

Bank of America

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Conference

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Participants

Host

Richard Ramsden – Goldman Sachs

Participants

Brian Moynihan – Bank of America, Chair and CEO

Q&A

Richard Ramsden

Okay. So I'm delighted to welcome our next presenter. He needs no introduction, Brian Moynihan, Chairman and CEO of Bank of America. This is the 15th consecutive time presenting at this conference. It is a record for sure. And it's also, I think, your 15th year pretty much as CEO of Bank of America. So thank you very, very much for coming back.

Let's start off with a discussion around the macro backdrop. Obviously, lots of different moving pieces, but you have a client set that provides really interesting insights and data on the state of the economy. So what does that data set tell you? And what are you expecting in terms of the macro backdrop as we head into 2025?

Brian Moynihan

So I think, number one, on the consumer side, 2 or 3 things. First, the consumers are spending money at about a 4% growth rate over last year. The period around Thanksgiving, Black Friday, Cyber Monday was up 10-ish percent, which is strong.

They expect us -- they told us they expect to spend 7-10% more than last year. What they're spending on is interesting, in that it's clothes and things like that as opposed to pure luxury items or spending on movies and things like that. So consumers are pretty good shape. The cap balances are strong and still for the lower -- for people earning median income and down multiples of where they were pandemic, and that's good, and they've been relatively stable.

And then if you go the commercial side, the markets you probably have many people talk about it. The enthusiasm picked up after the election and strong and the pipeline is built. But if you look at small middle-sized businesses, they're the group of people that the interest rate change affects the most because they borrow a lot on a floating-rate basis. And what you're seeing them do is say they're more enthusiastic and just saw some of the data come out. The line usage is still okay. And as rates come down, with a better backdrop for economic growth this quarter and into next year, I think they'll start borrowing more, but we're seeing some loan growth, which means they're getting out there.

And put it together, we think next year is a 2%, 2.5% growth GDP, FED cuts here in 2 more times, inflation takes all '25 and all '26 to get down closer to where they want it. But it's a pretty good case. So over the last 3 years, we've talked about a cliff; we talked about no bounce and no drop. And now we talked about this. Actually, we just had normalized growth through it all. It really hasn't changed much in the last several quarters.

Richard Ramsden

And then just as a follow-on, post the election, any changes in your view on the economic outlook?

Brian Moynihan

I think people are feeling stronger on the company side in the sense that the regulatory changes will be favorable. The ability to get deals done in the M&A side, including in our industry is favorable. And just that certainly will give them a little more aggressive as rates come down a little bit. Everything is a little bit more stable in terms of interest rates have massive increase that people factored in as it comes down.

The question will be valuations and will the buyers and sellers meet. But the M&A pipelines are very full. The amount of activity is taking place is very high. The IPO market looks to be stronger than it was predicted to be 60 to 120 days ago. So I think people are enthusiastic and now that you've just got to see the follow through.

Richard Ramsden

Okay. So let's talk a little bit about your strategic priorities. As I mentioned, I think Jan 1 marks your 15th year as CEO. So maybe you can reflect a little bit on your time in the role. And maybe talk about the strategic opportunities you see for the bank heading into the next 15 years as CEO.

Brian Moynihan

So I think in the past tense, if you think about where we were first day of 2010 when I officially became the CEO to where we are now, what we should be proud of a Bank of America, and it's reflected across, is how we've built the company back, so to speak, from a lot of mess into a company that has got the highest customer satisfaction across all the businesses, has grown market share across all the businesses, has the highest teammate scores across all the companies, and it's produced good shareholder returns and had done what it should have done in the communities in terms of support. So that brand and that brand positioning reflects all the hard work that we've done in the consumer business, the wealth management business and commercial businesses. That shows up now as being top businesses, which we had back then, but now top businesses with top market shares, and growing that market share, and being the most respected among the customers. That's a powerful place.

When you think about it from more of an operational basis, it's been about applying technology. So we had 300,000 -- 285,000 people when I became CEO, we went up to peak at 305,000. We have 213,000 to 213,500 or so now in a bigger company. And so just noodle on all that applied technology to change work and keep work going. And that leads you to the next 10 -- 5, 10, 15 years, the application of technology across customer behavior and teammate work is all ahead of us still. Even though we've made that much progress, the stuff is still growing. So our digital activity just keeps growing. And so you know there's so much more to do to provide better experiences for trading clients, for commercial clients, for wealth management clients, and consumers, but do it with less human content, which makes it more repeatable, more controllable, driving perfection on operational processes. But on top of that, providing greater delight and greater market share. So it's quite the place to be.

