Bank of America

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Participants

Host

Gerard Cassidy – RBC Capital Markets

Participants

Holly O'Neill – Bank of America, President of Retail Banking
Aron Levine – Bank of America, President of Preferred Banking
David Tyrie – Bank of America, Chief Digital Officer and Chief Marketing Officer
Mary Hines Droesch – Bank of America, Head of Product for Consumer, Business, and Wealth Management Banking and Lending
Lee McEntire – Bank of America, Investor Relations & Local Markets Organization Executive
Mike Mayo – Wells Fargo
Chris Kotowski – Oppenheimer & Co.
Glenn Schorr – Evercore ISI
Vivek Juneja – JP Morgan
Dick Manuel – Colombia

Presentation

Gerard Cassidy

What I'll do is have each of our panelists introduce themselves to you to give you a short snapshot of their responsibilities. And Mary, why don't we start with you and work our way down?

Mary Hines Droesch

Sure. I'm Mary Hines Droesch, and I'm the Head of Product for Consumer and Wealth Management, so mange our deposit, mortgage, consumer investments, and card products.

David Tyrie

David Tyrie. I help with 3 areas of the firm: data analytics, the digital capabilities, and global marketing.

Aron Levine

Okay. Aron Levine, I, along with Holly, co-lead the Consumer business. I'm the President of the Preferred Bank, which is the mass affluent – that we'll talk about – client base. I have responsibility for the 3,800 financial centers as well as our Merrill Edge Consumer Investment business.

Holly O'Neill

And I'm Holly O'Neill, and I co-manage the Consumer business with Aron, and I run our Retail business, which is focused on mass-market consumer clients.

Gerard Cassidy

Very good. And similar to the other sessions, we'll -- after a handful of questions from me, we'll go to the audience for any questions. And if we could go to the first slide, Walt, that would be great.

Q&A

Gerard Cassidy

Okay. Holly, why don't we start with you? Bank of America is a leading consumer bank, of course, serves 1 in 3 U.S. households. And as a result, you guys have a great view into the American consumer. Can you share a few minutes about the health of the consumer? And any recent changes in their behavior, particularly in regard to the rate cuts? Obviously, we got another 25 basis points today. So with that, Holly, please.

Holly O'Neill

Sure. So I think overall, the consumer is healthy and stable, strong. We see really good momentum across the board, but I'm going to dig into a few categories, which is how we look at it.

Consumer sentiment, up in October. Up for the first time in over a year. So I think that is a good macro indicator of how consumers are feeling.

From a liquidity perspective, the consumer remains strong. So we all know that pre-pandemic to today, the consumer built significant cushion in deposit and savings. We still see that cushion still up about 13% overall since pre-pandemic. And I think what we've seen over the last year, they've eaten into that cushion a little bit, but we are seeing it stabilize. We'll wait a little bit to actually say that it has stabilized. But I would say, overall, we've seen the pace of production slow. Within that liquidity category, interestingly, consumers at the lower end of the income spectrum are seeing less of a reduction, and their balances are up about 25% since pre-pandemic. So we're not seeing degradation in that lower end of the consumer, which I think is a really good sign to the stability overall of the consumer.

From a borrowing perspective, they are still borrowing at a solid pace. Credit card balances are up since pre-pandemic. From a quality perspective, while we have seen the quality come down over the last year, as you would expect in the cycle, we've seen some stabilization there as well. And I think overall, still healthy behaviors from a consumer perspective.

And then the last category I would just call out is their payment behavior. They are still spending and they – payment's up about 3%. And they're spending still on experiences – cruises are way up. So think not as many washer, dryers, durables, but definitely experiences and travel. So overall, I think you wrap that all together and the consumer remains really strong and healthy.

Gerard Cassidy

Holly, just to follow up on that. Most of the pandemic stimulus money, I think most people would agree has probably been spent. Where did the money -- I mean, because your deposit -- as you just pointed out, is it the disposable income growth, wage growth, what -- have you guys kind of dug down on where the money is -- came from, assuming some of the pandemic money was spent?

Holly O'Neill

Right. Well, I do think the pandemic money is in there. I think some of it is still in there. And I think some of it is spending changes that came out of the pandemic. So think about how consumers spent pre-pandemic versus today, right? Not as many people are in the office 5 days a week, and so expenses shift a little bit.

I also think we could potentially be seeing a permanent shift for consumer leaving a little more cushion in those deposit and savings accounts, which again, I think speaks to the stability of what we see in the consumer space.

Gerard Cassidy

Aron, when you look across your different consumer businesses in the wealth spectrum that you all have, can you add some color on how you support the clients through their varying needs as well as their life priorities?

