BANK OF AMERICA

Bank of America

Third Quarter 2023 Earnings Announcement

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Participants

Presenters

Brian Moynihan – Bank of America, Chair and CEO
Alastair Borthwick – Bank of America, CFO
Lee McEntire – Bank of America, Investor Relations & Local Markets Organization Executive

Participants

Gerard Cassidy – RBC Capital Markets
Jim Mitchell – Seaport Global
Erika Najarian – UBS
Mike Mayo – Wells Fargo
Steven Chubak – Wolfe Research
Matt O'Connor – Deutsche Bank
John McDonald – Autonomous
Vivek Juneja – JP Morgan Chase
Ken Usdin – Jefferies
Manan Gosalia – Morgan Stanley
Chris Kotowski – Oppenheimer

Presentation

Operator

Good day, everyone, and welcome to the Bank of America Earnings Announcement. [Operator Instructions] Please note, today's call will be recorded. [Operator Instructions]

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

Lee McEntire

Good morning. Thank you. Welcome, and thank you for joining the call to review the third quarter results. As usual, our earnings release documents are available on the Investor Relations section of the bankofamerica.com website, and it includes the earnings presentation that we will be referring to during the call. I trust everybody's had a chance to review the documents.

I'm going to first turn the call over to our CEO, Brian Moynihan, for some opening comments, before Alastair Borthwick, our CFO, discusses the details of the quarter. Before we do that, let me just remind you that we may make forward-looking statements and refer to some non-GAAP financial measures during the call. Forward-looking statements are based on management's current expectations and assumptions that are subject to risks and uncertainties.

Factors that may cause our actual results to materially differ from expectations are detailed and our earnings materials as well as the SEC filings available on our website. Information about non-GAAP financial measures, including reconciliations to U.S. GAAP can also be found in our earnings materials that are on the website.

So with that, Brian, I'll turn the call over to you.

Brian Moynihan

Good morning, everyone, and thank you for joining us. As usual, we're starting on Slide 2. Our third quarter here at Bank of America was another strong quarter. We delivered $7.8 billion in net income. That is a 10%

growth over the year ago third quarter. And for the first 9 months of the year, we have earned $23.4 billion, an increase of 15% over 2022.

We grew clients and accounts organically and at a strong pace across all our businesses. Our operating leverage was about flat. We improved our Common Equity Tier 1 ratio by nearly 30 basis points in the quarter to a level of 11.9% against a current minimum of 9.5%. We saw an increase in our deposits, and we maintained our strong pricing discipline.

We continue to maintain $859 billion in Global Liquidity Sources. We also delivered a good return for you, our shareholders, with a return on tangible common equity of over 15% and a 1% return on assets.

Just a quick note of what we see in the economy. Our team of economists predicts a soft landing, with a trough in the middle of next year. We see that in our customer data, our 37 million checking customers, we see their spending slowing down. You can see that on Slide 34. [YTD] (corrected) was up about 4% over 2022 [YTD] (corrected).

Earlier this year, that would have been more of a 10% increase year-over-year. And for the entire year 2022, it increased 10%, round numbers, over '21. This 4% level is consistent with the spending we saw in the pre-pandemic period from 2016 to 2019. That is consistent with a low inflation, lower growth economy. As we moved into October, the spending is holding at that 4% level. So growing, but growing at a basis more consistent with low growth, low inflation economy.

With that, let me turn to Slide 3. We provide various highlights, and Alastair is going to cover a lot of this. Our team continues to focus on driving organic growth, driving digital progress, and operational excellence, which keeps us focused on operating leverage. A few words on organic growth as we flip to Slide 4.

Every business segment had organic growth. In Consumer, in quarter 3, we opened more than 200,000 net new checking accounts this quarter alone. We also opened another 1 million credit card accounts. We have 10% more investment accounts this year, third quarter, than we did last year. In Small Business, we have seen 35 straight quarters of net new checking account growth. We've also seen good Small Business loan growth, and our loans were up 14% from last year.

That was -- in this quarter, our Small Business teammates extended $2.8 billion in credit to small business in America alone. In Global Wealth, we added nearly 7,000 net new relationships to the Merrill and Private Banking franchises. And our advisers opened more than 35,000 new bank accounts for the third consecutive quarter, fulfilling both investing and banking needs for those clients. We also increased our number of advisers. In the past year, across our wealth spectrum, in GWIM and in Consumer Investments, they have combined to gather $87 billion in total net flows.

In our Global Banking team, we added clients and increased the number of products per relationship. Year-to-date, we've added 1,900 new Commercial and Business Banking clients. That is more than we added in the full year last year. Even while activity is low, the Investment Banking team continues to hold its #3 position. In the Global Markets, we continue to see performance establish new records for our firm. I'm going to cover that in a little more detail in a moment.

As you can move to Slide 5, you can see the digital adoption, engagement, and volumes continue to increase. We lead the industry in digital banking and continue to provide the best-in-class disclosures. You can find those disclosures by line of business in the appendix on Slides 26, 29, and 31. We also continue to receive top accolades from third parties around these capabilities. Most importantly, these capabilities are valued by our clients and customers, and allow us to grow with great expense leverage. Let me give you a few examples.

Our Consumer and Merrill clients logged into our Consumer Banking app a record 3.2 billion times this quarter. Even at this scale and stage of maturity of this operation, logins were up double digits from the year prior. Customer use of Erica continued to beat our expectations, with almost 19 million users, up 16% in the past 12 months. CashPro app sign-ins with our business clients are up more than 40%. And we recently added the Erica functionality to CashPro to help corporate clients benefit from that artificial intelligence.

Likewise, Zelle usage continues to grow. Zelle transaction levels are up more than 25% from last year, and Zelle is becoming a meaningful way our customers move money. In fact, customers now send money with Zelle at twice the rate they write checks. We're nearing a period where the Zelle transactions sent will exceed the combination of checks written and ATM withdrawal transactions.

As you move across the lines of business on this slide, the story is the same. All these capabilities help us deliver faster, safer, and more efficiently, and all of it gets strong customer and client feedback. When you put that together, that helps us drive operating leverage, and you can see that on Slide 6.

We have a strong record of driving operating leverage in our company. We drove operating leverage every quarter for nearly 5 years before the pandemic. And then again, more recently, we've had an 8-quarter streak leading into this quarter. We acknowledged to you this last quarter, that operating leverage is going to be tough for a few quarters as we navigate through the trough of net interest income.

