

Bank of America
Third Quarter 2021 Earnings Announcement
October 14, 2021

Participants

Presenters

[Brian Moynihan](#) – Bank of America, Chairman and CEO

[Paul Donofrio](#) – Bank of America, CFO

[Lee McEntire](#) – Bank of America, Investor Relations & Local Markets Organization Executive

Q&A Participants

[Betsy Graseck](#) – Morgan Stanley

[Charles Peabody](#) – Portales Partners

[Chris Kotowski](#) – Oppenheimer & Co.

[Gerard Cassidy](#) – RBC Capital Markets

[Glenn Schorr](#) – Evercore ISI

[Jim Mitchell](#) – Seaport Research Partners

[Ken Usdin](#) – Jefferies LLC

[Matthew O'Connor](#) – Deutsche Bank

[Mike Mayo](#) – Wells Fargo

[Steven Chubak](#) – Wolfe Research

Presentation

Operator

Good day, everyone, and welcome to today's Bank of America Earnings announcement. (Operator Instructions) Please note, this call may be recorded. I will be standing by if you should need any assistance.

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

Lee McEntire

Thank you, Catherine. Good morning. Thank you for joining the call to review our third quarter results. Hopefully, you've all had a chance to review the earnings release documents. As usual, they're available, including the earnings presentation that Brian and Paul will be referring to during the call. They're available on the Investor Relations website of bankofamerica.com.

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

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

So with that, let me turn it over to Brian. It's all yours.

Brian Moynihan

Thank you, Lee, and good morning to all, and thank you for joining us.

This quarter, the economy continued to make solid progress, and our clients continue to perform well, having adjusted to the operating environment. Many companies are making healthy profits, and our research team expects another strong quarter of profits by American businesses.

We reported \$7.7 billion in net income or \$0.85 per diluted share in the third quarter, up significantly from the year-ago period. We've now earned over \$25 billion for the first 9 months of the year.

This quarter's strong results include some themes I want to highlight ahead of Paul going through the details on the quarter. So prior to the pandemic, Bank of America was growing and creating operating leverage quarter after quarter after quarter. As I said last quarter, the pre-pandemic organic growth machine has kicked back in. You see that this quarter and it is evident across all our lines of businesses.

In addition, this quarter, we saw the return of operating leverage. We also saw another quarter of solid loan growth. The good news is that the nature of this growth has broadened in the third quarter, even as commercial banking utilization rates have improved somewhat.

NII has improved significantly, reflecting the many quarters of growth in deposits and now loans. It also reflects a steady management of the interest rate risk and deployment of cash from our core deposit growth. At the same time, we still have a high level of asset sensitivity.

We invested in our core deposits, and that supported stability in NII over the last year as rates and loans decline. What that did is bridge us to where we are now. This quarter, where growth in loans and other factors have led to an improvement in NII and NIM, strong free growth has complemented that NII improvement. And with expenses moving sharply lower, we saw a notable return of operating leverage. Year-over-year, our revenues are up 12%, and the expenses were flat.

Our efficiency ratios improved to 63%. As I've done in the past, I want to spend a moment on what we see in our consumer data. Let me hit a few slides beginning first on Slide 3.

The improvement in the vaccination and hospitalizations, all the things you know about, have seen the U.S. economy continue its reopening trajectory following the modest slowdown from the surge in cases caused by the Delta variant. While there's been some discussion around the slowdown, I would just note that U.S. economy is now as large as it was in pre-pandemic.

Our own research team, not being in transition at all, expects the U.S. economy to grow 5.5% plus this year and 5.2% next year. These growth rates are more than twice the growth rates that many of the -- that occurred in a pre-pandemic decade or longer. Unemployment rates continue to fall back to pre-pandemic levels. While the U.S. still has issues around labor supply and supply chains of materials, the economy is moving along.

Looking at our own customer base and consumer spending, I'd offer a few insights. Third quarter total Bank of America consumer spending, you can see on the lower left-hand part of the slide, payments were robust. They reached \$937 billion, up 23% over 2019 for the quarter and a similar percent of growth over 2020. September was the best month of the year, and we've seen that spending rates continue through the first part of October.

Combined spend on total -- on debit and credit cards, which is a subset of this total, about 20-odd percent of it, in that at retailers and services remain strong. In third quarter '21, we continue to see spending shift towards travel and in-person entertainment as well as fuel driven by both increased used and higher fuel prices. Year-to-date, as you can see in the chart, our total payments of \$2.8 trillion by our consumers are 22% ahead of the 2019 levels.

In the chart on the right, you can see how fast the growth rates occur this year. And that's another economic signpost of the steady recovery.

Now as we turn to loan growth on Slide 4, you can see this chart that we've been presenting to you for the last several quarters. Why do we show you this? We wanted to show you that as we hit the bottom, the

inflection point and what happened a couple of quarters ago. And this chart gives you a sense of the daily progression across those quarters. As you can see, every loan category has seen improvement. And if I showed you this by our lines of business, you would see similar progress across each one of them. Overall, ending loans, excluding PPP loans, which are in the forgiveness process, as you well know, overall, those loans increased \$16 billion linked quarter.

And if you look at the commercial portfolio, they grew \$11 billion quarter-over-quarter. Compared to growth in Q2, growth this quarter was broad-based across global banking and global markets in the commercial space. C&I growth was driven in part by improved calling efforts from commercial relationship managers that we deployed across the world, including, in addition to a growing demand for credit. As you might note, we've invested in hundreds of relationship managers in our commercial lines of business. And they are now - those investments are now bearing fruit.

Loans with our wealth management clients continue to grow this quarter as these customers borrow for the reasons they borrow for liquidity and asset purchases and other things. Interestingly, in our small business area, we're seeing the business stabilize and start to grow. One of the areas is our Practice Solutions group. What that group does is lends to medical, dental and veterinary practices. They've continued to see momentum and are on the pace for the best year they've ever had.

Now turning to consumer loans. The American consumer continues to borrow from Bank of America. Card loans grew 7% annualized from quarter 2 levels with increased spending. But as you well know, repayment rates trends remain high. All products in the consumer side, except the home equity balances, had higher balances for the quarter. The decline in home equity balance is understandable given the prepayments in mortgage loans, et cetera. But still, we saw \$1.5 billion in originations this quarter, up more than 50% from last year's third quarter.

Now I'll turn your attention to a slide in the appendix, not to cover it now, but you should take a look there. And you'll see the true loan lending business on the bottom left-hand side of that slide. And you'll see without the volatile PPP in and out that's occurred because of the program design. The loans this year and those lines of business are basically within 1% of where they were last year, and we can grow out from here.