Aron Levine

Yes, sure. Thanks. So look, across the board, our model has always been about how do we support clients across banking, lending, and investing. And again, we do it with these 2 segments that you're seeing kind of behind you on the screen. So we make sure that every client, whether they live paycheck to paycheck, we support them all the way up to very affluent clients.

And so the model is digital first, plus advice, right? So we have heavily invested, as David will talk about, in incredible digital capabilities. And then we have invested equally into our physical footprint. And so for our clients, what we do, a couple of things that might be unique.

Every financial center we have specialists in the centers. So we have financial solution advisors that are part of the Consumer Investment business as opposed to the Merrill Lynch and Private Bank, where we refer to. We have small business bankers that can work with small businesses. And we have lending specialists, as well as our kind of generalist bankers. So this model is all about how we deliver advice and guidance. And you can see in how the financial centers are set up now, really beautiful office space, the transactions are sort of in the back or on your phone or through the ATM.

So in terms of the wealth continuum, to your question, the Consumer Investment business really focuses on those clients that generally have between $500,000 and $1 million in investable assets. We have the self-directed model. We have Merrill Guided Investing. And what's very important is: where we can help those clients, and we have 4 million now accounts with consumer investments, we do that where those clients who walk into the centers that have higher levels of wealth that have more complex needs that really would benefit from a more full-service model. We have a very close relationship with the Merrill Lynch FAs as or the private bank PCAs. And so then we deliver those clients through warm referrals to those teams.

So we can deliver for a client that's looking to invest $1,000 or $1 billion is just a function of where in our company is it best suited. But the folks in the financial centers are really trained to make that first conversation and then identify where does that client best fit and then work with the other parts of the wealth business to deliver against it.

So our model has been always focused on that mass affluent client, and we really target it. And you can see through the stats there, $20,000 primary account balance and $126,000 average investment accounts. So these are clients that can benefit from that sort of digital model, lower cost. But our ability to work with Merrill and Private Bank means very wealthy clients still can get access to the advice that they need.

Gerard Cassidy

You folks have shown some consistent organic growth in the consumer banking area. What are the biggest opportunities for you to continue to grow organically and serve the clients across the 2 businesses? Maybe, Holly, you first, followed by Aron.

Holly O'Neill

Sure. So I mean, first, as Aron said, our model is to drive business around that core operating account. And we've had great momentum there, 23 consecutive quarters of growth, 360,000 in the last quarter. So really good, consistent momentum driving that core operating account across the business.

From a Retail perspective, Retail plays an important role because we take in just shy of 70% of all the new clients. So they come into the Retail business and our job is to deepen that client and/or serve them very well if they stay in the retail business.

And just -- so there are 3 big opportunities that I think encapsulate where we're going. First is what we're doing internally. And that is how do we deepen retail clients and get them into that Preferred space through acquiring more assets. And last year, we deepened over 1 million. We're on the track to deepen over another 1 million retail clients this year to propel them into the Preferred business and just back of the envelope math, we think the incremental deposits associated with that are in and around $15 billion. So that is a significant opportunity for us in-house.

Second, I would say, going after segments that exhibit good growth behavior. I'll give you an example around Hispanic / Latino. We know they're going to be a bigger part of the workforce. They're going to account for more of the wealth generated across the U.S. and a bigger part of the population. So we are in a very targeted way going after that segment of client through capabilities, through our teams and how we deliver to that population. So we've got better money habits in Spanish, our mobile app in Spanish. We can do Spanish wires. Our unified sales experience is now all in Spanish. So really delivering to that population, not only through our capabilities in digital, but also in our financial centers with Aron where we have 11,000 bilingual associates. So really delivering in a unique and personalized way to those segments with high growth characteristics.

And then the last example I'll give is our focus on youth and young adult. We just launched Family Banking in September, which is our way to deliver for our 10 million clients who are parents, an easy digital way to bring their children onto the platform in a Safe Balance account, give them a super seamless, simple experience and then ultimately keep them as clients and graduate them as they get older.

So those are just 3 good examples, I think, of where we're really going after targeted growth across the business.

Gerard Cassidy

Aron?

Aron Levine

Yes, just to pick up on that. So if you think about our 26 million Preferred clients, we have huge opportunity with that client base. So about 60% have a card with us. About 12% have investments. So massive opportunity. And as always, we use the Preferred Rewards program, which is still a very unique program in the industry, as a great way to help clients understand the value of deepening with us and getting benefits across all of our solutions: banking, lending, and investing.

We also have tools like Life Plan, which, again, is all about this advice model. So the whole way in which we bring clients in and have transformed from a transactional model to a relationship model and have the ability through these tools, Preferred Awards, Life Plan, to really talk to clients about what's important to them and then deliver broader solutions.