But as you can see on Slide 6, we managed to grow our revenue year-over-year faster than expense in dollar terms this quarter, even though the percentage change is basically flat. Now in January, we told you we'd manage our headcount down to help make sure we got our expenses in line. Over the course of 2023, we've seen, moving from 2022's great resignation, to a current level of a record low attrition in our company. All that meant the team had to work harder to manage that headcount down.

And they did it. Our headcount is now down [around 6,000] (corrected) FTEs from a peak in January, even with the addition of 2,500 college grads this fall. As a result, you've seen an expense decline from $16.2 billion in quarter 1 and to $16 billion in quarter 2, to $15.8 billion this quarter. And by the way, we've done this without special charges or large layoffs.

Expense will decline again in the fourth quarter, excluding any FDIC special assessment, of course. We expect to report $15.6 billion in expenses in 4Q. Now interestingly, that is up only around 1% from fourth quarter of last year. This is a stronger expense guidance than we thought we could do earlier in the year and sets us up nicely for next year.

Shifting gears, let's focus on the balance sheet. Slide 7 shows the breakout of deposit trends on a weekly ending basis across the third quarter. We gave you this chart last quarter also. In the upper left hand, you can see the trend of total deposits. We ended quarter 3 at $1.88 trillion, up from quarter 2 and better-than-industry results. What you should also note is the cost of these deposits. Our team has rewarded customers with higher rates for their investment-oriented cash, reinitiated deposit growth, and grown share – all with superior mix and cost.

You'll note that we're now paying 155 basis points all-in for deposits, which is up 31 basis points from last quarter. Best that you remember 2 things when you think about the deposits. The rate remains low relative to many because of the transactional nature of our deposit relationships, with $565 billion in noninterest-bearing deposits. And you can see in the upper right alone, in low-interest and no-interest checking, there's $504 billion in Consumer. We remember the importance of the spread against the quarter's average Fed funds rate.

This position is very advantaged compared to past cycles because the transactional accounts in the current cycle are a much higher mix of Bank of America's deposits. I would also add that while we maintain discipline in deposit pricing, we paid competitive rates to customers with excess cash seeking higher yields across all the businesses, if rates fall, those particular products will see the rates come down also.

Dropping into the business trends. In Consumer, if you look at the top right chart, you saw a $22 billion decline. Note the difference in the movements through the quarter between the balance of low- and no-interest checking accounts and higher-yielding nonchecking accounts. You could also see the low levels of our more rate-sensitive balance in Consumer investments and CD balances broken out. In total, we have $982 billion in Consumer deposits. In Consumer alone, this is $250 billion more than we had pre pandemic.

The total rate paid on Consumer deposits in the quarter was 34 basis points. This remains very low, driven by the high percentage of high-quality transactional accounts. Most of the quarter's rate increase is concentrated in CDs and Consumer investment deposits were about -- which are about 13% of the deposits.

Turning to Wealth Management, balances were flat. We saw a slowing in the previous quarterly trend of clients moving money from lower-yielding sweep accounts into higher-yielding Preferred Deposits and off-balance sheet products. Sweep balances were down by $7 billion and replaced by new account generation and deepening. At the bottom right, note the Global Banking deposits grew $2 billion and have hovered around $500 billion for the past 6 quarters. These are generally the transactional deposits of our commercial customers used to manage their cash flows. Noninterest-bearing deposits were 37% of deposits at the end of the quarter.

Sticking with the balance sheet but moving to capital, let me give you a few thoughts on the proposed capital rules. As you are well aware, our banking industry in the United States is the most highly capitalized and the most profitable banking group in the world. It's a source of strength for our country and its economy.

The annual stress tests, that are now over a dozen years old, using ever-increasingly harsher test scenarios, have proven that capital is sufficient. Banks have proven to be a part of the solution during the more recent COVID pandemic and the banking disruption in March this year. If we add to our capital, it will reduce our lending capacity to American businesses and consumers, and those trade-offs are being debated. But as far as the rules are concerned, there are many parts of the rules that our industry doesn't agree with because of double counts or increased trading and market risk. And we're talking to those proposals and working, and we're hopeful they'll change.

But in any event, they may not. If they don't, how will they affect us? If you go to Slide 8, you can show the expected impact as we interpret those proposed rules. This assumes that they're proposed today without any changes. The proposed rules would inflate our risk-weighted assets by about 20%. So if I apply the inflation against this quarter's RWA of $1.63 trillion, that means, if nothing else changes in the rules, we'd end up with about $320 billion more risk-weighted assets.

The biggest increase in RWA would be a couple of hundred dollars in operational RWA. The next biggest category would be driven by a fourfold increase in the RWA against non-publicly traded equity exposures. In our case, that really is mostly about the tax-advantaged investments in solar and wind.

Looking at the capital being held against the inflated RWA on the right side of the slide, I'd remind you today that our minimum capital requirement is to hold 9.5% in on Common Equity Tier 1. But based on our G-SIB charges, that are going to come in effect on January 1, 2024, we’re going to move to 10%. So I'm going to use that as a requirement. Holding 10% today means $163 billion, that, we finished the third quarter with $194 billion. So today, we have more than $30 billion excess capital.

Now let's assume the proposed changes go through in full. Those proposed changes are phased in from '25 -- the middle '25 to '28 under the current proposal. When those are fully phased in – as we used to call it Basel fully phased in, if you remember – we would have a need for $195 billion of total capital. Now if you look on the upper right-hand side of the page, you'll see that today we're at $194 billion.

So we hold the required capital today. And of course, we'd have to build a buffer to that throughout the implementation period. But if you look at the bottom of the page, you can see just in the last 9 quarters the kind of capital generation this company has. Once we understand the final rules, we'll of course have a chance to optimize our balance sheet and appropriately price assets to improve the return on tangible common equity.

Now before I turn it over to Alastair, I just wanted to highlight one of the businesses that we've talked about over the many years. That's our Global Markets business. Global Markets represent 17% of the company's year-to-date earnings, and it's one of the top capital markets platforms in the world. It's one of a handful of firms that can do what we do, providing advice and execution in every major market around the world.