Richard Ramsden

Okay. So look, on market share, I think 1 of your key strategic initiatives has been the growth in the Consumer Bank and obtaining clients through operating accounts versus other products. And I think when you were here last year, we were talking about the 200 to 300 basis points of market share gains that you've made in the Consumer business over the last few years. So maybe you can talk about the sustainability of those market share gains. Talk a little bit about the growth outlook from here? And maybe talk about some of your longer-term targets for the Consumer and Wealth business as well.

Brian Moynihan

So I think I would broaden it out away from just the consumers on the operational accounts. At the end of the day, we -- 1 of the core functions we provide that is what our industry does, is it provide operational accounts for companies, wealthy people, general individuals, et cetera. And so that business continues to grow, whether it's in the GTS business, cash management business, or the consumer business. And that business, we're we just keep adding accounts.

So if you think of the Consumer business over the last 4 quarters, we've added 1 million-plus net new checking accounts. The attrition rate on the customer base is -- keeps dropping. We have been able to do that and from the time period over the last 10 years or so. At the same time, we've gone from 60% primary accounts to 90% plus. The average balance that opening goes from 3,000 to 7,000 and goes up from there. And all that is just a great core customer. That's what we want. We need to say, are you relevant to young people. We open our accounts at a much higher rate than young people exist in society. And so we're gaining share even among 20-year olds and 25-year olds and 15-year olds. And so we keep driving that, and that's the customer base of the future. So we feel good about all that.

But 1 million net new customers are core accounts with 90% primary plus growing the way they are. That's a significant amount of the households that become available every year, and that we just keep going after every year. That provides a backbone. And then you had the wealth management capabilities to it: Merrill Edge over \$0.5 trillion in assets now. Then you add the credit card and the home loan.

But the core thing is to have that, the same with medium small businesses is to have that operational count. And that cash management business across our platform is a \$15 billion revenue base that comes off the transaction side on the commercial side. So it's a big business. And so we have to own that. You lose that, the industry doesn't have the competitive place it has.

Richard Ramsden

Do you have a sense where that \$1 million of net new checking accounts comes from?

Brian Moynihan

Well, there's always household formation some there. And then I think we constantly gain market share in transactional banking away from the industry. And I wouldn't sit here and say it's x or y, that wouldn't be fair, but we do -- we keep track of it.

Richard Ramsden

Okay. So let's talk about the investment banking and the trading business because those have also grown very, very well over the last few years. Again, I think on our calculations, it's 200 basis points plus of market share just in the last few years in those businesses as well. So where do you see the biggest market share gaps from here when you look at your investment banking business and your trading business? And what is your appetite to put more capital into the trading businesses today, just given the tremendous amount of client demand there is?

Brian Moynihan

So staying on the Global Markets business. And so if you go back over a period of time, Jim DeMare and team have done a great job working with a lot of the clients out here and growing the market share, as you said, and we just updated the Board this morning on our Board call before we got in here about the business. So I'm visualizing the pictures of that.

But it's really -- if you think about it, through coming off the financial crisis and getting it all leveled out, dealing with all the new capital rules, dealing with all the new data requirements and posting requirements, and all that stuff. What you hit is about, in '18, '19, you started to hit the place where we could say we're going to invest. We took the balance sheet from \$600 billion to \$900 billion. We took the capital from high 30s to mid-40s. And all during that time, he grew revenue fast enough that the income grew and returns grew at the same time, which is very strong.

So where do we have left to go? There are pockets of business the business where we know we can do better in EMEA, Europe and Middle East and Africa. There's pockets business we know we can do better in Asia. We can always do more in the parts we're very good at in America, but he's got a very detailed plan of where we can go and pick up additional business, but it's all going to come down to doing a great job for our investment clients. And -- but they've gone from a run rate of \$12 billion in an revenue to \$15 billion, \$16 billion in the trading only. And that really, at the same time, they drop the breakeven cost in the quarter

down by \$1 billion a quarter through operational excellence. And that combination has a business to get those returns up.

And remember, these businesses, when you have the Consumer business, the Wealth Management and turn on capital are in the middle of what your returns are. But on the other hand, they're great countervail and they provide great services even on FX for consumers and small businesses; they're making that all happen and it's a lot of profitability. So we feel very good about that business.