On top of the existing client base, then we have some really key programs. First and foremost, we've talked about in the past, Employee Banking and Investing. This is the program where we work with our corporate and commercial clients across the country and deliver to them a program in which we can work with their employees. The employees get an economic benefit, and we get access to their employees.

We now have over 500 signed companies, over 5 million U.S.-based employees of those companies engaged in that program, which gets us out of the 4 walls of the financial center and into companies' headquarters, going and doing seminars, all the great stuff that Holly talked about. It lets us get out and proactively engage in those clients. It's a benefit to the company because they're basically giving their employees a financial benefit as well as a financial wellness training and all kinds of great things that are a true benefit, but it gives us this amazing access to 5 million U.S.-based employees to work with that aren't necessarily walking into our financial centers.

Student is still a big thing. Holly talked about Family Banking, but we're doing thousands of events on college campuses all the time. We've actually extended that down into high schools. We found at a local level, getting in front of kids in the high school level, doing the better money habits, creating those seminars, huge opportunity for us to kind of make sure we grab those kids before they ever get to college and then, of course, extend with them.

And then we have our Small Business clients, a couple of million clients. Many of those don't have a Consumer checking account or consumer products. So there's real opportunity to talk to those clients and make sure they have both the small business accounts as well as personal.

And then our Consumer Investments business, Merrill Edge, we have many clients that are Edge only, and that's a huge opportunity for us to introduce the Preferred Rewards program, introduce our core capabilities and then deliver a core operating account.

So it's really a combination of a lot of opportunity inherent in the size and scale of our current client base. And then 4, 5 of these key programs plus the one Holly mentioned, that are all targeting new clients coming in, which, again, all feeds to why 23 straight quarters of growth, because we're bringing clients in. And then our model is driving such high client experience that we're retaining clients longer, which gives you a chance over time to deepen the relationship.

Gerard Cassidy

Very good. Before we get to Mary. Holly, one other question quickly. You've got this organic growth, but at the same time, your businesses remain very efficient. So can you spend a few minutes on how do you drive these efficiencies? And what are the opportunities as we go forward?

Holly O'Neill

Sure. So over the past decade plus, the efficiencies that have come through have been very big. And a few proof points on this. We've gone from about 80% of our interactions with clients automated, to now we're like 98% plus with a goal of getting to 99% plus, closer to that 100% range. So good progress, still some opportunity there.

And as a result, we've had efficiencies in our call centers with our teams. We've been able to take financial centers down from almost 6,000 down to about 3,800 while still investing in new markets. And so we've seen good progress there, but there still is opportunity.

And I think there's opportunity with AI. We're not new to the AI game, and just a few highlights on that. We have over 1,000 patents that have been granted or are pending. We launched Erica in 2018. Erica -- we've had 45 million clients engaged with Erica. And just for a fun fact, over 13 million hours of clients engaging with Erica. And that gives you a good sense for the scale under which Erica can really engage with our clients, leaving the capacity of our teams to do things that are more complex.

I think as you look forward, and I'll actually have David Tyrie, who runs our digital team chime in as well. Going forward, there is still continued opportunity, driving to that 99% plus mark, really doing the simple things for our clients while leaving our teams in the financial centers and elsewhere, engaging with our clients and driving growth. And it's in all those areas that you would expect.

There is opportunity with our service teams to make our teams more efficient, drive efficiencies there with our sales teams to get in front, understand what the next best good opportunity with our clients is and to be better and more productive that way. And then, of course, internally, ways to make our teams more productive, which drives the efficiency.

So if you look at the cost of our deposit base, right, it was in the third quarter 146 basis points. Best in the industry. I think that reflects the work that's been done over the last decade plus, and that's cut in half. It was 3%-ish in 2010. So there's still opportunity there as the technology advances. And David, do you want to chime in on what you're thinking there from a digital perspective, what your macro view is?

David Tyrie

Sure. I'd be happy to. Let me ask you your question first. How many customer interactions did you guys have last year, if you...

Holly O'Neill

48 billion.

David Tyrie

Yes. So 48 billion customer interactions last year, if you can tally up the visiting us, calling us, logging in, whatever it may be. 48 billion of those. And what percent are digital?

Holly O'Neill

98-plus percent.

David Tyrie

So we're now at that 98% of those things. So you've got some big, big numbers on there. The journey hasn't changed since we -- many of you were in the room back in 2014 when the -- kind of the tide started, it's about 3 things: anything and everything we do in digital is about making it easier, making it safer, and making it more convenient for our customers. So everything that Aron highlighted, everything that Holly, that's where the generation of this goes. And on a go-forward basis, we're still on that same journey.

I do think, as Holly said, the AI piece of things will help us on that in a more scaled way. But that's the basis of the argument.