Jimmy DeMare and the team that run the business asked us for additional investment around 4 years ago, and they've grown this business with an intensity that clients have appreciated and rewarded us with more of their business. This has produced strong revenue growth. We've grown the balance sheet here but have done it efficiently. That's allowed us to grow sales and trading revenue over the past 12 months consistently, and now stands 32% higher than the average of the [4 years] (corrected) leading into the pandemic and the investment in the business.

And through effective cost management, we also generated 11% to 12% returns on capital. This exceeds our cost of capital even as we continue to allocate more capital to the business. Returns are even larger, if combined with the Global Banking business, that many show the businesses combined and take -- because our corporate clients also take advantage of these industry-leading capabilities.

With that, let me turn over the call to Alastair to walk through the quarter. Alastair?

Alastair Borthwick

Thanks, Brian. And on Slide 10, we present the summary income statement. I'm not going to spend a lot of time here because Brian touched on this and the highlights that we show on Slide 3. For the quarter, we generated $7.8 billion in net income, resulting in $0.90 per diluted share. Both of those are up double digits from the third quarter of last year. The year-over-year revenue growth of 3% was led by improvement in net interest income, coupled with a strong 8% increase in sales and trading results, and that excludes DVA, and a 4% increase in investment in brokerage revenue driven by our wealth management businesses.

Expense for the quarter of $15.8 billion included good discipline from our team, which allowed us to reduce costs from the second quarter, even as we continue our planned investments for marketing, technology, and physical-presence build-outs, including financial center openings and renovations.

Asset quality remains stellar, and provision expense for the quarter was $1.2 billion. That consisted of $931 million of net charge-offs and $303 million of reserve build. Provision expense reflects the continued trend in charge-offs toward pre-pandemic levels and remains below historical levels. Our charge-off rate was 35 basis points, that's 2 basis points higher than the second quarter, and still below the 39 basis points we saw in the fourth quarter of '19. And as a reminder, that 2019 was a multi-decade low. 30-day delinquencies also remained below their fourth quarter '19 level.

Lastly, our tax rate this quarter was 4%, driven mostly by higher-than-expected volume of investment tax credit, or ITC, deals for the rest of the year. And we can expect other income in Q4 will reflect seasonally higher renewables investment losses when these projects get placed into service.

Okay. Let's turn to the balance sheet, that's on Slide 11. And you can see it ended the quarter at $3.2 trillion, up $31 billion from the second quarter. So not a lot to note here. The driver of the increase was a $34 billion increase in available-for-sale securities. With cash levels so high, we chose to reduce the cash and just put some of the money into short-term T-bills this quarter, and those earn essentially the same rate as cash. Our cash remains high at $352 billion.

In addition to the cash level change, we saw another $11 billion decline in hold-to-maturity securities as those securities matured and paid down. And as Brian noted, Global excess Liquidity Sources remained strong at $859 billion, that's down very modestly from the second quarter, and still remains approximately $280 billion above our pre-pandemic fourth quarter '19 level.

Shareholders' equity increased $4 billion from the second quarter as earnings were only partially offset by capital distributed to shareholders. During the quarter, we paid out $1.9 billion in common dividends, and we bought back $1 billion in shares to offset our employee awards. AOCI was $1.1 billion lower, reflecting both a modest decline in the value of AFS securities, modestly impacting CET1, as well as a small change in cash flow hedges, which doesn't impact the regulatory capital. Tangible book value per share is up 12% year-over-year.

Turning to regulatory capital, our CET1 level improved to $194 billion from June 30, and our CET1 ratio improved 30 basis points to 11.9%. It's now well above our current 9.5% requirement, as Brian noted. Risk-weighted assets declined modestly as loans and Global Markets RWA both moved lower. Our Supplemental Leverage Ratio was 6.2% versus a minimum requirement of 5.0%, which leaves capacity for balance sheet growth, and our TLAC ratio remains well above our requirements. LCR ratios remain well above minimums for BAC metrics and stronger at the bank level.

Let's now focus on loans by looking at average balances on Slide 12. And loan growth slowed this quarter as a decline in demand for commercial borrowing more than offset our credit card growth. So we saw that lower commercial demand in lower revolver utilization among higher funding costs. And commercial balances were also impacted by term loan repayments due to borrowers accessing other capital market solutions.

Focusing for a moment on average deposits and using Slide 13. Given Brian's earlier comments, I'd just note the comparisons. Relative to pre-pandemic fourth quarter '19, average deposits are up 33%. Consumer is up 36%, with Consumer Checking up 45%. And you can see the other segment comparisons on the page.

Turning to Slide 14. Let's extend the conversation we’ve been having over the course of the past couple of quarters around management of our excess liquidity. This slide serves as a reminder of the size of our high-quality deposit book, the magnitude of deposits we have in excess of those needed to fund loans, and the way we've extracted the value of that excess to deliver value back to our shareholders. The excess of deposits needed to fund loans increased from $420 billion pre-pandemic to a peak of $1.1 trillion in the fall of 2021. And as you can see, it remains high at $835 billion today.

That $1.1 trillion of excess liquidity has always included a balanced mix of cash, available-for-sale securities, and securities we hold to maturity. In late 2020 and into 2021, we concluded that additional stimulus was going to remain in client accounts for an extended period, and we increased the hold-to-maturity securities portion so we could lock in value from those deposits. And we made these investments given the core nature of our customers' deposits.

Note the split of the shorter-term investments in cash and available-for-sale securities, and then the longer-term hold-to-maturity securities. And I just draw your attention to just how much cash we have above the actual level we need to run the company. On the available-for-sale, we would just note the duration is less than 6 months as it's mostly all short-term treasuries. And the combination of the cash and available-for-sale securities represents about 47% of the total noted on this page in the third quarter of '23 to give us the balance we're looking for.

And if we look at the hold-to-maturity book, it had grown from $190 billion pre-pandemic, peaking 2 years ago, and now falling to just over $600 billion currently. That $600 billion consists of about $122 billion in treasuries. Those will mature in a little more than 6 years, and about $474 million in mortgage-backed securities, and a few billion Other. Hold-to-maturity securities peaked at $683 billion, and we're now down $80 billion from the peak and $11 billion in last quarter. That $80 billion decline from peak was all driven by the reduction of mortgages from $555 billion to $474 billion.