Investment banking, it's really just that you go by country or by industry, by region, by country, and Matthew and the team continue to drive it. And we're sitting at #3. And there are certain areas that we need to keep building out in. One of the biggest successes there on a relative basis, and it's a meaningful contributor, is the middle market after we put together -- we went from 60 people doing it. Now we have 260, 275. They get about -- it's about 30% of the revenue or more in our investment banking fees come from middle market customers, which is a big deal, and that's up dramatically. It grew 30% last year and will continue to grow. And so there's a lot of opportunity there. So that's more literally industry-by-industry.

Look, but the markets, fundamentally, Jim has done a good job, and we'll keep feeding them. But you always have to be careful about that dynamic relative to the whole company because the G-SIB kick in and stuff can add capital requirements.

Richard Ramsden

And then on the primary capital market side, so M&A and ECM, have you seen a significant change in either client dialogue or pipelines since the election? And how quickly do you expect the M&A and ECM markets to pick up as we head into next year?

Brian Moynihan

Well, if you sat here in July, they would have thought -- excuse me sat here in October, they would have thought the fourth quarter would look like x. It looks better than x, and stuff has actually come through the door, which is important. So -- and then the pipeline building is high. And that pipeline is -- you had a full pipeline. So it wasn't like you didn't -- it just -- when you probability weighted that from a real practical viewpoint, it was a \$5 billion to \$10 billion transaction, the idea of whether that would actually get announced and done was interesting. And now people are ready to go. And so you start to see stuff drop in place and the discussions pick up. So there's definitely that activity.

Equity capital markets, again, you're seeing a little more activity, I think -- that's going to take a little bit of sort of valuation alignment ultimately for the IPOs to get out, do well, and then other ones will follow. So you're seeing that pick up a little bit this year, but it's very narrow. The industry has to be profitable companies or stuff attached to AI basically, and few and far. And I think that might change it broadens out. But everything they do seems to -- there's just a lot more activity going on, obviously.

Richard Ramsden

Okay. So let's talk about the nearer term. Can you just give us some high-level thoughts on the fourth quarter? Has anything changed from the last time that you spoke either in terms of net interest income, trading and investment banking, or anything on expenses or credit you think we should be aware of.

Brian Moynihan

So I think -- just starting from NIL. If you think about the -- we think about this time last year, we thought we'd trough in the second quarter. We did at \$13.9 billion. Third quarter \$14.1 billion. We said this quarter we're \$14.3 billion -- we feel very good about that. But the important thing is we look at next quarter, you see another move up the steps and so we get to January, we'll tell you. But what you're seeing now is just quarterly progression up the latter. And that number will continue to go up.

And that comes from really a couple of things. First, loans are growing about -- this quarter, we're seeing loan growth so far that would annualize out the 4%, 4%+ better than what we see in the industry. A little

better on the commercial side, obviously, the mortgage market is still not strong, but that's good. So we're growing faster than the economy in that.

Deposits, we're certain about \$30 billion up over the end of last quarter, and that's holding. The good news in deposits is -- this will be the sixth straight quarter of growth. But what's happened is we're actually running off anything high cost that was more sort of institution related that you put on, just to build liquidity after the messes last year. But that's all now being replaced with core deposits. So Consumer business sitting at \$940 billion in deposits is basically stable and moving north. The Wealth Management business at \$285 billion deposit has been stable, even with all the repricing and all the stuff that happened early this year. And the Banking Business has been growing in \$550 billion to \$600 billion. So we're up \$30 billion or so this quarter, we'll see how it ends up, but that's -- that will be the sixth consecutive quarter of growing. And you put that together, that gives us more confidence in NII. The rate structure we have, it would be basically follows the market's view. So our view is that we'll still -- we'll see good increases sequentially every quarter for next year and just keep building on that ladder.

When you go to the fee side of the house, so I think -- we have 3 dominant parts of the fees. The wealth management fees year-over-year are going to be up 20%, which is good. The investment banking fees, again, going to your -- we probably came in this quarter thinking we'd be push to get to \$1.3 billion to \$1.4 billion. We're higher than that now. We'll be up 25% year-over-year. And that was from fourth quarter last year; fourth quarter this year, up sequentially, but it's the base that's building under that.