Moving to Slide 5. We want to show the continued reemergence of the pre-pandemic growth machine at Bank of America. We give you a few highlights. On the deposit side, we grew net consumer checking accounts, which are the primary transaction accounts for our consumers, 93% being primary for the 11th consecutive quarter. This drove the continued growth in deposits in our leadership position in U.S. retail deposit market share, reaching \$1 trillion of deposits in our consumer segment alone.

On credit cards, we crossed back over 1 million new card production. That's the same level as we were pre-pandemic. New investment accounts have increased 9% during the pandemic. Digital progress has occurred across every business, and you'll see that in Paul's slides later. And that's increased to increased sales of products and high use of digital platforms. This bodes well for future sales levels and for future efficiency.

Sales of banking products in Merrill Lynch and the Private Bank have remained strong. And with return to in-person meetings, we should see them -- even see them grow stronger. We have seen year-to-date assets under management flows grow, and it nearly triple compared to year-to-date '19. In markets and banking, we had record or near record quarters in both investment banking and equity trading revenue.

So these are just a few examples of the customer growth we are seeing. A point or two on capital. This quarter's level of profits, coupled with our excess capital, allowed us not only to pay higher dividends to shareholders, but also buy back \$10 billion in shares. In total, we returned \$12 billion to our shareholders through these actions, proving that we can support our customers in a growing economy, support our teammates with great pay and benefits, and support our communities, as I'll describe it in a minute, but above all, and return capital to you, our shareholders and drive good returns for you.

Going to Slide 6. With regard to how our teams are delivering more broadly in our communities, we gave you on Slide 6, an update on our \$1.25 billion commitment. To date, we have directly funded nearly \$400 million, about 1/3 of that commitment. This includes \$36 million completed in equity investments in MDIs and CDFIs; \$300 million in equity investment commitments to minority-focused funds to support minority and women entrepreneurs and businesses; and \$70 million of directed -- philanthropic giving directed at the priorities shown on the slide, in addition to the amount we usually give on a yearly basis.

Now it's worth noting that in addition to the equity investments, we have \$2.1 billion in deposits in CDFIs and MDIs, the largest in the U.S. doing that.

If you go to the next slide, Slide 7, this is what we're doing with our customers to help them live their financial lives even better. It highlights the products and services targeting the financial well-being of our retail clients, particularly in the low- to moderate-income areas we serve. This includes our commitment to our Pathways program, where we hire teammates from our local communities to serve our communities and be successful in our company as a company of opportunity for them. We -- recently we re-upped to hire another 10,000 teammates from our communities over the next 5 years. That's because we completed the first 10,000 a year early.

The unified ways in which our teammates in local markets do a spectacular job of approaching both banking from a global scale and both banking from a local community are -- is unique and delivers every day for us. It's been a great job by our team this quarter, and I want to thank them.

Now I'm going to turn it over to Paul. But as you know, Paul has been our CFO since 2015, has done spectacular job with our company. He's going off to help us do some interesting things in the company. And I just want to congratulate and thank Paul for support.

And now I'll turn it over to take you through his last earnings call. Paul?

Paul Donofrio

Thanks, Brian. Hello, everyone. I will start on Slide 8 by adding a couple of comments on revenue and returns.

On a year-over-year basis, revenue rose 12%. The improvement was driven by a nearly \$1 billion increase in NII and a nearly \$1.5 billion increase in noninterest income. By the way, every business segment produced year-over-year improvement in noninterest income.

Expenses declined from Q2 and were flat with Q3 '20 despite the year-over-year improvement in revenue and related costs. Solid revenue growth, while holding expenses flat, created 1,200 basis points of operating leverage and resulted in \$8.3 billion of pretax pre-provision income, up 40% year-over-year. With respect to returns, our return on tangible common equity was 16% and ROA was 99 basis points, both of which improved nicely from the year-ago period.

Moving to Slide 9. The balance sheet expanded modestly versus Q2 to a little more than \$3 trillion. After funding \$9 billion of loan growth, deposit growth of \$56 billion generated excess liquidity that was placed in a mixture of securities and cash. Our liquidity portfolio grew to \$1.1 trillion or 1/3 of the balance sheet. Shareholders' equity declined \$4.7 billion from Q2 as capital distributions outpaced earnings this quarter.

With respect to regulatory ratios, CET1 under standardized approach was 11.1%, 40 basis points lower than Q2, driven primarily by a reduction in excess capital through share repurchases and to a lesser degree, higher RWA as a result of commercial lending growth. The ratio was 160 basis points above our minimum requirement of 9.5%, which translates into a \$26 billion capital cushion.

Given our deposit growth, our supplemental leverage ratio declined to 5.6% versus a minimum requirement of 5%, which leaves plenty of capacity for balance sheet growth. Our TLAC ratio remained comfortably above our requirements.

Turning to Slide 10, I will focus on average loan balances because they are more closely linked to NII. Note that loan growth over the past 2 quarters has begun to show signs of improved demand, and I will refer to quarter-over-quarter improvements on an annualized basis. Also note that these charts include PPP loans, which have been moving lower, driven by forgiveness. The footnotes detail the change in PPP loans.

From a peak of \$25 billion last year, PPP loans have declined through forgiveness to a little more than \$8 billion on an ending basis. Focusing on the linked quarter change in loans and excluding PPP loans, total consumer and commercial loans grew on an annualized basis by 9%, with commercial growing 11% and consumer improving 6%. GWIM continued to benefit from security-based lending as well as custom lending, while mortgage continued to perform solidly. In Global Markets, we again looked for investment-grade opportunities with clients as a good use of liquidity.

In Global Banking, we saw utilization move past stabilization this quarter but utilization rates are still 700 basis points lower than 2019, representing a \$30 billion gap from current loan levels. In consumer, we saw credit card grow as new accounts continued to build across the quarters and credit spending continued to rebound. And importantly, in mortgage, as Brian noted, we saw growth as prepayment volumes slowed.

With respect to deposits on Slide 11, we continued to see significant growth across the client base, adding accounts across all the deposit-taking businesses. Combining both consumer and wealth management customer balances, I would highlight that retail deposits grew \$28 billion from Q2. These deposits -- these clients now entrust us to manage more than \$1.3 trillion in deposits, which is more retail deposits than any other U.S. bank.

We also saw a strong growth of \$28 billion with our commercial clients. And remember, the deposits we are focused on and gathering are the operational deposits of our customers in both consumer and wholesale.

Turning to Slide 12 and net interest income. On a GAAP non-FTE basis, NII in Q3 was \$11.1 billion, \$11.2 billion on an FTE basis. Net interest income increased \$965 million from Q3 '20, driven by deposit growth and related investing of liquidity as well as PPP loan activity. These drivers were partially offset by lower loan levels. NII versus Q2 '21 was up \$861 million.