With less loan funding needs over the past several quarters, the proceeds from security paydowns have been deployed into higher-yielding cash, and this mix shift has been happening at about a 300-basis point spread benefit for these assets. Given the increased cash rates, the combined cash and security yield has risen now to more than 3%. It's up more than 200 basis points since the peak size of the portfolio in the third quarter of '21, and it's risen faster than the rate paid on deposits. In fact, today, it's 178 basis points above what we pay for deposits.

And remember also, we have $1 trillion of loans that are largely in floating rate, in addition. From a valuation perspective, we did experience a decline in the valuation of the hold-to-maturity book this quarter, and that's in the context of mortgage rates reaching a 2-decade high. Comparing the valuation change to the year ago period, it worsened $15 billion. And over that same time period, we grew regulatory capital by $19 billion and hold Global Liquidity Sources in excess of $850 billion.

And importantly, as we move to Slide 15, I'll make one final comment here, which is the improved NII over this investment period. The net interest income, excluding Global Markets, which we disclose each quarter, troughed in Q3 '20 at $9.1 billion, that compares to $13.9 billion in the third quarter of '23 or $4.7 billion higher every quarter, on a quarterly basis, and that gives a sense of the entire balance sheet working together.

Okay. Let's now turn our focus to NII performance over the past quarter, and we'll talk about the path forward, and I'm going to use Slide 15 for that. On last quarter's call, we guided to expect Q3 NII to be about $14.2 billion to $14.3 billion on an FTE basis. Our third quarter performance turned out to be better than our guidance. And on an FTE basis, NII was $14.5 billion this quarter. We expect Q4 will be around $14 billion fully taxable equivalent, and that increases our full year guidance for NII in 2023 versus 2022 to 9% growth per year.

We believe NII will hover around this expected fourth quarter $14 billion level, plus or minus, in the first half of next year, and then we anticipate modest growth in the second half of 2024. By the time we get to the fourth quarter of 2024, we believe we can see NII up low single digits compared to the fourth quarter of 2023. The good news is we believe NII will likely trough around the fourth quarter level of $14 billion and begin to grow again in the middle of next year.

I'd note a few caveats around that forward view I just provided. It includes an assumption that interest rates in the forward curve materialize, and it includes rate cuts for the second half of 2024. It also includes an expectation of modest loan and deposit growth as we move into the second half of 2024.

Focusing again on this quarter, $14.5 billion NII was an increase of nearly $700 million from the third quarter of '22, or 4%, while our net interest yield improved 5 basis points to 2.11%. The year-over-year improvement was driven by higher interest rates and partially offset by lower deposit balances. On a linked-quarter comparison, NII improved $239 million from Q2, that comes from the benefit of an extra day of interest, a rate hike, and higher Global Markets NII, partially offset by increased deposit pricing. And the net interest yield improved 5 basis points.

Turning to asset sensitivity and focused on a forward yield curve basis, the plus 100-basis point parallel shift at September 30 was $3.1 billion of expected NII benefit over the next 12 months from our banking book. And that expects -- or that assumes no expected change in balance sheet levels or mix relative to our baseline forecast, and 95% of the sensitivity is driven by short rates. The 100-basis point down rate scenario was $3.3 billion.

Okay. Let's turn to expense, and we'll use Slide 16 for the discussion. We previously highlighted that we guided you to a trend of sequential declines in our expense each quarter this year, and we achieved that in Q3 with our expense down $200 million to $15.8 billion. Additionally, we expect the fourth quarter to go down another couple hundred million to $15.6 billion, excluding any FDIC special assessment.

That would mean our fourth quarter expense of $15.6 billion, compared to the fourth quarter of '22, would be up by only $100 million, or less than 1%. And we're proud of that work by the team, especially considering our regular FDIC insurance expense alone increased by $125 million quarterly starting in the first quarter of this year. So without that, we would be flat year-over-year in Q4.

The decline this quarter from the second was driven by the reduction in litigation expense and lower headcount, offset somewhat by investments and inflationary costs. Our headcount is down near 2,800 from the second quarter to 213,000. And that includes the addition of 2,500-or-so full-time campus hires we brought into the company. So that's good work by the team after we peaked at 218,000 in January month end. And you see the movement here across the past year at the bottom left of the slide.

As we look forward to next quarter, we could add $1.9 billion of expense for the proposed notice of special assessment from the FDIC as a possibility. Absent that, we'd expect our fourth quarter $15.6 billion expense target to more fully benefit from the third quarter headcount reductions, and that will allow expense to continue the decline experienced throughout the year so far. All of that is going to set us up well for next year.

Let's now turn to credit, and we'll turn to Slide 17. Net charge-offs of $931 million increased $62 million from the second quarter. The increase is driven by credit card losses as higher late-stage delinquencies flow through to charge-offs. For context, the credit card net charge-off rate rose 12 basis points to 2.72% in Q3, and it remains below the 3.03% pre-pandemic rate in the fourth quarter of '19. Provision expense was $1.2 billion in Q3, and that included a $303 million reserve build. It reflects a macroeconomic outlook that, on a weighted basis, continues to include an unemployment rate that rises to north of 5% during 2024.

On Slide 18, we highlight the credit quality metrics for both our Consumer and our Commercial portfolios. And on Consumer, we just note that we continue to see the asset quality metrics come off the bottom. And for the most part, they remain below historical averages. 30- and 90-day consumer delinquencies still remain below the fourth quarter of 2019, as an example. Commercial net charge-offs declined from the second quarter, driven mostly by a reduction in office write-downs.

And as a reminder, our CRE credit exposure represents 7% of total loans, and that includes office exposure, which represents less than 2% of our loans. We've been very intentional around client selection and portfolio concentration and deal structure over many years, and that's helped us to mitigate risk in this portfolio. We continue to believe that the portfolio is well positioned and adequately reserved against the current conditions.

And in the appendix, we've included a current view of our commercial real estate and office portfolio stats we provided last quarter. We've also included the historical perspective of our loan book de-risking and our net charge-offs, and you can see all of those on Slides 36, 37, 38, and 39.

Okay. Let's move on to the various lines of business and their results. And I'm going to start on Slide 19 with Consumer Banking. For the quarter, Consumer earned $2.9 billion on good, organic revenue growth and delivered its 10th consecutive quarter of operating leverage, while we continued to invest for the future. Note that the top line revenue grew 6%, while expense rose 3%.