Now we should all keep that in our minds, \$1.4 billion, \$1.5 billion. Remember, that's where we ran at in '19. So we had this big run-up around -- when all the refinancings took place in the post-pandemic, and it came down and now it's back up. But nominally, the size of deals is bigger. So that should keep growing, and we see feel very good about that.

And then on trading, Jimmy will pass the 10th or 11th straight quarter of year-over-year growth, and we'll have a record fourth quarter, will be up probably mid-single to high-single digits from last year. We had a pretty good quarter last year. He's been on a stair step, but this will be a record quarter for us, so we feel good.

And then you look at the other things, credit costs, we said they'd be flattish, and that's what -- nothing's going on in credit that's interesting. And then on expenses, the core expenses are fine. The head count is fine, but the reality is when you see this kind of stuff coming through the Markets business, the pressure we have expenses of -- we thought we'd go from \$16.3 billion to \$16.5 billion, and we might go up another percent this quarter, but that's all going to be related to the revenue, and that's a good thing.

It's -- we've gotten through all the other stuff and kind of stable on headcount, but the wealth management revenues coming in the quarter -- nobody predicted the market would be where it is today, unless you had a better mirror than we did or?

Richard Ramsden

I wish I did. So maybe we can talk about loan demand, because I think that's really interesting that you've seen that pickup in loan demand. And I know you started talking about corporate loan demand picking up back in October. So it does seem like that trend has continued. So can you talk a little bit about what's driving that? But I think what's more interesting is you've seen a dynamic that's a bit different to the industry and to our peers. So what do you think is driving that differential at Bank of America versus the industry?

Brian Moynihan

So I think in the Small Business area, we continue to see strong growth. So think of that as \$50 million revenue and under companies. In the mid-markets, the Global Commercial Banking, that's where our real estate book is. That's down. The rest of the business is up. If you look in the GCIB, the large corp business, that's been growing, especially outside the United States. And then in the Markets business, they have a

fairly sizable loan book there because of what they do for accumulators of assets and things like that. So we feel good.

So it's across the board with the only exception -- the exception is commercial real estate down, because that has been running down. And mortgage is dead, they're not going anywhere. So you're producing about what you're run off. Everywhere else, you're seeing some credit card growth, no home equity growth, you see a little auto growth. And so we feel good about it.

On the commercial side, it's really driven by line stabilization. And then some people terming out loans and stuff like that. So we feel pretty good. And the team has done a good job. Bruce Thompson runs the credit stuff for us behind Matthew and Wendy and Raul and Sharon and Geoff, and they're hitting the bid, and we're getting more loans and we're actually getting -- still gaining a little spread at the same time, which is good.

Richard Ramsden

Okay. So let's talk about the deposit side. You talked about that, too. So maybe you could just unpack a little bit more what you've seen post or around the rate cuts, both in terms of customer behavior? How is repricing tracking relative to your expectations coming into this rate cutting cycle -- and what does it tell you about terminal deposit betas relative to other cycles we've been through?

Brian Moynihan

So if you look across our deposits in the various businesses, if you go to the -- start with the corporate business, because that's the one -- the large companies. Those things move at a percentage of treasuries and it just moves instantaneous, so rate cut comes and boom -- you might have a little tail to that.

And in noninterest-bearing, obviously, as rates come down, it goes up a little bit, because people have to leave more noninterest-bearing to pay the fee side. So you'll get a little bit of lift there in that business -- they've been growing very well overall in total deposits.

And that cash management business in there is terrific as we just announced on the cash app, which is the portal we built -- CashPro it's called. We just passed the \$1 trillion of payments initiated off of it. You can do them off your phone. We've had 1 billion payments go off of somebody's watch, actually, believe it or not. And so this is a pretty slick thing. We're over \$1 trillion first year of that cash management business, a great feature functionality now.

When you go to the Wealth -- that covers all the commercial businesses -- when you go to the Wealth Management business, basically, a lot of us repriced some sweeps early in the year. That's been through the system now for a couple of quarters in deposits.

Richard Ramsden

So just briefly on that. So yield-seeking behavior is...?

Brian Moynihan

It's just basically flattened out. So we were running \$280-odd billion, bouncing around like this, and what happens is the highest and that price is down, but there's a lot of zeros just in Wealth Management that doesn't move. And so we'll see -- and then in Consumer, we're at 66 basis points all in, I think, last quarter, and that has some CDs and stuff that will run down, but most of that is so low price. It doesn't move a lot.