There were several positive contributors to the quarter-over-quarter growth. First, we had an additional day of interest. We also benefited from the continued deployment and growth of liquidity. Average loan growth also contributed to NII again this quarter, and we experienced an acceleration in the forgiveness of PPP loans, which improved NII quarter-over-quarter by a couple hundred million. Last but not least, we had lower bond premium amortization expense, which declined from \$1.6 billion to a little more than \$1.4 billion.

With respect to PPP loan forgiveness, I would emphasize that this was an acceleration or pull-forward of NII into Q3 from future periods. And as a side note, I would point out that the revenue from the PPP program has helped to defray some of the enormous cost of administering this assistance program on behalf of the government.

Our net interest yield improved 7 basis points from Q2 to 1.68%, driven by the improvement in NII. Importantly, given continued deposit growth and low interest rates, our asset sensitivity to rising rates remained significant, highlighting the value of our deposits and customer relationships.

As we move to Q4, and assuming no significant interest rate changes, we expect benefits from expected loan growth, liquidity deployment and lower premium amortization expense to more than offset the expected reduction in PPP revenue I mentioned.

Assuming the forward curve materializes and given Q3 NII growth as well as expectations for Q4 and assuming we see any loan and deposit growth next year, we would expect NII in full year 2022 to be well above full year 2021.

Turning to Slide 13 on expenses. Q3 expenses were \$14.4 billion, an improvement of more than \$600 million versus Q2. Higher revenue-related costs were more than offset by the absence of the prior quarter's contribution to our charitable foundation as well as lower cost of unemployment claims processing.

Compared to the year-ago period, expenses were flat as improvements in net COVID costs, the absence of elevated litigation in Q3 '20, as well as digitalization benefits and other initiative savings were offset by higher revenue related and other costs. As we look forward, we continue to see investment in technology and people at a high rate across the businesses. And we are adding new financial centers in certain growth markets.

Turning to asset quality on Slide 14. As I've reported for several quarters, the picture is very good here. Net charge-offs this quarter fell again to \$463 million or 20 basis points of average loans. This is the lowest loss rate in 50 years. Net charge-offs were 22% lower than Q2 and more than 42% below the same quarter in 2019.

Our credit card loss rate was 1.7% and several loan product categories were still in recovery position this quarter. Provision was a \$624 million net benefit driven primarily by asset quality improvement as delinquencies and reservable criticized commercial loans continued to move lower. We had a reserve release of \$1.1 billion, split roughly 80% in commercial and 20% in consumer.

Our allowance as a percentage of loans and leases ended the quarter at 1.43%, which is still well above the level following our day 1 adoption of CECL, especially considering the mix of loans today versus then. To the extent the macroeconomic environment and asset quality improves further and remaining uncertainties dissipate, we expect our reserve levels could move lower.

On Slide 15, we show the credit quality metrics for both our consumer and commercial portfolios. The only point I would make here is just to note the continued low level of late-stage delinquency loans, which drives expectations that card losses could decline yet again in Q4 before leveling off.

Turning to the business segments and starting with Consumer on Slide 16. Before I touch on the financials, I want to highlight what a great job this team has done in turning this business around since the pandemic. All of our businesses -- of all our businesses, Consumer Banking was the most heavily impacted by the pandemic, which at its worst, drove quarterly profits to a very narrow level before rebounding.

We incurred heavy costs to protect the health of our associates and customers, and we added contractors and other resources to support the government's and our own customer assistance programs. We added billions to credit reserves, depressing profits as worries mounted with respect to potential credit losses. Net interest income declined as interest rates fell quickly and significantly.

Fast forward to this quarter and the segment's rebound has accelerated as earnings rebounded to more than \$3 billion. Net charge-offs are at historic lows. And NII has rebounded, reflecting not only deposit growth, but also the value of their deposits and customer relationships. The business alone has now crossed over \$1 trillion in deposits, up 16% year-over-year.

Our point here is that years of investing and operating under responsible growth positioned us to not only deliver for everyone during the pandemic, but also rebound quickly to organic growth and operating leverage. We were never down and we never stopped investing. And while this is true of every segment, the rebound in our Consumer Banking earnings is just a great illustration of the resiliency of our business and our people.

The segment earned \$3 billion in Q3, 48% higher year-over-year as revenue, expense and credit costs all showed improvement. Revenue improved 10%, reflecting higher card income on increased purchase volumes and higher service charges due to client activity. Net checking accounts grew more than 700,000 year-to-date and 93% of our consumer checking accounts are primary accounts with an average checking account balance of more than \$10,000. Expenses moved lower by 6% as a result of a continued reduction in COVID costs, mitigated by higher costs from minimum wage increases and other operating costs.

On credit, we had a \$242 million reserve release this quarter, however, the more direct indicator of improved asset quality is the decline in net charge-offs. Net charge-offs of \$489 million were down 26%

year-over-year and 22% lower quarter-over-quarter. Our credit card net loss rate for the quarter was 1.7%. Pre-pandemic, it was over 3%.

On Slide 17, you can see the increase in consumer deposits, loans and investments. We covered loans and deposit growth earlier. With respect to investment balances, we reached a new record of \$353 billion, growing 32% year-over-year as customers continue to recognize the value of our online offering. Yes, balance grew as market values increased, but we also saw \$21 billion of client flows. An important element of this growth has been the 9% growth in the number of accounts over the past year to more than 3 million.

On Slide 18, let me highlight a couple of points regarding the continued improvement in digital engagement. As all of you know, enrollment is important, but usage is key. We now have nearly 41 million customers actively using our industry-leading digital platform. This quarter, 70% of households used some part of our digital platform within the past 90 days, logging in more than 2.6 billion times. And while Erica and Zelle usage has been tremendous, what I would draw your attention to is the digital sales growth, which is up 27% year-over-year. Lastly, while not reflected on this slide, I would just add digital engagement has become foundational to maintaining our customer satisfaction at historic levels.

Turning to Wealth Management, the continued economic reopening, client flows and strong market conditions once again led to not only record investment balances and asset management fees, but also record levels of loan and deposits, all contributing to a record pretax margin in Q3. In fact, this is the 46th consecutive quarter of average loan growth in this business. Both Merrill Lynch and the Private Bank contributed to the improvement and are driving digital engagement to deliver products and services to clients. You can expect this to continue as we drive towards a modern Merrill, which is adviser-led, powered by digital. Growth in our new households at Merrill and at the Private Bank continued as we continue to build pipelines and move back towards pre pandemic -- our pre-pandemic pace.