Gerard Cassidy

Mary, why don't we talk about -- the next slide now? Hold on, I got it. There you go. Yes. Is that the correct side? Okay. I shot past it.

Mary, we heard from Holly and Aron about relationships, obviously, with your clients, but also rewards are important for your clients. And you were hosting recently a More Rewards Day for credit card clients today. Can you spend a few minutes with us on the credit card? And we know it's an important product for your clients, and maybe you could give us some color on that?

Mary Hines Droesch

Absolutely, you're completely correct. Credit card is an important foundational component of our relationship strategy. We have over $100 billion in loans, 30 million active users, and we acquire about 1 million new accounts a quarter. And this is so fundamental to what our clients need every day to make their payments and their borrowing needs. And we have a wide breadth of card products to serve their interest. And we are recognized in the industry for the strength of these products.

A recent example is our Premium Rewards Elite card was named #1 annual fee card by J.D. Power for the second year in a row. And rewards are really important and help drive deepening with our core operating account clients. As Aron shared, Preferred Rewards is our industry-leading program that ensures that our clients don't have a reason to go anywhere else. And so we use it to deepen across the board, especially with credit card.

And as you mentioned, we have More Rewards Day is actually today. This is our third annual More Rewards Day and is a great example how we continue to deepen with our clients and ensure that we keep our card products top of wallet. So today, everyone gets 2% or 2 miles or 2 rewards points, depending on what product you have back. Even our non-rewards cards get a 2% statement credit. And we do it early in November because it helps ensure that our cards are used for holiday spend. And once they use it, they continue to use it throughout the holiday cycle. And ultimately, that spend turns into loans.

And so I know we're hosting dinner, so enjoy it. But when you get back to your hotel room, if you have a Bank of America credit card, do some holiday shopping and you'll get rewarded.

Gerard Cassidy

Actually, the bar is open at 8:00, so I'll be using it for tonight. So there will be extra drinks.

Mary Hines Droesch

That's always rewarding.

Gerard Cassidy

There you go. Can you also share with us other -- what's the story with other lending products? And do these rate cuts -- have they impacted opportunities to grow those products?

Mary Hines Droesch

Yes. it's -- now we're at 75 basis points. So it's a little early to have a meaningful impact on affordability for our clients, but it will eventually certainly stimulate loan growth. But what we're seeing is just our focus on organic growth is we're driving great results regardless.

If you look at auto lending, as an example, in the third quarter, we had the highest amount of originations in 8 years of almost $8 billion. Now auto lending overall is relatively flat in sales. As while the inventory is back, consumer demand has not really matched that available inventory. And in fact, we're seeing prices of both new and used vehicles go down slightly. And so we are able to capture that because we're really remaining focused on our pricing discipline. We're getting great credit quality, and we're delivering the right experience to really attract those originations.

The rates are still high, so I think it's going to take some time before you see prices start to come down. When you go into home lending, there's just so many, and I know you all know this, people sitting on 3% to 4% mortgages. It's really hard to make the move to a new place knowing that it's going to really impact affordability. And 75 basis points is unlikely to have a meaningful impact in the short term. We did see post a 50-basis point cut, an increase in refis, but it was off a really low base.

But what we are seeing is interest and home equity. So our clients have the flexibility to keep that mortgage at a low rate and use the equity in their home, and we are the #1 home equity originator. And we expect that over time, as the rates go down, that then consumers will look to refi and then ultimately move.

In the meantime, we've been really focused on how we make this experience better, investing in digital capabilities and automation throughout the process. And our latest customer satisfaction survey was at 90%, the highest we've ever had since we started the survey. So when the demand comes back, we're going to be ready to capture it.

Gerard Cassidy

Very good. Thank you. David, we'll get to you in a second on some digital questions. Brian talks a lot about the importance of integration across the company. Do you see this as a significant competitive advantage in your businesses? And why is this integration across delivery channels, lines of business, products, important both for the customers and shareholders? And then how exactly do you go about delivering this one company locally to each of the markets you guys serve?

Aron Levine

Well, it's a really foundational element and, I think, a competitive advantage for us. So one, to get to the last part of your question, we have what's called market presidents set up across 97 markets in the country. And these are -- the market president may be someone who works at Merrill Lynch or works with the Private Bank or commercial banking. So different parts of the organization. But in that market, and they all -- Lee kind of has an umbrella view, don't make -- that's a good thing, not a bad thing, trust me. He does a good job. So the market president can really serve in that market to say how do we deliver locally, how does -- how are they empowered to make sure that, whatever, whether it's Seattle or Houston, Texas or Chicago, that there's local leadership that's really driving how we engage with the marketplace. And so all of the lines of business, the 8 lines of business have our leaders sitting at the table with the market president and they're talking about a couple of things.