Reported earnings declined 7% year-over-year given credit costs continue to return to pre-pandemic level. And we believe this understates the underlying success of the business in driving revenue and managing costs, because PPNR grew 9% year-over-year. Much of this success is driven by the pace of organic growth of checking and card accounts, as well as investment accounts and balances, as Brian noted earlier. And expense reflects the continued investments by the business for their future growth.

Moving to Wealth Management on Slide 20. We produced good results, and we earned a little more than $1 billion. These results are down from last year, due to a decline in NII from higher deposit costs, which more than offset higher fees from asset management. While lower this quarter, NII of $1.8 billion derives from a world-class banking offering, and it provides good balance in our revenue stream and a competitive advantage in the business for us.

As Brian noted, both Merrill and the Private Bank continued to see strong organic growth, and they produced solid assets under management flows of $44 billion since the third quarter of last year, reflecting good mix of new client money as well as our existing clients putting their money to work. Expense reflects continued investments in the business as we add financial advisers and capabilities from technology investments.

On Slide 21, you see the Global Banking results. And this business produced very strong results with earnings of $2.6 billion, driven by 11% year-over-year growth in revenue to $6.2 billion. Coupled with good expense management, this business has produced solid operating leverage. Our GTS, or Global Treasury Services, business has been robust. We've also seen a steady volume of solar and wind investment projects this quarter, and our investment banking business is performing well in a sluggish environment.

Year-over-year revenue growth also benefited from the absence of marks taken on leverage loans in the prior year ago period. The company's overall investment banking fees were $1.2 billion in Q3, growing modestly over the prior year, despite a pool that was down nearly 20%. And we held onto #3 position given our performance. Provision expense reflected a reserve release of $139 million as certain troubled industries and credits outside of commercial real estate continue to have improved outlooks. Expense increased 6% year-over-year, reflecting our continued investments in this business.

Switching to Global Markets on Slide 22. The team had another strong quarter, with earnings growing to $1.3 billion driven by revenue growth of 10%, and I'm referring to results excluding DVA as we normally do. The continued themes of inflation, geopolitical tensions, and central banks' changing monetary policies around the globe have continued to impact both bond and equity markets. And as a result, it was a quarter where we saw strong performance in our FICC trading businesses, as well as a record third quarter in Equities.

Focusing on sales and trading, ex DVA, revenue improved 8% year-over-year to $4.4 billion. FICC improved 6% and Equities improved 10% compared to the third quarter of last year. And at $1.7 billion, that's a record third quarter for our Equities teammates. Year-over-year expense increased 7%, primarily driven by investments for people and technology.

Finally, on Slide [23] (corrected), All Other shows a profit of $89 million. So revenue improved from the second quarter, driven by the absence of prior period debt security sale losses in available-for-sale securities, and partially offset by higher operating losses on tax credit investments in wind, solar, and affordable housing. As I mentioned earlier, our effective tax rate in the quarter was 4%, and that reflects a higher-than-expected volume of investment tax credits in which the value of the deals are recognized upfront. We also had a small discrete benefit to tax expense from a state tax law change.

Excluding renewable investments and any other discrete tax benefits, our tax rate would have been 25%. And as we wrap up 2023, we expect our full year tax rate, excluding discrete and special items, such as the FDIC special assessment, we expect that full year tax rate should end up in the 9% to 10% range.

So to summarize, we grew our earnings double digit year-over-year. We reported NII that was above our expectations, and we increased our full year expectations. We've managed costs aligned with our guidance and brought expenses down in every quarter so far this year, and we expect to do that again in the fourth quarter. We earned more than 15% return on tangible common equity. We returned $2.9 billion in capital back to shareholders, including a 9% dividend increase. And we built 30 basis points of CET1, positioning us well for the proposed capital rules.

So all in all, it was a strong quarter. It was one where our teams executed well against responsible growth. And with that, David, I think we'll open it up for the Q&A session.

Q&A

Gerard Cassidy

Brian, can you come back to your thoughts when you were talking about the consumer spending holding at 4% right now, obviously, down from the very strong levels of a year or 2 years ago. When you look out, and you mentioned how you guys are thinking the economy troughs in the middle of next year, do you think you could hold that 4% consumer spend? Do you think your consumers will hold that 4% spending number? Or could it actually deteriorate from here?

Brian Moynihan

I think a couple of things, Gerard, one is the -- there's obviously external events, which could change the situation in the globe and change dramatically. And so -- but given just the pathway that those -- that doesn't -- that kind of event doesn't take place, you think that the rate they're spending out now is consistent with a lower inflation. So embedded in our team's – Candace Browning and team's – economic projections is a return of inflation to the 2% target the end of '25. The rate structure comes down beginning in the middle of next year, but still stays around 4% at the end of '25.

And so given that the economy -- the inflation is coming down, the economy would still be growing then and getting back towards trend growth, I think it would hold steady. And so it's been pretty steady, the month of August, into September and October, at this 4%, 4.5%, 5% level. And that's kind of just people get paid more, they spend a little bit more, and pricing goes up. And then you have the ebbs and flows within it, what they spend on. And right now, you've kind of seen all the adjustments that came through the pandemic into the last couple of years sort of adjust out of the system.

What I mean by is you had a lot of goods purchases, then you had a lot of travel. You had a lot of return-to-office spending. We can track that people buying stuff. All that's kind of leveled out of the system, including a drop in fuel prices and an increase – and basically, it's relatively bouncing around about the same – and they're spending about the same amount of money on gas that they spent last year.

So all that being said, in the big aggregate numbers, I think, yes, it can bump along at that level, which is consistent of low inflation, low growth economy, and effectively shows the consumer has been brought more in line with the scenario of the Fed reaching their target. That's what we see. Now it'll take some time for all that to work through the system and the retail sales number seems to be stronger today, but that will all shake through, but this is what they're doing at the moment.

Gerard Cassidy

Very good. And then as a follow-up question, you guys gave us good detail on Slide 8 about the potential changes coming from Basel III end game, and you showed us, obviously, the organic capital generation. Can you share with us possibly some of the mitigation strategies you might use? And specifically, if you could touch upon these changes for the equity investments, particularly in the alternative energy space. I guess they're going up from 100% RWAs to 400%. Would that change your thinking in that line of business as we go forward, should they stay in the final rules?