Net income of \$1.2 billion improved 64% year-over-year driven by the strong revenue performance. With respect to revenue, record AUM fees, which grew 19% year-over-year, complemented higher NII on the back of solid loan and deposit increases.

Expenses increased in alignment with higher revenue. Client balances rose to \$3.7 trillion, up 20% year-over-year, driven by higher market levels as well as strong flows of \$91 billion.

Let's skip to Slide 21 to highlight our progress in digitally engaging wealth management clients. The clients of this business continued to lead the franchise on digital adoption, utilizing not only digital tools to access their investments, but also other banking needs like mobile check deposit and lending. More and more clients logged in to easily trade, check balances and originate loans all through one simplified sign-on. And through leveraging Erica-based AI capabilities and through use of WebEx meetings and secured text messaging, we are making it easier and more efficient for clients to do business with us wherever and however they choose. This creates additional capacity for our teams to spend more time advising existing and potential clients.

Moving to Global Banking on Slide 22. The segment had very strong performance with near record investment banking fees, another solid quarter of deposit growth and an uptick in loan demand. Strong deposit growth helped to improve NII, which complemented the continued strength in investment banking. The business earned \$2.5 billion, improving \$1.6 billion year-over-year, driven by both higher revenue and lower provision costs. Provision expense reflected a reserve release compared to builds in the year-ago quarter.

Revenue grew 16% and included an 8% improvement in NII while firm-wide investment banking fees were up 23% to \$2.2 billion, down only modestly from the Q1 record level. This IB performance resulted in a #4 ranking in overall fees with a pipeline that remains strong. We ranked #1 in leveraged finance and investment-grade with strong market share improvement compared to the year-ago period. We also had record M&A results.

It is worth noting that we continued to see strong momentum in investment banking with our middle market clients. As many of you know, we have been investing in our investment banking capabilities with middle market clients for a few years now. Over that time, we have executed transactions for nearly 300 first-time IB clients, and we now have investment bankers in 23 cities across the U.S. Noninterest expense increased 7% year-over-year, primarily reflecting higher revenue-related costs and continued investment in the franchise.

We've already covered much of the balance sheet on Slide 23, so let's skip to digital trends on 24. Digital investments, strategies and tactics are an enterprise effort with learnings in one segment benefiting another. That has been particularly true in Global Banking. And as we continue to invest -- we continue our investments in digital solutions, our client adoption and uses continues to grow.

Enhanced banking solutions have helped us capture greater market share as wholesale clients do more with banking partners that are the most stable and secure and have the capabilities to invest in new technologies that will provide better data and global integrated solutions.

Switching to Global Markets on Slide 25, results reflect solid sales and trading activity led by our equities business. As I usually do, I will talk about the segment results, excluding DVA. This quarter, net DVA was a modest loss, but the year-ago quarter had a higher \$116 million loss.

Global Markets produced 4 -- excuse me, global market produced \$941 million in earnings on par with the year-ago quarter. Focusing on year-over-year, revenue was up 3%, driven by sales and trading. Sales and trading contributed \$3.6 billion to total revenue, improving 9% year-over-year. FICC declined 5%, while equities improved 33%, recording one of its stronger -- strongest performances ever.

FICC results reflected a flat yield curve and range bound interest rates for much of the quarter with continued tight credit spreads. With interest rates moving late in the quarter, we saw an improvement in activity and revenue opportunities. The strength in equities was driven by growth in our client financing business as well as a strong trading performance and increased client activity in both cash and derivatives. The increase in expense year-over-year was driven by increased activity-related sales and trading costs.

On Slide 26, we note year-to-date revenue trends across the last few years. As you can see, while our performance was elevated in 2020 during the pandemic, 2021 remains well above the pre-pandemic years presented, driven by continued elevation of client activity and volatility in the markets as well as investments made to extend more balance sheet to clients.

Finally, on Slide 27, we show All Other, which reported a small net loss. Revenue declined by \$109 million year-over-year, reflecting higher partnership losses on ESG investments. Expense was lower year-over-year, driven by the absence of litigation accruals in the prior period. Our effective tax rate this quarter was 14%. Excluding the tax credits driven by our portfolio of ESG investments, our tax rate would have been roughly 25%. We would expect the tax rate in Q4 to be between 10% and 12%, absent any tax law changes or unusual items.

With that, we can go to Q&A.

Q&A

Operator

We'll take our first question today from Glenn Schorr with Evercore.

Glenn Schorr

Lots of detail. I love the forward-leading commentary on NII. It was bigger than a bread box, size it on the expense side. Obviously, expenses go up a little bit with all this market-related and activity-related revenue.

So maybe if we could think about it, ex whatever market is going to do over the next couple of years, you've produced great operating leverage, but -- as you still invest. So maybe you can give us an idea of what to expect, even if it's just over the coming years as you invest yet, eke out further efficiency gains?

Brian Moynihan

I think, Glenn, we might take you back a little bit in history to '15 and '16 when we started seeing the efforts from new BAC and the operating excellence kick in. And what we said is we bring the expenses down, and then we'd expect them to grow. You sort of have a 3% inflationary between raises and leave aside that the market is going up, as you said, and could drive a moment in time and et cetera. But you had sort of 3% sort of embedded in CPI-type of increases in merit and rents and things like that.

And what we said is through our efficiency, we could -- when we got to the sort of floor, which was the '19 year, the idea was then to manage that sort of 1% net growth. And we've been able to keep working at that. With the PPP and with the COVID-related costs and stuff, it's kind of threw it all around for the last 12 months, but you'll see that start to merge come out the other side. So the idea would be to grow revenues faster than the economy and grow expenses at a rate of net 1%, maybe 2% if the revenue growth is stronger. And that's the operating model.

And you saw that come on quarter after quarter of operating leverage, I think, for basically 3 years plus, 14 quarters, something like that and the pandemic pushed that around. And as we stabilize after the pandemic a couple of quarters ago, you're seeing it come back to the system.

Glenn Schorr

That's great. So it sounds like no change and still operating efficiency. Cool. Brian, while we have you, I think there was like a 7-page press release announcing all the leadership changes. It's a lot. And so I figure while we have you, can you talk about what's happening? How are you -- is this all-natural succession, next level stepping up type changes? Maybe just put the right perspective around it all.

Brian Moynihan

Sure. We had we have some teammates retiring. I've been CEO. This is 48th quarterly earnings conference call. So it's been a long time. But -- and I would rather never have to have senior leaders move because -- but they have a choice in life and when they retire, we have to adjust to it. But what we tried to accomplish. If you go back to last summer, we put a lot of senior executives onto the management team.