One, it's how the business integration happens. So how every day, every week, every month, do we do more referrals across the lines of business? Whether it's Consumer to Wealth Management, Wealth Management to Corporate Banking, Corporate Banking to Global Markets. All of the different lines of business constantly working together to see how they can win market share and do it by being a collective unit as opposed to separate parts of the company.

And it's very powerful. You're talking about 9 million+ referrals going between all these different components of the business every year. Employee Banking investing was a great example of that, right, a corporate client that we're then working with from a consumer standpoint. And so it's really foundational, and it's one of the things that we put a lot of energy into. The 8 line of business heads get together every month and talk about it at a sort of holistic level and look at each market and how are we performing market by market. And I think it's really critical in a banking to be seen and deliver at a local level as opposed to just this national brand.

But it's very powerful. If you go to the expansion markets, which you can see listed here, we come into a market, take like Denver or Louisville, we just opened in, and the benefit of -- from the corporate standpoint, corporate bankers, the business bankers, the wealth management business for consumer to arrive, and it's that kind of collaboration that drives a lot of incremental business that you would have gotten -- you would not have gotten otherwise.

Gerard Cassidy

Very good. David, and obviously, we have the slide up here that shows everybody the high-tech and high-touch approach to the Bank of America strategy. Obviously, Bank of America has leading digital banking capabilities, and you've been very innovative as well. It seems like you've also led the industry in disclosures around your capabilities for years now. Why do you think more of your peers don't do the same in terms of disclosing similar metrics?

David Tyrie

So you're going to give me the competitive one where I might misstep. I'll do my best. I think one of the core tenets that we have is around our commitment to transparency overall, because that builds trust. And whether that's with our customers, whether that's with you guys and our investors or whether that's with stakeholders, that's kind of a core. And so it starts there.

I think that the level of detail we provide around our digital journey is really a good demonstration of our commitment. And the commitment is to all those constituents, but it's also to the accountability of spending money on the tech side and yielding results. And it's also inherent in the digital space -- constant learning, because it's a course correction every single time. You might think you got it, but then you've got to kind of monitor the thing across the board on that side. Every bank has its own way of going about this journey and has across the board.

In our view, this is the degree of disclosure we provide around all these numbers, and you can double-click into any one of these, and you've seen them, and we presented at Mike Mayo's conference years ago when this first started happening, 150-page document demonstrating everything we do in the digital space. That's the way we can share the journey because it's a long-term thing. This is not something that is a flash in the pan. This is core to what we're doing across the board. I guess, if I were to give you an analogy, it's kind of like as we talk about it, it's -- we're making digital a main character whereas others are making it a cameo.

Gerard Cassidy

Thank you. I'll take a break from asking the questions. And Walt has the microphone. Why don't you -- right here, Mike has got his hand up and then Chris afterwards.

Mike Mayo

So in the spirit of the conference that you put on, thank you for doing that. The topic here is the need for scale: fact or fiction. Hopefully, I got that right. So for each one of you -- and we hear it from a lot of smaller banks who say, actually, you don't need scale. If you have density and technology, you can buy products off the shelf, we have skill, we have service. In fact, even some of the competitors who are smaller, you say they gained share from you in the Southeast. So that's my wind up to the question is, why do you think scale is an advantage in your particular area? If you have to give like one metric or your best example, why you think scale is making a difference for each one of you?

Gerard Cassidy

Holly, do you want to start?

Holly O'Neill

Yes, I'll start. I mean, I'm going to give you 3 things, Mike. I mean -- and the first is right on the slide, right, delivering high tech and high touch, 3,800 financial centers, 60,000 people plus, the ability to deliver digitally across the board, all capabilities, continue that investment, and do the same thing locally with specialists is a huge advantage with scale.

Second is just that tech investment, that consistent tech investment. If you look over the last decade for the Consumer business, it's over $10 billion, just for Consumer, to deliver those capabilities. And then the last thing, and I'm probably stealing Aron's thunder here, is the ability to deliver on a loyalty and a rewards program at scale to drive the strategy, and that is Preferred Rewards.

David Tyrie

Yes. To add to it, the idea is our clients are not stagnant in one city. Our clients travel for vacation. They move, they take on new jobs. They have life events and their needs change over the course of time. Talking about when you get a student opening up a checking account and what are the needs 5 years later, 10 years later, again, across that wealth continuum and the ability to deliver for a client at every part of the country and in fact, for our corporate clients globally.