But all in all, we've seen the deposit for the month of November, we keep seeing pricing coming down. There's a little lag effect to it, but you'd expect -- if you didn't -- don't see the math of 50 basis point cut to 25 coming through, it has largely to do with mix than it has with anything else.

But against that, you'll see the NIM of the company start going up because on the yield side, you're getting in the deposit, all-in cost is going down and the yield size come is a lot bigger and coming up a lot faster, frankly.

Richard Ramsden

So I mean, if we put some of these pieces together, what is the NII outlook for next year if we build in the asset repricing and tailwinds that you have? And how should we think about the impact of a potentially steeper curve when it comes to net interest income for 2025?

Brian Moynihan

Well, I'm sure a lot of my colleagues said it didn't hurt. So you should think it doesn't hurt. But we'll talk more in depth about next year when we get to the first quarter because we want to make sure that we try to keep it sort of organized when we talk, but \$13.9 billion, \$14.1 billion, \$14.3 billion, and you should expect that staircase just to keep going up. You expect every quarter.

And I think -- by the first quarter of the year-over-year has grown. I think it doesn't happen this quarter. I think it was the first quarter. We start to see year-over-year growth. And so you have linked quarter growth and year-over-year growth. So if you sort of play that out, it has to grow next year.

Richard Ramsden

Okay. I mean, long term, you've talked about a 2.3% net interest margin. And can you talk about the type of environment from either a rate perspective or a loan growth perspective, as well as the time frame that it takes to get there?

Brian Moynihan

I think -- so we're sitting at 2.0% now, 1.90% something moving up. And so that will come through. It takes some time, but let's back up and ask the broader question. If you look at the deposit base and the asset yielding base in the company, and you go back and look at the last time we had a Fed funds rate above 3%, you can see -- you get pretty excited about that NIM spread.

There are 2 caveats to that. One is you've got a mix of markets business, which is a different calculus in that, so that changes a bit. And that's a bigger percentage of the company than it was -- legacy Bank of America before Merrill, I'm now talking. And then the other question will be sort of what long-term deposit pricing would be.

But if you sit there and say, we're growing core transactional accounts at the rate we're growing across all the businesses and those core non-interest bearing, we should be able to close back to that level over the next couple of years. And the question is how far it goes, we'll have to say what the economic scenario is.

But as long as the short end of the rate curve is 3.0%-ish, whatever, in the back end in the 4.5%, you should see this keep being a very good place to be. And that's dictated by the 0-interest. That's the piece that drives it. Remember, we have consumer -- 66 basis points all in -- in '19 with a 2.5% Fed funds rate and a cut, I think they were 13 basis points. So they'll get 50, but they won't get -- there's only so much you can get, but they will work their way down to that because that's what happens. And then Wealth Management will be a mix of that. In the corporate segments, right, the market and the other stuff, small business is very valuable, too. Yes.

Richard Ramsden

Okay. So let's talk about expenses. Maybe you can just talk about some of the broader expense categories heading into 2025, how we should think about the ability for you to offset investment spend with efficiency initiatives?

And then, I guess, longer term, you've got a very, very good track record of driving operating leverage. Obviously, the last year or so has been harder; should we expect a resumption in terms of your ability to try the type of operating leverage that you've done historically?

Brian Moynihan

Yes. So starting at the back to the front, yes, because as the NII kicks up year-over-year and it starts to happen next quarter, you'll start to see that operating leverage come in because that's the piece that was missing as we fought the NII curve down and even stabilized. You had to get it going in the other direction.

In terms of expense growth, look, we -- every company, every operating entity in the world had a big inflationary period, and the wage growth accumulated and all that to keep it all working, and the third-party costs and everything. So that's all through the system. What you're seeing is a flattening out of that. So that's good news.

And the headcount is flattened back out. We're carrying about 213,500 heads. We had about 203,000 to 204,000 pre-pandemic. Some of that's investment in growth in the business, like 1,000 more people in the investment banking franchise, some of that -- it's just kind of getting everything reset on getting the productivity back and so we're getting that back.

So what you should expect the expenses will start to go more rationally with the growth in revenues as the operating levels come back. And our goal always is if the inflationary environment is 3%, 4%, we should grow expenses about half that rate. And that is by saving a couple percent and investing 4%, 5%. And we'll see how that works. Right now as you look forward, we expect that dynamic to take place. You'll see nominal growth, which was unusual for us because we were coming down, but what you'll see is that is a component of the inflation, less the savings, plus the investments.