What has happened now with Anne's retirement, Tom's retirement and Andrew's retirement, as those executives now are reporting directly to me. And that's really the effort. So we're a younger, more diverse, 3 women running the 8 lines of business. Same philosophy of how we run the company. And now with a group of people who have 5 to 10 years ahead of them. And then we have 2 international colleagues on the management team for the first time in Bernie and Cathy. Cathy is needed to help us in the European context as Brexit came through, it's different and that -- so she's going to go help us in that and be a great help to us. Bernie has international. He does a great job for us.

But the idea was to elevate people who -- and also focus on people who are thinking 10 years out as opposed to 1 or 2 and retirement. And so that's really the genesis of it. People retire, and we make reactions. And Tom and Anne and Andrea have been tremendous teammates, but the best thing they did for us is develop a bench behind them that is extremely strong that can step into the jobs. And frankly, were running a lot of the businesses as they -- over the last few years as they -- we all spent more time on driving our brand in the market and other things that are more at the company level.

Operator

Our next question comes from Matthew O'Connor with Deutsche Bank.

Matthew O'Connor

I was hoping to circle back on the net II, net interest income commentary, which was clearly positive overall. But I think you've been talking about 4Q net interest income to be up \$1 billion versus the first quarter level on prior calls. And I think the guidance implies maybe similar to even better than that, and I was just hoping to get a little bit more of a pointed kind of update for our 4Q net II?

Paul Donofrio

Sure. So relative to Q3, we'll have less NII from PPP loan forgiveness. However, we think we should be able to overcome this decline and produce modest growth in NII in Q4 through a combination of loan growth, liquidity deployment and modestly lower premium amortization expense.

Matthew O'Connor

Okay, which I think does get you, I guess, to that up \$1 billion versus the \$10.3 billion.

Paul Donofrio

Yes. Modestly would imply that.

Brian Moynihan

Matt, we tend to do -- tell you what we could do and we do it. So that's how we run the company. So yes.

Matthew O'Connor

Understood. Okay. And then separately, on the expense question, you talked about kind of 1% to 2% growth long term. But as we think about next year, you obviously had some kind of COVID and, I think, some onetime costs in the first quarter. How would you help frame '22 costs versus '21?

Paul Donofrio

So the way I would think about '22, we're not going to provide specific guidance, but as a quarterly base for 2022, just start with our rough estimate of Q3 or Q4 here. Q4 should be flattish to potentially modestly lower than Q3. So just start with that as a base and add to that the seasonal higher payroll tax in the first quarter, which is roughly \$350 million.

And then as Brian said, add in inflationary costs, which we've been, as Brian said, targeting at around 1%, but given the war for talent, right now, maybe you want to add a little bit more than 1% next year. And then lastly, adjust that base for any assumption you make around higher or lower revenue expectations in the areas that are closely linked to compensation and exchange fees. And if you do that math, you're going to come up with, I think, a pretty good estimate for '22.

Matthew O'Connor

Okay. And anything that we can kind of back out in terms of COVID or the PPP cost going away as we think about next year?

Paul Donofrio

Yes. Look, COVID -- there's still a couple of hundred million of net COVID in our costs. It's down modestly from Q2. We're seeing some reduction in COVID costs, but we incurred some new costs as people return to the office. While there's not a lot left, it does create, I think, modest opportunity over the next year or so to get those costs out.

Operator

Our next question comes from Mike Mayo with Wells Fargo.

Mike Mayo

My question relates to tech, the front office and the back office. The front office, you have the Slide #5. So net new consumer checking accounts up by half over the last 2 years. How much of that is directly or indirectly related to digital banking? And then my back office question, which we don't really see, is what are you doing as it relates to the cloud, your relationship with IBM, what sort of efficiencies do you think you can get? And I think you indicated you don't plan to go 100% to the public cloud like some of your other peers have targeted. So if you could elaborate on your tech strategy.

Brian Moynihan

So Mike, on the first -- the production of net new checking accounts. And remember, Mike, this is not -- you've been around us a long time. And these are core checking accounts. The primary is -- keeps going up. It actually went from 92% to 93% over the last year, primary accounts. So the production hit this quarter was, I think, a 10-year high in terms of net accounts. And that's coming both from the digital is 50% of sales round numbers. And we now have, to your point, over the last 3 years, developed full digital execution in terms of account opening for core accounts in terms of auto purchases, in terms of mortgage origination, et cetera. Which now allows a fully digital practice take place, half the sales are digital.

The good news, honestly, is that as the branches reopened over the last -- and people -- the visits went up, you saw the count sold rise because it takes both high-touch and high-tech to be successful. So the percentage in sales of digital came down, but that's because overall sales jumped up, and obviously, they're more brands dominated. But you got it exactly right. We think that, that is a more efficient method of accumulating customers. We think we have about 17% market share in the Gen Z area that is heavily digitally-originated. Lot of colleges, a lot of other things going on. But the key is to realize that net balances per account have gone from \$7,000 to \$10,000 over the last couple of years. So you're seeing a bigger and bigger core position.

When you go with -- and that's one thing to keep in mind is when we give you our 40 million digital customers, these customers are core customers with big balances. So Merrill Edge, for example, I think we're up to \$70,000 or something average balance per account, not \$3,000 or \$4,000.

But anyway, just on the cloud, the cloud is a complex question. So as you're well aware, over the -- the last 8, 10 years, Cathy and the team led an effort to internalize our cloud, which made us a lot more efficient. And so we look at -- we run a percentage of our business outside due to certain executions and things like that. We have 500 different software programs that run in a SaaS basis, which is the question of cloud can be misleading is, can you get to the -- all the product types or capability types you can get out there because of the new companies that develop them on to cloud-based systems, and we can get to them all.

The IBM is an effort to internalize the cloud that we can use in the financial service industry, and IBM is working on that. But these things have to be done carefully for purposes of security and trust and understanding our businesses. And so far, we've come to the judgment that we're continuing to internalizing saving a lot of money, and we continue to add modest amounts to the cloud. But importantly, there's no restraint on our ability to tap innovation or ingenuity based on whether it's running internally or externally.

Operator

Our next question comes from Gerard Cassidy with RBC.

Gerard Cassidy

Can you guys share with us, you've had incredible deposit growth. As you pointed out, the retail consumer area is over \$1 trillion. When the Fed ends QE sometime next year, can you share with us what you think will happen to deposit growth? And second, your loan-to-deposit ratio, similar to your peers, is very low. How do you see growing that over the next 2 or 3 years? And where can you get it to, do you think?

Brian Moynihan

Paul, why don't you add a few comments on the -- on the change in monetary policy. And then I'll talk a little bit about sort of some of the other things.

Paul Donofrio

Yes. So look, we expect deposit growth to continue, although it's going to be likely at a slower rate than what was experienced so far this year, and we expect our growth to continue in line with or slightly better than the industry. You got to remember that we're entering a phase of tapering.