So I think when you think scale, it's not just the Consumer business, but the rest of the company. But for us, that ability to know that, that client that now has a bigger need, they had a big liquidity event. We have the Merrill Lynch advisers. We have Private Bank. We can deliver for that client in every scenario. If they have a need for both self-directed and advice, we can do that. If they need lending products, they need -- so anything that a client can use us -- could need at any part of the country and at any time in their life, I think that is a very critical element, because for us, it's about the sustainability of that relationship over a long period of time, because that's how you deepen, that's how you efficiently grow because those clients stay with us and then over time, add things and do more with us and bring us more of their wallet. It's really critical.

Mike, do you know what percentage of time a rocket is on track to hit the moon when they launch it? 3% of the time. 97% of the time, it's off track because it's a constant course correction, too many variables, too many unknowns, all those things. That's digital in a nutshell. You don't start and go, oh, I got it.

And so from a digital perspective, it brings us 2 different types of scale. One is the amount of money we spend because we have scale, it's actually intuitively cheaper because I'm spreading it out amongst more users across the board. And two -- and that's the rocket part of it.

And number two is the mission control, the people who are doing course corrections, which is once we launch it, how do you keep it on track? I have so much feedback that we can now adjust what we're doing on the fly in a way that nobody else can. And I think that's why you see our customer satisfaction numbers in our digital channel be so high.

Gerard Cassidy

Mary?

Mary Hines Droesch

Well, from a product perspective, you mentioned that they can just get it off the shelf, but that's also what the challenge is. Our products are uniquely designed to meet the needs of our consumers, and we are able to have that -- have business cases that get the investment because we have scale.

And so I think you talk about Family Banking that Holly mentioned, we took our Safe Balance account and added guardrails so parents could enable their children to use it in a very controlled way. And we had 10 million parents that we were going to go after. Really hard to do that if you're at a small institution without the commensurate scale.

Gerard Cassidy

Go ahead, Lee.

Lee McEntire

I was just going to add. I mean, think about the deposit balances and the activity of the clients pre-pandemic, just in the past 5 years, that's gone from $475 million to $940 billion of deposits in the activity of those clients, and it's 150 basis points cost to operate that franchise: that's scale. That's scale.

Mary Hines Droesch

And that's probably the best metric, our cost of deposits relative to others.

Gerard Cassidy

Glen, you'll be next. Chris first, and then Glen.

Chris Kotowski

I was just wondering if you could share with us your experience in the expansion markets. I think the first story was Ohio. And I'm curious, if you start with a blank sheet of paper, do you end up with something that looks different from your legacy branches? And if so, how? And -- well, yes, start with that one.

David Tyrie

Actually, so our first one was 2014 in Denver. We just celebrated our 10 years. Cherry Creek was our very first center, and we just had a great celebration. So in Denver, we've moved up to #5 in the market for FDIC deposits. So that's a great move from -- we weren't even on the list, right, back then.

And we do start -- we did change the model. So back, those expansion centers, we built them where you really didn't have a teller line. Effectively, there was a wall you could lift up when someone needed to go back and do something with cash, but we have people with iPads as our first places. We tested having our basic tellers get out from behind the window and stand in the lobby with an iPad and do most of the transactions. Now 10 years later, we've been able to really expand all that capability and be able to deliver almost everything now through the iPad or the ATM and therefore, really reduce the need for people to stand in line. So that was a huge innovation that we sort of helped perfect through the expansion markets.

But we've opened in 16 markets around the country. But remember, when we -- our expansion markets, we had a very clear strategy: where we already had our Commercial Bank, where we already had Merrill Lynch, where we already had the company very much represented – that's where we were entering the Consumer piece of it. So we were adding the Consumer retail presence to a part of a market that we already were in and the ability, therefore, to grow clients and of course, our digital capabilities -- lots of clients were already in Pittsburgh, lots of clients were already in Indianapolis. And so -- but it created a really great way to expand that. And we've seen really great growth across all of our expansion markets.

I put our numbers up against anyone's in terms of the speed by which we've been able to grow and accelerate, but also the benefit to the whole company. So we did a lot of innovations with the expansion centers, and those innovations are now -- as we build new centers in our existing markets, we've now incorporated that. So if you look at the design of our centers, they've changed so much in the last 10 years.

And I don't know if you have been to a center recently. But again, it's basically like Class A office space when you first walk in, and again, continually reduce that service aspect, which our clients can do by phone or by ATM. But the staff is still trained and still helps clients with those service needs, but it's changed the model to be, again, reflecting of the relationship concept, the advice and guidance. And we really use our expansion centers as a great way to test how that could work, and it's been effective.

Gerard Cassidy

Actually, in the back, Vivek, then we'll come up here. Vivek?

Vivek Juneja

Holly, Aron, can you help reconcile -- I mean, your tone is very confident about what your consumers are doing. But on the other hand, we heard yesterday with the elections, the dissatisfaction, the concerns about the economy.