Brian Moynihan

So I think, number one, I think the first thing is there'll be -- at the end of November, the comments are due, there'll be comments by our company, by all the other companies, by industry participants, and then the staff at the Fed will have to sort through all that and think to what they all mean. And there'll be very rigorous points about our views of the wisdom of the changes, the need of the changes, the balance of the changes, the double counting that you've heard much about.

That being said, it is a little puzzling that you see some of the RWA increases for mortgage loans or for these types of investments in the environmental and housing and other spaces, which is sort of counter to the policy that we want to do it. Now what would happen is we'd have to adjust the pricing, and it would become more expensive. It's been a great business for us. We continue to drive it. But ultimately, it would have to go through the market if you have the equity cost go up by a fourfold increase to get the returns. And so think about a pricing model, just increasing the amount of equity we have to dedicate, therefore, we have to get returns on that. And so that would happen.

It just seems a little counterintuitive that people would be doing that on a set of rules that, basically, after the financial crisis, Dodd-Frank put in a set of rules and said here's how you count the RWA, without much evidence that this is an issue for companies because the Volker rule and all the stuff that are having issues of write-downs or changes here. And so the idea going up 4x seems odd to us from a public policy standpoint, and also absent any evidence that this is an issue for the banking system.

Operator

We'll take our next question from Jim Mitchell with Seaport Global.

Jim Mitchell

Alastair, at a conference a month ago, you noted that if the Fed is done, you think deposit pricing is close to its peak, and I think you kind of talked us through that a little bit today. Some of your peers have been more fearful of a potential future material repricing in consumer savings, for example, from greater competition or further outflows. So -- and to be fair, they've worried about that for a while, and you've been more right. But can you just kind of discuss your thoughts on that and perhaps the outlook on deposit pricing in general?

Alastair Borthwick

Yes. I mean, Jim, one of the things that I think gives us some confidence around NII troughing and then growing in the back half of next year is: if you think we've seen the last Fed hike or you believe that the last Fed hike is a month from now or 2 months from now. And at some point, deposit pricing is going to stop going up. And there'll be a natural lag to that, that's pretty normal. And then what you see, if you look forward into the forward curve is we've actually got Fed cuts, 3 of them, in the forward curve for next year.

So yes, we anticipate will be some lag. I don't think we're any different than anyone else in that regard. But we're just pointing out that as we get towards peak rates, we're getting closer now, so we can begin to see the end of that in terms of the later innings at this point. And the other thing we always have to remind everyone of this is the deposits that we have are very relationship based. They're -- a lot of them are core operating deposits where we've got the checking, they're thinking about the way we serve them in terms of digital. We've got preferred reward program.

And then on the commercial side, very similar. We've got a lot of operating deposits all around the world, and they're using our world-class CashPro product. So there's a lot of relationship value here as well that we need to take into account. But fundamentally, we're just making a judgment that we're getting towards the top of the rate cycle here for Fed funds, and then deposit pricing will sort out in the quarter or 2 following.

Jim Mitchell

All right. That's fair. Maybe given the thoughts that there's 3 rate cuts in the forward curve and you are asset sensitive, but yet you still expect growth or improving growth in NII in the back half. Is that just sort of the lagged effect there, too? Or is there something else there in terms of rate cuts and the impact?

Alastair Borthwick

Yes, I think the other things that we've got going on, especially as we get into the back half of the year: Consumer balances are going to find a floor at some point. They again are in the late innings of returning to sort of more normal pre-pandemic balances per account. So they're going to find a floor, and at that point, they're going to start growing. In the same way that Wealth has found the floor, and in the same way, that Global Banking found a floor a while ago and is now beginning to grow. We have a point of view that the Consumer side is going to find the floor. So that's one.

Two is, at that point, you're poised for deposit growth, but we're also going to see loan growth through the course of the year. It's been slower this quarter. But at some point, you return to a more normal economy, as Brian's pointed out, we're going to see the loan growth, and so we're thinking that's going to start to evidence itself in the back half. And then the final thing I'd just say is we have securities reinvestment every month, and that's going to support and grow NII. And I think it gives us a sense that we've got a more durable NII stream underneath.

Operator

We'll take our next question from Erika Najarian with UBS.

Erika Najarian

I have my first question is sort of two-pronged on the balance sheet. Alastair, if you could tell us sort of how much in cash flow do you forecast your HTM book will have in 2024 as you think about the moving pieces underneath your NII outlook? And for Brian, clearly, this held-to-maturity portfolio has been a thorn in the side of the stock. And so -- and no matter what we say to the investment community, the stock hasn't quite caught up. And I'm wondering, as you think about the statistics that you share with us every quarter, like net new checking adds, maybe give us a little more statistics in terms of the strength of that growth and the strength of that retention. Because I think that no matter what sort of print that you have on total deposits at the end of the quarter, there's always sort of pushback so long as the market is not yet confident that we've hit peak rates. So that sort of a 2-part first question.

Alastair Borthwick

All right. So I'll answer the first part, Erika. I think if you look back through the course of the last couple of years, that portfolio paydowns in terms of maturities or paydowns, it's sort of averaging $10 billion a quarter. So I think you could probably use that as a good starting point for the reinvestment horizon in 2024. That's what I would use. And then I'll let Brian answer the second part of your question.

Brian Moynihan

So Erika, we drive organic growth machine based on a responsible set across all the different operating businesses. So as you've noted, if you look at what's driving our deposit base to be larger than the industry, i.e., outperforming the industry is, if you think from every comparison against '19 to now and we're up $250 billion in Consumer [deposits] (corrected), but we also are up probably 10% in checking accounts, net checking accounts. Those are 92% core. The attrition rate and where all the deposit balances are in the preferred part of that segment is -- the retention rate is 99%+ -- long-term customers, the preferred rewards program drives a basis.

On cards, we're now getting the balances back up to where they were pre-pandemic with even better credit quality than we had then. We got home equities hit a trough and are starting to work their way out. Auto loans are start -- it will continue to produce a lot doesn't -- the market is not real strong; we continue to produce several billion in a quarter. So all the organic growth engine in the Consumer business are very strong. When you go to Wealth Management, we're now producing net household growth at a faster rate than we produced in the prior years.