Tapering is still QE. So deposits are really not likely to decline until many quarters. If you look back at historical data after QE ends, if they ever do. Because as the economy expands, the multiplier effect we could see growth in deposits, even though money supply is coming down.

So we'll just have to wait and see. But what we do know is, as QE starts, we're still going -- it's still going to be stimulative from a deposit standpoint. And then, as I said, if deposits do decline, it will probably many quarters, a couple of years maybe, after QE ends.

Brian Moynihan

Gerard, just a couple of things. When looking at the consumer deposit base, sometimes I think it's *deja vu* all over again is a classic statement because in '15, '16, '17, it was all about the Fed's going to normalized rates, and you're going to have to raise prices, and we didn't have to because we've -- the reason why we don't have to is these are core transactional accounts. In a large part, not interest-bearing. And so you'll see some of that same dynamic apply, again, as the rates normalize and the monetary supply has changed.

But in the consumer business, 56% of the balances are checking. So that would say, those are core transaction accounts, money moving in and out, very little CDs, I think \$50 billion, \$60 billion or something like that. So the \$1 trillion is all basically in checking and money market.

So can it move around? Yes. If you look, one of the things that bodes well and -- for the economy is that if you look at a checking customer that has maybe \$2,000 or \$3,000 in balances with us, either sitting with 3 to 4x -- 3x what they had before the crisis, that's good news. They will spend some of that, I assume. But interesting enough, that's been growing month-over-month for the last few months. So it's not going down even though the stimulus payments to customers, in large part other than the childcare stops.

So one of the things that bodes well for the economy, and this isn't trying to cushion to some viewpoint about it is the consumer still has a lot of money in their accounts, and they're going to spend it. Going back to your deposit question. Could that mean those balances come down a little bit, but it will be overcome by the new accounts coming on in \$1 million a year that carried \$10,000 average balance, et cetera. So we feel good about long-term deposit growth, and it's all -- it's driven by the checking core transactions.

Loan-to-deposit ratio, it's our customers driving it. So when the usage by the auto dealer lines is down to 25% of what it was because inventory is being down, of course, we -- they want to borrow, we want to lend to them because that means they have the inventory to sell to the consumer. So this is a customer-driven business. And so \$900 billion odd of loans against \$2 trillion of deposits is largely driven by the customer activity.

The good news is you can see in those charts that, I call the smile charts on the loan growth page there, that the other half of the smile is coming up, meaning that the customers are starting to draw and credit and use it, and that will bode well for the customer growing their businesses and stuff. But importantly, thinking about just the economy generally.

One of the things I just want to -- I'll remind you of, Gerard, is we break out consumer and GWIM and a lot of people talk about retail deposits. That is \$1.4 trillion -- \$1.3 trillion when you combine them together. So it is a big machine, and it's all transactional. And we just don't think that moves as much on monetary supply questions as, obviously, on the institutional side.

Operator

Our next question is from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Brian, I wanted to ask, we've got a set-up into '22 that looks pretty positive, especially when you think about the top-down GDP growth you were mentioning earlier. How are you leaning into that with regard to your footprint? Where do you see the biggest opportunity for share gain across your business platform?

Brian Moynihan

So I'd say there's a couple of areas. One, as you're well aware, we've expanded the balance sheet in the markets business, and we're seeing the returns on that stronger in the equities business and good. And Jimmy DeMare and the team under Tom's leadership continue to do it, but stronger in the equities business. And that -- so deploying balance sheet against that recognizing activity level sustaining, et cetera.

And then if you go in the lending business, it's customer selection. So we were out with those 100 extra relationship managers banging away at the world, getting more customers the hard way, and you're seeing net new customers in the business banking, small business segments and stuff growing. You see that in the wealth management business. So what you'll see is that the balance sheet deployed to markets as a capital and balance sheet question. Everywhere else it's going to follow the customer, but it's the core customer growth, and that's why you put those statistics in -- that you see.

Meanwhile, Merrill Edge is over \$300 billion and becoming a fairly significant enterprise on its own. And you see some of these other aspects. So we feel good about it. And like you said, Candace and the team had a great research platform and they basically are 5% plus this year and 5% next year, which sets up well.

Betsy Graseck

So is there an opportunity that's even larger outside the U.S.? I'm just thinking about your franchise outside the U.S. borders. Is that an engine of growth for you potentially here relative to what you've been doing?

Brian Moynihan

Yes. We -- we'll continue to expand our -- we have more loans in the global core of Investment Banking segment outside the U.S. than we do inside the U.S., and we continue to expand that. Matthew Koder and the team have done a good job. Lisa Clyde and the team in the corporate banking area are doing a great job. So yes, we're going to invest in that. And then the GTS, Faiz Ahmad and the team and continue to develop our capabilities there, and we're getting high single-digit revenue growth off the deposits and fees combined together. And we continue to invest in real-time payments. And it's just one thing after another. So we're doing that.

But outside -- I don't -- if the question is are we going to change and go into the consumer business or wealth management business outside the U.S., the opportunities in the consumer business are just in the wealth management business in the U.S. are staggering to us. Think about -- we just opened our 15th branch in Indianapolis. You and I would have been talking 4 years ago, and it didn't -- I don't know we had any, maybe it's 5. We're now seventh market share moving up strong. You look at it in Columbus and Cleveland, Cincinnati and Salt Lake City and Minneapolis. And you're seeing us move in the top 5, 7 from 0. And that growth in the new households is running multiples of 2019 and Merrill and the Private Bank. There's just so much opportunity to distract ourselves would be not the time to do it. We're in a war with the competition, and we're winning.

Betsy Graseck

And then just lastly, Paul, you're mentioning how you've got bigger than the breadbox on growth in NII as you look into next year. And you outlined the drivers. I'm just wondering, embedded in that is a forward curve. What about opportunity here for the forward curve to shift higher? When you're thinking about the

increase in NII, if we had inflation come through stronger, rates rise sooner, would that be an opportunity for you to take even more duration than you've got in the book? Or would you keep the securities duration where it is today?

Paul Donofrio

Look, we have a lot of excess liquidity right now. So there's always an opportunity to deploy some of that in the future. We're always balancing liquidity, capital and earnings. And if rates rise, I think we probably would have to study whether we want to deploy some of that liquidity at higher rates. You -- we've got our interest rate sensitivity disclosure, which is probably the best way to talk about the opportunity if rates were to rise, it sits today because of our liability insensitivity, the value of those deposits and customer relationships that Brian just talked about, that's sitting at \$7.7 billion for a parallel shift. 70% of that is on the short end. So that gives you a sense of maybe the opportunity here as rates rise.