And so that number for this year, mid-60s, 60 whatever it is. You think about that -- that's where we were nominally in 2016. So we've done a lot of work in the company, and we're investing. Then we were probably \$2 billion, \$2.5 billion in technology; now we're \$4 billion. Then we were probably 3/4 of the marketing cost a year that we are now. Then whatever inflation occurred in the last decade. So in terms of people and talent and everything and Markets being up.

And so we can manage expenses well here. We'll see operating leverage come back. But one thing we'll have to get used to in our own mind, and we get all of you, is we will grow both expenses and revenue because at the end of the day, we take it down so nicely that you kind of hit where we started to do that. And then the pandemic came and everybody quit talking about it for a while. But we had started -- we had gotten operating leverage for 5 years in a row, but the dynamics were starting to change, and that's the dynamics we expect to see. So operating leverage for 5 years, a break, operating leverage for 5 or 6 quarters, rates change, hits, rates stabilize, and you're seeing operating leverage on the other side. And that will be the dynamic of 4%, 5% revenue growth, 2% to 3% expense growth, but that 200 basis points is a lot across our base, so.

Richard Ramsden

Just as a follow-on to that, you talked about the, I think, roughly 100,000 reduction in the employee count since you've been CEO. And when you look at the opportunity set from automation and AI from here, I mean, how excited are you about that relative to, say, 1 or 2 years ago?

Brian Moynihan

The whole concept of automation is still very important to us. And so AI is another automation technique on top of all this other stuff. So we got to be careful, because the automation coming through on all the other stuff is actually there.

So -- if you look at AI at our company, Erica is AI. It is a virtual system. We built it starting a decade ago. It's been operational about 6 or 7 years. It saves 3,000 people as best we can calculate now. And that's pretty good. But it's width of activity is x. So what do we -- so we keep expanding that with what it can do in Consumer because you have to have very tight control over it. You can't just let it go out there, it doesn't work. Because people want the right answer very precisely, very fast and now, and perfectly accurate. And that's not "let's put it in the model and see what happens".

So but Erica is still growing usage 5%, 6% a year, users 5% or 6% a year and usage double digits in 15%, 20%. We took that and put it in our tech support: we're already down 40% of the calls, and it's like over 90 days. So 100% of the calls went in for people calling about break fix or I need this; you're down 40% because it's a very controlled set of activities. I need to change my password. I need to do this. I need to -- so there's real place to comply.

We then took that same stuff and it's actually in CashPro where there's several hundred thousand customers that talk to us using that as opposed to pick up a phone or send an e-mail that has to be responded to individually, and it can be done. And then we've taken that into helping us draft credit offering memorandums which are this thick and have all the spreading.

And so we can see this apply, and then you take the better techniques and things. So we'll keep applying it in development. We have 1,000-plus programmers developing today into production, and that number will grow exponentially in the near term; we have 35,000 total programs, but there -- we had to make sure it worked, we can put in production. We could test it. We could -- and then now once you got that figured out, you can go.

But if you think the other thing -- so Erica is a small language model in the parlance. But if you think what else is going on is at the same time, we're all figuring that out. Every software provider is embedding in their work, and that's the change. So the sales force team and agent force or whatever they're calling the activity, that is embedded in the platform. We already are set up to use sales force across all our groups. All the data is perfectly arrayed. It all goes through a system we all know. And now suddenly, you could just start using it, right, as opposed to I got to go through and build a model and test it.

So there's a lot of stuff that can go on here pretty quickly because sales force, et cetera, et cetera, all be embedding this into their stuff. And so you've got the stand-alone models, big stand-alone model, small software providers embedding, and all that will impact us. And so we're sitting here saying we're very excited by it, but you got to be absolutely precise in what you're doing and how you're doing it, because our industry has 100% accountability for every answer we give in current law without explanation of the model in it. And so literally, you have to be very, very careful. But we've already proven it works. So we're very excited about it.

Richard Ramsden

Okay. So I think you mentioned on credit, there's not a lot to see, but -- is there anything that you're monitoring more closely or alternatively -- are there areas where you think the market isn't pricing the risk appropriately? And then more broadly, outside of credit, what's top of mind when it comes to risks heading into next year?

Brian Moynihan

When we look at the credit on the commercial side, it's all going to be leverage, and we try to keep our credit underwriting within our standards and sometimes we win, sometimes we win a deal sometimes lose a deal because of that. So we feel very good about the commercial book overall. So that in a broad sense.