If you go to the Commercial Banking businesses in the U.S., we noted that we produced more customers this year. And that deposit base in the business banking and middle market segments, those come with a big deposit franchise. And you see that those deposits have actually been stable and growing for last 6 months. So again, the organic growth engine is in fine shape and just powers through all this and is the strength of the $3 trillion plus balance sheet. And in fact, it is the reason that we have $1 trillion of -- $900 billion on a given day that we have to put to work because you're just having this great engine go on.

And so whether it's investment accounts in Consumer, checking accounts in Consumer, cards in Consumer, home equity, all that has grown organically dramatically over the last 4, 5, 10 years. And frankly, the loan growth will continue to follow that as conditions improve. And then on the Commercial side, as people go back to regular line usage, we saw it deteriorate this quarter, largely due to the demand side, and so we feel very good. And then talked about the markets business, gave you detail there, and the investment banking team is gaining market share and actually fought to maintain relatively flat fees in a market that was down 20% or something.

So we feel very good about the organic growth engine. That's what powers our company, and that delivered $7 billion plus in after-tax income for another quarter and 15% return on tangible common equity.

Erika Najarian

Got it. And my second question is for you, Alastair. Do you have any economic ownership of Visa Class B shares remaining? Our understanding is until the litigation was settled, you weren't allowed to sell it other than to other banks in the initial consortium. But I'm wondering if you've sold any economic ownership through swap or if you still have it on the books because we haven't seen any disclosures on that recently.

Alastair Borthwick

Well, I mean, we essentially sold and hedged our Visa B position years ago. And then in our markets business, we've financed the sale of Visa by other banks. You can think about that as a hedge thing that's just about a financing. So depending on how that all develops and what other banks choose to do, we may end up having some RWA or some liquidity that we can recycle for other clients' benefit in our markets business, but we don't have any meaningful economic stake in Visa B.

Operator

We'll take our next question from Mike Mayo with Wells Fargo.

Mike Mayo

Do you expect the efficiency ratio – expenses to revenues – to improve from 63% and when? And I guess this is a 2-part question. One is expenses. As you said, it's down every quarter this year, and you're guiding for the fourth quarter. Slide 5, the digital adoption is now about 3/4 for your clients across the firm, so the sustainability of those digital trends to help lower expense or control expenses, given some of the headwinds.

And especially given the threat of big tech and fintech, the sustainability of the digital trends and why you think you have an advantage on so many others who think they have the advantage. And the second part of that question is revenues. Your NIM is a bit over 2%. Went up a little quarter-over-quarter, but it was closer to 2.5%. Going back 5 years and maybe long term, it should be 3% – I'm not sure. So what do you think is a normalized NIM, cause that would help the efficiency ratio, and the trend for expenses, and ultimately, the efficiency ratio?

Brian Moynihan

Sure. So Mike, I think the expenses come down, revenue grows, the efficiency ratio continues to improve. One of the big differences between us and other companies you can compare us to is the size of our Wealth Management business relative to the size of the company is large. And as you know, that's a business which we continue to work to make more efficient, but it's the least efficient business and a platform. So Lindsay and Eric continue to drive the efficiency there.

So yes, we expect the efficiency ratio to continue to improve. And part of that will be as the net interest margin normalized that we normalize the size balance sheet – given it's grossed up for a lot of reasons through the pandemic and stuff – and you kind of fine-tune it, you'll get a little more effectiveness there. In the past, we ran up to 2.30% in NIM in sort of a normalized sort of environment, and you'd expect us to keep moving up from there. Now it will be -- it'll be bouncing around here as we work through the trough in NII that we described, which is -- we're sort of in the middle of starting this quarter into the first half of next year.

So Mike, and as you know, it's all about management heads, and that's -- last year, at this time, we all talked about the great resignation or last year -- last summer -- and how we had to hire people, we over-hired because the issue was could you hire fast enough to get what you needed this year. We're able to bring that excess back out of the system and ended up kind of where we wanted to be at 212,000. As we think forward, we continue to reposition people around the company who are freed up, because of that digital application, to other things.

So in a broad sense, our Consumer business is down from 100,000 people to 60,000 people and continues to drift down as we continue to use the -- that's the place with the most leverage in digital. Across the board, you continue to get less branches, less ATMs. You can see the statistics on the chart. More customer interactions and more customers; that's a pretty good trade, and we continue to drive that, including sales and digital that we disclose in the back of things. You're running nearly half the sales and, frankly, with improvements on the checking account opening, we can drive another round of growth there.

So that's what we're going to do. We continue to drive the efficiency ratio to a level, and we'll see where we can get it to.

Mike Mayo

And then just on that big picture question, I mean, you've invested for over a decade in your data and tech stack and digital engagement. And now we have AI and gen-AI as a new opportunity and a threat. Why do you think -- or maybe you don't. Why do you think that you have an advantage versus, say, smaller banks, fintechs, or big tech?

Brian Moynihan

Well, we have an advantage in that we've been applying it for a number of years now. So effectively, Erica is a form of that and now has [19] (corrected) million customers working on it everything. And so think about that this quarter. I think there's 170 million interactions, whatever the number is, 180 million interactions, something like that. If you think about that, Mike, in a day’s gone by, every one of those would have been an e-mail, a text, or a call. And so it's obviously tremendously more efficient. And we're continuing to prove -- we brought it out to the CashPro side, which is the Commercial side. So that helps.

If you think about -- in the $3.8 billion we'll spend in '24 on technology initiative spending, Aditya and the team continue to use the techniques that you read about in the paper to increase the efficiency of that development effort. And it's probably 10%, 15% in the short term, building up higher and as people get more and more used to it, and that will allow those dollars to be stretched even further. So we think that's a near-term application that we're already doing and has high probability.

And then, frankly, if you think about our capabilities, if you look, we have nearly, I don't know, 6,000, 7,000 patents out there, 600 on AI already related, machine learning-related activities sitting with the application filed. We got a lot of inventors in this company. And so we feel good about our ability to compete against the types of people you said. But by the way, we use some of those people who might compete to actually be providers to help us do this stuff. And some of the big tech companies are -- as you listen to them, they have -- it's a business for them to sell that AI capabilities to companies like ours to make us more efficient.

So near term: customer help, near term: employee effectiveness, near term: coding enhancements, et cetera, et cetera. But one thing you mentioned is we have invested heavily to have the data in a tech stack ready to go and 3-point-whatever billion dollars and 1 billion interactions this quarter in digital show that the people are ready to use the services that we provide them.