Operator

Our next question comes from Jim Mitchell with Seaport Research.

Jim Mitchell

Maybe just a question. One of your peers this morning talked about the impact of SA-CCR adoption, I think, disclosed that standardized RWAs could grow 7% to 10%. Is that a similar impact for you? Just trying to get a sense of how you think about the adoption of that.

Paul Donofrio

We already adopted the SA-CCR, I think, and that was a benefit for us in markets.

Jim Mitchell

Really?

Paul Donofrio

So I -- yes. Lee can come back to you with the details. We were the first to adopt.

Jim Mitchell

Okay. Well, that's great. And then -- so when we think about the buybacks, the \$10 billion, the acceleration of buybacks this quarter, is -- should we just expect that acceleration to continue until you get towards your target of around 10% to 10.5%?

Brian Moynihan

Yes. I mean, it's simply put, we manage it dynamically. The Board manages it dynamically on a quarterly basis. And what's happening is if you look at where we thought we'd be, we end up with more capital because we're earning more money. And then we clean up a little bit here and there. But we're working towards over multi-quarter period towards where -- back towards our target. And we'll continue to focus on that.

Operator

Our next question comes from Charles Peabody with Portales.

Charles Peabody

Actually, my question was asked. But on the NII, if you just extrapolate the third and fourth quarter kind of guidance, you're looking at a mid-single-digit rate of growth year-over-year in 2022. And I think you used the word modest NII growth is expected for 2022. In that, what sort of yield curve or nominal rate environment are you assuming to get above or towards that level?

Paul Donofrio

Yes. Let me just correct because I think if you -- didn't hear us right or we said something wrong, but we're expecting modest NII growth from the third quarter to the fourth quarter.

Charles Peabody

Okay.

Paul Donofrio

Yes. We gave some perspective in the initial comments that I made about '21 versus '22. We're not really providing specific guidance on '22, but let me just give you a couple of reminders and qualifiers that it's going to depend -- NII is going to depend on loan and deposit growth, and we expect both of those to continue to grow, consistent with a growing economy. We also are expecting lower premium amortization expense over time, consistent with the path of forward rates.

When all the guidance we ever give you is always dependent on the forward curve at that moment. So assuming the current forward curve and given our expectations around improvement in NII in the second half of this year, we've already booked the third quarter. I've given you guidance on the fourth quarter, that one could expect, I think, robust improvement in NII comparing the full year '21 versus the full year '22.

By the way, I want to correct one thing I said earlier. I mentioned that our asset sensitivity, 100 basis points rise, parallel shift to the curve was 7.7. It's actually 7.2. So sorry for that.

Charles Peabody

But -- so on the interest rate structures, what I'm thinking about, and please help me here, there's a significant amount of liquidity in bank balance sheets that's being put -- waiting to be put to work. And I'm wondering if that doesn't put a somewhat of a cap on how much rates can rise. And then you're going to have some decline in treasury issuance because of a declining budget deficit. And then you're still going to have QE at least through the first half of next year. So you've got a lot of demand for a shrinking supply on the treasury side. So that's why I'm curious what sort of rate structure, either nominal or curve-wise, you're anticipating going forward.

Brian Moynihan

All the factors you're talking about go into, but we use the curve. And so all you market participants and all of the debate, we don't use some internal estimate. But we've always used the curve, and we've done that for a long, long time, going back a couple of decades. So that's how we build that estimate of the asset sensitivity based on the forward curve at the time, at the end of the quarter whenever we calculate.

Operator

Our next question comes from Steven Chubak with Wolfe Research.

Steven Chubak

So I wanted to start off with one, just on the tax rate guidance. And Paul, you've always provided at least helpful color on how to think about some of the potential fee income drag as well as associated with those ESG-related investments, recognizing that the impacts are intended to be P&L-neutral. I was hoping you could help size just how we should be thinking about the other income drag related to the guidance for 4Q and whether you guys would consider a potential change to the accounting, just given all the noise and volatility that, that creates in the income statement?

Paul Donofrio

Yes. Look, we expect our ESG activities to increase over time, so as we go into '22 and '23. And as we've long talked about, the fourth quarter is generally the highest for that pretax, for that other -- that loss that

we book in other income for entering into these partnerships. I do think it's important to remind everybody, I know you know it, but I'll remind everybody that these partnership losses are booked in other income, but they're more than offset in the tax line. So as we grow these activities in the future, there will be a small headwind to revenue growth, but not to net income growth given the tax benefits of these investments.

As you think about modeling, everybody out there, we expect the fourth quarter loss to be \$800 million on the other income line from these tax investments or even perhaps a little higher, reflecting both the sort of typical seasonal increase in the fourth quarter in partnership investments as well as there were a few deals in the third quarter that got delayed because of all the logistical stuff, and we think they're going to pop into the fourth quarter.

Beyond that, putting the fourth quarter aside, a good modeling assumption for the normal 3 quarters of '22, I would say, absent unusual items, it will be a quarterly loss of kind of \$400 million to \$500 million for those ESG investments. Again, in the other income line, more than made up for in the tax line.

Steven Chubak

And just for my follow-up, I know you guys are reluctant to give some explicit expense guidance for next year. Just given the sheer amount of like inbound that we've gotten after you made your remarks, I just wanted to at least provide some ranges and just see if we're thinking about things appropriately. It does sound like the \$14.4 billion we saw this quarter, annualizing that is the jumping-off point. That gets us to [\$57.6 million]. You have the \$250 million of additional incentive expense -- or seasonal expense, sorry, that you spoke to. That gets us to [\$57.9 million]. And then that's the starting point for thinking about how much incremental growth, somewhere in that range of 1% to 2%. Is that the right way to think about it?

Brian Moynihan

You've got some but not all the components because you got the COVID-related expenses and what happens next year. But I think the leading thing for everybody to focus on is you've watched the headcount because, at the end of the day, if you think about the expense base, it's dominated by people and the buildings and equipment they operate on and positioning them for success. And that headcount now is drifting down as it has because the impact of the runoff of some of the special programs that we had a, 0.5 million PPP loans, 2 million customer deferral applications, the unemployment payments, all those stuff, it's going down. And we -- and that's coming down. So client-facing, investments and technology stuff, that goes up. But we continue to engineer the back office.

So we watch that number, I think it was 209,400 this quarter, 411, if I got it right, down for the quarter, down for the year. Managers are down about 1,000 in the company, round numbers, at this point, and we just continue to manage that down. So you've got the component parts. It have become clear. We sort of brought the run rate back down to flat year-over-year, and we'll continue to work on it.