In the commercial real estate, you just see the payoffs coming, and the balances are dropping, and the criticized assets now flattened out. We had to put a bunch of criticized because the OCC change interpretation -- didn't mean anything to do with the credit and then just that flatten right back out, and that's good. And so that's good.

And then on the consumer, at the end of the day, it's -- for us, we're prime auto. It's not really a charge-off issue ever. Delinquencies are very low, charge-offs are low. Our credit costs on the consumer side are all in credit card. And so but they come up and flattened out, where we thought. So the underwriting we're doing in this environment will be good.

So what are we worried about consumer side has to do on unemployment, the estimates come out, keep pushing the 4.1% further out in the future to the 4.3% move that we all talk about that won't make a much

difference. But if you go from 4.3% to 5.3%, that's a difference of 6 points. But our books built to withstand more of that because it's high credit and its core customers, and we have the deposit accounts, and we really pay attention to it. But we watch that, because that's unemployment driven. And on the commercial side, it's going to be how much leverage a company takes their business plans and execution. But we have a broad-based portfolio like we're just not seeing it. I mean, everyone talked about normalizing and credit costs are rising in the industry and we're going to get back to '19 – when we were in the middle of '19, I remember asking the head of our credit risk that worked for us. I said go find out when the last time we charged off this low of an amount -- it was 50 years before that. I mean it was a pretty good time. So we feel very good.

Do we worry about every freight of horrible you can imagine out there; we worry about it all the time. We test it, we stress all that stuff, but the reality is what you're actually seeing in real behavior, as opposed to what could happen, is very constructive.

Richard Ramsden

I know we've got a couple of minutes left. So let's talk about the regulatory outlook. And a couple of questions here. I mean the first is what do you expect around the Basel III Endgame -- do you think it's going to get finalized? Is that something you would like to see happen?

And then linked to that, given that we may not have clarity over what the capital requirements are going to be for some time, how are you going to manage capital for the firm around that uncertainty?

Brian Moynihan

So right now, we're sitting at 11.8%-ish round number CET1 ratio even under the -- so you had the first proposal and then you have the speech, and even under that, we were mitigated a lot because of some of the changes. So we have more capital than we're going to need. So we're not using that. We're just buying really all the marginal earnings for \$3.5 billion this quarter, and we'll continue to push that up as the earnings go.

And we got to -- we want to have capital to grow. And yes, the map that they answer are not that high. When you think about it more broadly, I think the United States has to finalize Basel III, so we just don't leave it open, so we have this discussion. It's been a decade. At some point, we have to get to an agreed number. One that works, one that's rational. Our industry in America is so RWA intensive, capital levels intensive relative to anybody in the world that if we agree to anything, we'd be Basel-compliant for lack of a better word.

And the mistake we made is we kept talking about equivalency from the standardized Lincoln rule -- like all this stuff not from advanced and from advanced, these moves are huge. And we were sort of talking from the wrong thing. So we feel good about that. I expect we need to finalize. I don't know what the regulator will agree to, once they get to new people in, but we need to finalize it without much impact, honestly, with very little impact because it's good to put it behind us because this is the best capitalized in the world and yet we keep having this debate about capital levels. And look what happened. Pandemic, the banking system led the system through it. The regional bank, banking system led the system through it. So the idea that we need more capital when 2016, they said the capital is about right. And 10 years later, we have probably 25% more capital. So we need to settle in just to put it behind us.

Richard Ramsden

Okay. Final question. Obviously, bank stocks have outperformed a lot since the election. From your perspective, is it rational exuberance or irrational exuberance?

Brian Moynihan

From Bank America projector, it's really, really rational -- but look, our industry multiples is still kind of average and if you go long-term averages at 12 we're all -- there is higher and lower, but it's really going to be earnings growth that's going to drive it.

And what I think people see in this industry is the potential for earnings growth for all of us, given the stable interest rate environment, a stable economic environment is all ahead of us. And so -- but the multiples in our industry, are still relative to where they've been in a lot of times in history. It's not like -- so our stock is always cheap.

I'll let other people decide what their stock is, but the reality is we're not -- the valuation didn't shoot up to 15, 18 multiples, we're 12-ish industry average. That's -- we've been there many times before.

Richard Ramsden

With that, we're out of time, Brian. Thank you for coming.

Brian Moynihan

Thank you.

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