So what is this disconnect? What are you -- what's going on underneath the high level of, okay, deposits are still above pre-pandemic levels? As you look deeper, is there something that would help explain and connect with this?

Aron Levine

I'll start and then Holly. I mean, I think first thing, unemployment is still very low. And that obviously is such a big driver of ultimately the confidence in the consumer. And so with unemployment still where it is, that's very good. And again, Holly hit all the things about spending. We're still seeing good spending growth, and we're seeing that.

I think inflation is something that affects people's psyche about how they're feeling. So things are costing more, but that doesn't mean that they're not in a pretty good position because, again, as the pandemic money, it just -- it's been coming down, but still our clients have more than they had pre-pandemic. So I think you have the sort of issue of the psyche of inflation and people spending more on things versus they are -- wages are going up. There's very low unemployment and overall, pretty good spend and confidence in their ability to sustain and to continue to maintain their lifestyle.

Vivek Juneja

But are there segments within that lower income, middle class that would -- that are showing different signs of pain or pressure or that -- any metrics that you can share with us that are showing that?

Holly O'Neill

Yes. I think -- and I'll ask Mary from a card perspective, but I think there is a disconnect between -- and Aron hit the nail on the head. I think the inflation headlines are giving consumers pause and creating a sentiment disconnect from what we're actually seeing in terms of behavior, because those liquidity levels, the behavior really give you sign of stability. Yet when they're asked, they're not happy, they're concerned, et cetera.

That being said, I'll just come back to what I started with. Consumer sentiment in October was up for the first time in a long time. And it was up pretty significantly. I think the number was 108 was the consumer sentiment number for October. So we'll continue to watch that.

I think within the segments, as I also said, the cycle is normalizing from an NCL perspective. And of course, the segments where you're seeing the delinquency and the NCLs are those lower quality segments, as you would expect, but there's nothing unusual in there that would call out any kind of pressure that you, again, would not anticipate given where we are in the cycle.

Aron Levine

We're obviously, in the more affluent high -- those who are invested in the markets, right, there's obviously a big lift for their -- what they've got in the marketplace. And so those who can invest and benefit from the market gains is probably different than those who cannot.

Gerard Cassidy

Glenn?

Glenn Schorr

Thanks. So not that long ago, I think you would have been up on stage telling us that the mortgage is the foundation of the consumer relationship with the bank. And regulation and...

Holly O'Neill

Maybe long ago.

Aron Levine

For us, a long time ago.

Glenn Schorr

But what -- the world changed, and technology and regulation took that business away from the banks. I think today is it's checking and the credit card today, right? And I think this whole presentation is how you defend that.

My question is, it was only a handful of years ago that we were fearful of big tech wanting to come in, use their huge customer bases and deliver financial services. Maybe do it themselves, maybe partner with great banks like you. So my question is more on that part of it of -- we haven't heard much about that lately, but that's still a threat.

Aron Levine

Yes. I think for what we've seen, and again, starting probably in 2011 when we really had this North Star of the operating account being key: it's about primacy, right? So where do you have -- where does someone have their direct deposit? Where does someone primarily believe that they have their operating account, and their relationship starts.

Having digital capabilities is certainly critical to that, the convenience, the ability to move money, to make all these transactions as convenient as possible. But what we see over and over again, even with students, they'll say, I may never walk into a center, but I want to make sure one is near. I want to have the availability of a financial center when I decide who I'm going to go with.

So all of the fintechs that we're getting -- gaining a lot of accounts weren't gaining primacy. They weren't gaining that relationship. And so what you'd see is even we'd see it, sure, they kept 99.5% of their balance with us, but they took a little bit of money and moved it into a fintech type player. Maybe they got a promotion, maybe they got a something they wanted to try, but they never left us, right?

And so I think what you're seeing is now given that we invested so much in the digital capabilities and have leading Zelle, Erica, all of our digital products that David and his team have built, and we have this advice model – that drives primacy. And then you got programs like Preferred Awards. And so everything we've done is the retention of that primary relationship that I think is the difference between why the pure-play financial tech companies have struggled these last few years. They got a lot of accounts, but they didn't get relationships, and that has really been our kind of main focus.

Glenn Schorr

Can you extend just thought into big tech because I think you've been right on the money.

Mary Hines Droesch

I have some thoughts on that. I had experience of trying to work with Big Tech to build a banking platform. And the reality is what it takes to run this business from a regulatory perspective and a system investment is just enormous. And so for these big tech players, as they went to go after that banking, I think they've woken up. I'm sure you saw the recent news with Apple where they had fines. So they're putting risk into their business in order to get into banking.

And it takes a lot. I mean, when you talk about scale, we have invested in this platform for decades to make sure we have the best experience that is the most secure that can handle millions and millions of clients. And that's just really hard to get into. So I think a lot going through the experience of trying to get into it, have backed away once they realize what it took to do it.