Paul Donofrio

Yes. The only other thing that I would add, Brian, if I may, we're clearly focused on managing expense well. But what we're really focused on is creating operating leverage. And that -- you saw that this quarter. And that's how we really think about the business model. We've got to grow revenue. And in terms of expense growth, we've got to grow expenses slower than we're growing revenue. And we've given you the sort of 1%-ish framework.

Steven Chubak

That's great. And just one quick follow-up, if I may. Just on the securities yield. You guys actually saw some nice expansion there. I know that's going to be reflective, at least in part of some of the premium am benefit that was cited. But I was hoping you can maybe help frame how large could that benefit be from premium am if prepay speeds really start to normalize in earnest, somewhere closer to pre-COVID levels? And then separately, just where are you reinvesting along the curve and how you're thinking about duration risk appetite given the size of your MBS portfolio?

Paul Donofrio

Yes. If you think about premium amortization expense over time, it's going to depend on the path of rates. And I just would remind you that prepayment lags movements in mortgage rates. People tend to focus on the tenure. It's about mortgage rates, and they lag that by a little more than 2 months. And I would also just remind everybody that as you think about premium amortization expense, it's also important to really remember that the size of the securities portfolio has increased a lot year-over-year. So all those things sort of have to go into your modeling.

Operator

Our next question comes from Ken Usdin with Jefferies.

Ken Usdin

Just a question or 2 on card. Interesting to see that you're purchase credit card volumes continue to grow really nicely, and debit did come down a little bit, so did the overall interchange fees. Just wondering if you can talk through what you're just seeing in terms of the underlying trends there? And is that stimulus starting to change as far as debit? Was it Delta variant? And just what do you see in terms of the forward outlook for in terms of your views of spend trend and balances in card?

Paul Donofrio

Sure. Well, look, in card income, just a couple of points to make just so no one's confused. When you look at our sort of consumer banking, card income fees, they were up very nicely year-over-year at about 8%, driven, as you said, by the purchase volume increases despite the fact that payment rates are still relatively high. But when you look at the consolidated line, you're not going to see that. It's up only slightly versus Q3 '20 because of the decline in card income associated with processing, unemployment claims, which sits in global markets. So just for some clarification there.

In terms of balances, look, we're expecting card balances to continue to improve. The balances grew 7% quarter-over-quarter on an annualized basis, including some small growth in revolving balances, and we opened over 1 million new accounts, which now matches pre-pandemic levels. I think balance growth reflected higher spend and the reinitiated marketing efforts that we've talked about, including promo offers, while, again, payment rates remained elevated. We expect higher Q4 seasonal purchase volume, and that's going to drive additional balances in cards.

Brian Moynihan

Yes. I think just a couple of things. You've got the balance question on cards, but you do always have to look at the spending side of it. And we said, dropping credit cards are only about 20-odd percent of the way consumers spend money, out of their accounts cash, all the ATMs, checks written, Zelle is taking off and becoming a meaningful amount of the payment. So I think that cards are an easy form of payment. We're already seeing tap cards, things at 12% of the spend -- 12% of penetration already. So -- but the good news is no matter how you cut it and how you look at it, 2 good messages. Card balances are growing and -- but there's still tremendous capacity for the consumers to borrow if they want to, to do things.

The second thing is that the spending levels are growing at a 10% growth rates in an economy in the U.S., which is led by the American consumer. That is a tremendous amount of spending that's going on, and it's accelerating even as the stimulus is not -- is in the rearview mirror by quite many months. So as people get back to work in higher wages and things, there's just more money to spend.

So I think the focus on card as a spending vehicle versus a borrowing vehicle, it will be something we look at. But it's -- we like the business. We continue to generate 1 million new cards, as Paul talked about, and it will break down about who needs to borrow and what, and the asset quality is unbelievable. The NIM is high as it's ever been, and that's a good business.

Operator

Our final question comes from Chris Kotowski with Oppenheimer.

Chris Kotowski

Yes. I'm trying to kind of disaggregate the strength in net interest income. And if -- I just wanted to make sure I have all the moving parts right. So the PPP revenues were up \$166 million, and amortization was down \$200 million. It's still kind of implies like a \$500 million or roughly 5% kind of the linked quarter growth in NII, up against, say, 1.5% average loan growth, if I have that right. Is there an explanation for that strength? Is it the securities you put on? Or is it -- how did it become quite that strong?

Paul Donofrio

You got to add an extra day.

Chris Kotowski

Extra day. Okay. That's 1% more.

Paul Donofrio

And then what you get is -- what you're left with, I think, is the loan growth for 2 quarters now. And we took in a lot of deposits. Quarter-over-quarter, we put some of those towards the loan growth. We put some of those in cash. And we put some of those in the securities portfolio.

Chris Kotowski

Okay. And if you had to guess, if you -- with the size of the securities portfolio that you have now, if you were in a, say, 2017 kind of rate environment, the \$1.4 billion in amortization currently, what would that go to, if you can say?

Brian Moynihan

You can look at that by just tracking the CPRs and make your estimates. You know the size of the portfolio in the basis. But just backing up a little bit. This loan growth, in the first quarter, we said we thought we were seeing the stabilization, and there's a lot of people formulated against that saying, wait, how can that be true? The second quarter, we said in the second half of the quarter, especially, we saw growth. All that loan stayed on the books, plus we grew it on top of that, as we said earlier, I think \$60 billion excluding the PPP.

That's what's going to build into the NII projections going forward because that's 250, 300 basis point spread stuff. And remember, we're funding with 0 cost deposits to the tune of \$200 billion or \$300 billion up year-over-year. So that's what drives -- that's what will drive it long term. Short term, it will be all the things you talked about, but that's going to stabilize it somewhere a point and then a -- and then it's really going to come back down to what we do on the banking side of the balance sheet, make loans, take deposits and make the spread between them. And the best news is the NIM percentage actually started moving up, and that shows you that the stabilization leads to that coming true as we grow the loans.

Chris Kotowski

It was an awesome quarter.

Brian Moynihan

We agree with that. That's all? All right. Thank you, all, for your attention. Just to close the quarter out, I could just take Chris's comment and say, we returned to organic growth trends we've seen pre-pandemic. We saw solid loan demand, good revenue growth, 12% year-over-year. Expense was flat year-over-year for great operating leverage of 12%, returning to that effort to drive that quarter-by-quarter to make the great investments to drive the franchise at the same time having expense discipline. \$12 billion of capital went

back to you this quarter. We continue to return the excess capital and all the current earnings because, frankly, we can grow without retaining capital because the core way we run the business on a risk basis. We continue to do what we need to do in our communities outside at the same time. And just in closing, I want to thank Paul for his service as CFO, and we look forward to Alastair and the team taking over next quarter. Thank you.

Operator

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

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