you're seeing the signs of slowdown coming.

John McDonald

And can you talk a little bit about your capital position, preparing for likely higher capital rules for everyone in terms of some proposals coming out? And just kind of how you're managing growing capital and distributing capital -- we've been pretty consistent with the idea that we're deploying 100% of earnings. You try to keep a dividend within below 30% of that, then the other 70% you've deployed in share buybacks or capital growth.

Brian Moynihan

Capital growth is always the first priority. And so we've been pushing the dividend up constantly against that earnings stream. And so that's given us a lot of flexibility. A chance to go in and buy the stock back when we had excess capital. Last year, we all got surprised in the stress test, and I hope we hope and believe it should not happen again. And so we -- but we instantaneously hit that capital level. We're sitting at 11.4% plus last quarter against a requirement, all things being equal, which should be a 10.9% beginning the first of next year. And so we already got the cushion on top of what we have.

So we feel pretty good about that. We build 20-odd basis points a quarter in capital. And all of us took it easy on stock buybacks this quarter just with all the stuff going on. And so we bought back what the employee issuances are and -- so we'll build a lot of capital this quarter, and then we'll see what happens and work through it. But when you're heading into a recession, when you're adding things, you just got to make sure the capital is there. So there's no question about it, and we feel very good. But -- but the principle is always the same.

The dividend will go up some. They keep raising the dividend consistent with the earnings. And as we bring share count down, you can deliver the same amount of dollars of dividend payments, equal more dividend growth, and then use the rest of it to support the business and/or buy back stock. The reality is the demands

on the business in terms of capital other than the calculations that come at us are not different. There's been -- the loan book is $1.04 trillion, and it was $1.04 a few years ago, and we got better loans and we have more space even to take loans off and put on more core loans. We still have $10 billion left over, believe or not, from the financial crisis that still runs down. We've got consumer real estate, we could securitize if we wanted to, to make room. So we got plenty of capacity to lend. So you really come down to the markets business we talked about, how much RWA you have there.

The commercial I'd run though is -- you've got to be careful because the competitiveness of the American banks and middle market companies' competitiveness in a worldwide supply chain can be hit by the capital requirements in America being gold plated and higher than other parts of the country because these new rules would apply. It's -- they're not tiered. It is the basic calculation. You can have other rules. And so we got to be careful about making our banking industry's cost of equity coverage so high that our cost of capital to our midsized lenders that participate and fight in the world, multinational companies, have new capital markets.

But the midsized people supply in the auto business or the renewables energy business or the farm, whatever it is, the Americans will be disadvantaged. And I think – it's often been said about Basel – is it trade negotiation or bank regulatory negotiation. And the answer is it's probably a little bit of both. So I think we got to be careful how this plays out for the good of America.

John McDonald

And your expectation is we'll find out sometime over the summer or with some proposals about what regulators want -- investors are worried that regulators just feel all banks need more capital.

Brian Moynihan

Yes. I think we'll see what plays out. I don't have any insight on timing that you don't have, honestly, John. And -- but I think the points that the industry is making and we're trying to make very appropriately with humility and care is that if you look at -- around the world, this industry has the strongest capital, especially because of the SCB, especially because of gold plating, and it's just really, really different. And so you should be careful what you do next. That doesn't mean they're going to -- the regulators will do what they divine out of their work. But it probably means that we're pretty engaged in the discussion.

So it will come out at some point and there'll be another round to talk about it again.

John McDonald

Just a couple of quick ones in the last few minutes. What impacts do you expect from the liquidity drain coming from debt ceiling resolution and potential treasury issuance or is there a potential?

Brian Moynihan

Yes. I mean, well, -- the #1 thing is the Senate's got to pass this, and they have a process which takes a little longer, and hopefully, Senator Schumer and Senator O'Connell can bring them together fast, because now the deal is cut, we've got to get it done to remove this potential, which is just -- it is hard to understand what happens. And as a company that distributes a lot of social security payments and a lot of other payments -- in 2011, we were getting the file to send out the money, but the money wasn't coming in.

At some point, that's got -- that causes a little bit of a problem. But -- so I think that's number one. And number two is: then the Treasury then has to issue effectively -- they run at an expense base that is going along, they just couldn't issue the money to pay for it, so the cash drained down and they have to restore that. Whether they do that all once or not I think is probably them thinking about themselves of funder. And so it clearly has an impact, but it's not impacted in some ways. It should have been planned for in the sense that this is the budget that was approved and the deficit was approved. It's just we had a fight about whether we're going to try to go backwards. So I can't get people both inside the government and outside of the government to tell me whether this should be a concern or not.

And so my guess will be bumpy until everybody is convinced it's not a concern, but we don't think it's a huge -- there's a lot of -- there's a lot of money already at the Fed and in the overnight repo and in other places that will then come out of -- there's $2 trillion in the overnight repo facility that could be redeployed by more direct securities and -- so the money can move around and cover it up, but it's not -- it's ¾ of a trillion or whatever it's going to be. So it's not a small amount.

And so we'll see it play out. But I think it's probably more of a capital markets question than it is a general economy question.

John McDonald

Maybe the last one here from the audience is, Warren Buffett is a large shareholder of your company. He's a big fan of competitive moats and competitive advantage. So what are Bank of America's competitive advantages versus your biggest peers?

Brian Moynihan

Our competitive advantage is the -- in each of the businesses, the core transaction relationship, whether it's a company, whether it's a wealthy consumer or a consumer. And those have different attributes. Mass-market consumer, it's just a bank account; for wealthy people, it's the wealth management business; and corporates, cash management capabilities. But that deposit-taking capability is just -- we think we're 14% of retail deposits and growing. And we're similarly in wealth management. That is a very big competitive advantage that we have that is defensible in all things.

So 5 years to create -- it's hard to recreate. It took 230 years to get here. It's not like you can get here overnight. And yet when -- if we were here 5 years ago at this conference that would have been all about fintechs and neobanks are going to destroy -- well guess what, we're still here, and we have more digital -- we have 66 million customers, 54 million of them are digital every day. We're a bigger digital company, $1 billion plus digital interactions every quarter -- than most of the companies out there, not just banks. And we got an AI platform that's doing 150 million transactions/interfaces a quarter and stuff.

So the moat is around that. And then behind that, the other moat, which is a little more subtle, is this continuum question, which is a person can be born and the rest of their life, they could be a customer. And there's never a piece of the business that we aren't the best in, and that is a competitive moat. And we see that over time. And well, all that will come on this management team's watch. At the end of the day, we are -- we've run this company in that way now for a good period of time. So what you're seeing is that's coming to fruition: from the company that started a small business customer went public, from the individual that started that out of college now is an entrepreneur or one of your teammates you're paying a lot of money to or something like that.

So it's -- that's a competitive advantage. It's just the depth of the franchise, the services you provide, and the fact that it takes physical, digital, risk management, technology, and that moat plays out, and that's why we've literally been gaining share in these businesses slowly but surely over time. And then you're a big compounder that way.

John McDonald

Great. With that, we'll leave it there. Thanks, Brian.

Brian Moynihan

Thanks.

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