David Tyrie

And how complex it is, right? The essence of those big tech companies, the model, if you squint your eyes and look at it, it's being a gatekeeper. Being a gatekeeper to a store where you buy apps, being a gatekeeper to a search engine, being -- that's where the genesis of it and the question they would have been raising is, could we be a gatekeeper to financial services? And I think once they see what's on the other side they go, maybe not.

Gerard Cassidy

Dick? Yes, no. It should be on.

Dick Manuel

Okay. Great. Yes. Thank you for this. This has been really informative. And you all have done a great job of sort of explaining your capabilities in different parts, like where a customer might be at different points in their life. I'm wondering if you can maybe talk about the life cycle of a client. Like they come in, maybe they enter in Holly's business. And as they age and prosper or whatever, they become a Preferred Rewards. And they start adding on like the card relationship and so forth and become eventually an investment client, maybe they get Glen's mortgage in there, too.

But like what I'd like to understand a little bit is what the profitability implications are as they move from one part of the business to a deeper relationship. And as you've added to the digital capabilities and all the -- like have you extended the average life that someone exists within the BofA ecosystem? And what -- like with David driving down the costs, what the profitability at one part of the younger customers, are they profitable now whereas they weren't before? Did they have to graduate? You know where I'm going with this?

Holly O'Neill

Yes. So I'll start, and I'll turn it to Aron as well. So our whole goal -- and you kind of paint a part of the picture yourself there, right, -- is to bring the client in to the retail business. Our goal is to be the best digital bank in order to drive the profitability at that client level, because they don't have the deposit balances that somebody in Preferred has. So my focus and my goal is to drive a fully end-to-end digital experience in a great way for those clients so that if, in fact, they stay a retail client for their lifetime, I do so profitably.

My goal, though, and I started with this, is to build those assets with those clients in order to introduce them to Preferred where they become more profitable because their assets are growing with us. So -- and then that continues to go up the continuum. But that's one of the reasons we take, I think, a unique approach in the industry looking at the Preferred segment, looking at the Retail segment, so that we have a laser-like focus as to how to make those segments profitable on a stand-alone basis. Anything else you'd add there?

Aron Levine

Yes. Again, think about we have -- the financial center channel is not exclusive to my business. It is for all of these customers, right, all 60 million and others. And the fact that we have been able to continually decline the number of centers and therefore, the headcount within them pretty substantially. I mean, 2019, we had 4,300 centers and probably about 32,000 headcount in those centers. Now we're at 3,750 and probably 28,000, right, just in the financial centers.

So this constant reduction of -- and getting more and more efficient, right, we looked at coming out of pandemic, there's probably the bottom 550 centers from a productivity standpoint, right? Clients have moved on, behaviors have changed. We didn't reopen them. And we're probably the only ones that had that sort of real time, let's reset, and say, what is that physical footprint, which is obviously an expensive footprint. How do you make sure it is as productive as possible so that as these retail clients come in and move to Preferred, it's the same staff, it's the same channel, and it's highly efficient now that we're down to 3,750, and we continue to look at it. So you have that piece of it.

Then you have, again, this idea that, that client, we get them into Preferred Rewards, and as Mike loves, 99.1% retention, and that's the clients that have the most assets with us. And then those clients, we can put them into a Merrill Edge platform where, right, the advisors are really base salary and bonus and they're --

we're bringing in investment assets, management fees for the digital hybrid model. And that's another set of profitability that we can add on to it, plus some of the other offerings.

So the efficiency of how the model is set up where we target these different segments, and we can deliver with the same staffing across all these businesses is really important way to think about it.

David Tyrie

I'll put my data analytics hat on for a second here. Yes and no. What I can show you is I can show you that, take a boomer customer, and I can say our cost of acquisition for that boomer is way more expensive than our cost for somebody who's younger. I don't have the boomer comparison who does digital versus not. I can show you that it's cheaper on the digital side for acquisition, development, and retention of our customer base. So I can show you all of those things.

I can show you that the younger customer, cohort of customers, is actually cheaper for us to maintain and manage and retain, et cetera, et cetera. But what I can't do yet, is I can't show the time series of those people over the time that you're looking for. But what I will be able to, over a period of time, is say, okay, well, what was a boomer when they first started if they've been here for 10 years. What did that cost? And then what did somebody who came in as a digital Gen Z over their 10 years, and I bet you any money if we show, it's cheaper, more effective.

Gerard Cassidy

We've actually gone over since it's the last presentation of the day. So I want to thank the panel and thank Lee. And like I said, the cocktail hour and dinner is two blocks away. So please join me in a round of applause thanking these folks.