Operator

We'll take our next question from Steven Chubak with Wolfe Research.

Steven Chubak

So I wanted to start off with a question on expense. You cited headcount actions that should provide relief in 4Q and positive flow through into next year. I was hoping you could either help size the benefit from these actions or just frame how we should be thinking about expense growth as we look out to next year.

Alastair Borthwick

Well, I think what we've tried to do this year, Steve, is communicate pretty clearly what our plan was. As Brian said, we overachieved last year on hiring. So we started the year with 218,000 and expenses of $16.2B. And we've really been working on the trajectory over the course of this year. So this point of getting the headcount into a place where we're comfortable. $16.2B turns into $16.0, turns into $15.8B, we're now determined to deliver on the $15.6B, and I think that's going to set us up really well. So our plan is to finalize our strategic planning over the course of the next few weeks, and I think we'll give you more guidance next quarter.

Steven Chubak

Great. And just 2 clarifying questions or cleanup questions on my end. On the NII remarks, you talked about deposits. I was hoping you could help frame, Alastair, what are the assumptions you're making in terms of reinvestment yields and loan growth that are underpinning that higher NII exit rate for next year?

Alastair Borthwick

Yes. So I'd say reinvestment, just assume the forward curve. And with respect to loan growth, I'd use low single digits, consistent with a slow growth economy.

Steven Chubak

Okay. And just one quick one here on the tax advantage investments. I just wanted to confirm, given the long duration, the 4x increase in capital, are you still planning to fund tax advantage investments on the platform before the rules are finalized? Or are you going to take a wait-and-see approach?

Alastair Borthwick

Well, I mean this remains something that's important for our clients. We've yet to see a final rule. So we'll be supporting transactions. But obviously, as Brian said, it is informing us with respect to pricing, and it's informing us with respect to appetite. But until there's a change, we'll continue to support the clients in that regard.

Operator

We'll take our next question from Matt O'Connor with Deutsche Bank.

Matt O'Connor

First, just to clarify, what's driving the drop in net interest income from 3Q to 4Q? Is that core net interest income? Or is that on the market side?

Alastair Borthwick

Well, you're talking about the fact that we think that we're going to be around $14-or-so billion in Q4? I'd say, first one is you've got a little bit of deposit pricing lag there. So we got to keep thinking about that. Second is we're sort of baking into some continued normalization of Consumer balances. So that's just continuing to drift slowly lower. I think third, if we had hoped for loan growth in Q3, we just didn't see that. So that's going to flow through with lower loan growth balances in Q4.

And then the only final thing I'd just say is the Global Markets NII may not repeat in quite the same way. Some of that depends on client behavior. And they benefited this particular quarter by just long-term rates going up so significantly and that helping the carry side. So all those things and probably a little bit of rate hike probability or timing delayed, but it's all those sorts of things. Importantly, what hasn't changed -- this hasn't changed from our expectation a quarter ago in any way.

Matt O'Connor

Yes. Okay. That's helpful. And then just conceptually, if you think about your net interest income guidance for next year. What if we get higher for longer rates; there's not cuts. Is that good or bad versus the guidance that you gave earlier? Obviously, you've got puts and takes, so some reinvestment on the asset side. But again, coming back to the deposit funding issue, I think there's a view that higher for longer eventually drives up the Consumer rates. So what would be the net of those 2 in the higher for longer?

Alastair Borthwick

Well, higher for longer is going to be better. So you're right, we've got the forward curve, and if our expectation doesn't turn out to be the case, we'd expect NII would be higher.

Matt O'Connor

And that's simply the assets repricing more on the deposits? Or are you still thinking there's minimal Consumer deposit re-pricing even in the higher for longer?

Alastair Borthwick

It will be both. I mean there'll be the repricing for sure. And in addition, we'd expect to capture a little bit of margin from any short-term rate hike.

Operator

We'll take our next question from John McDonald with Autonomous Research.

John McDonald

I was hoping you could give a little color on what you're seeing on credit. Your outlook, as you look at roll rates and migrations, how are you thinking about the trajectory of charge-offs in the near term?

Alastair Borthwick

Well, John, I'll just point out, you can see the trajectory, we've laid it out on the slide. Most all of the net charge-off increase over time has been really due to card and Consumer card. And the charge-offs at this point are still lower than they were in the fourth quarter of '19, which was a stellar period. And I'd anticipate in the short term that you'd see things begin to -- or just continue that trend. Because it normally follows 90-days past due delinquencies, and those are up ever so slightly again this quarter. So we're inching closer to the fourth quarter of '19. And at some point, that's going to begin to stabilize.

From there, it's just a question of what does the economy do. So right now, as Brian has pointed out, we've got a slow growth economy in the plan. So I'd anticipate as we get back towards that kind of fourth quarter '19 number, it's going to normalize in there. But from that point, it will be very economic dependent. On the Commercial side, the asset quality has been excellent. The only place where we've got particular elevated concern is office, which is a very small part of our portfolio. It's less than 2% of our loans.

But the commercial side has been terrific. And again, that will depend on how the economy plays out, and whether we're talking about a soft landing, whether we're talking about a recession, or whether we're talking about robust growth. So all of that is going to have to play itself out. With the commercial numbers being so low, that one could bounce around a little bit, but it's only because it's coming off a base that's so low at this point.

Brian Moynihan

John, just one thing on as you think about the commercial credit. Remember, we have a strong, disciplined ratings change, rating capability in the company. And so we are pushing through the reviews of the commercial real estate portfolio, et cetera. We put them on criticized quickly. We had to deal with the charge-offs, and that's why you see them come back already in. And we're adjusting those activities as we show in the slides in the part of the deck, you have to current appraisals, other market conditions under current rent rolls, et cetera.

And so even though it's a very small part of our portfolio, frankly, a lot of the issues are through the system for us because the high ratings integrity and ratings conservatism we've had in this company for many, many years. And that holds us well. And that always -- if you think back like in the oil and gas thing in the end of '15, '16, we put up all of this reserve – that was pre-CECL – and then end up bringing it back in because the charge-offs were very modest. So I think we feel very good about the original underwriting, but you also have -- because of our ratings integrity on the office part of the portfolio, we pushed a fairly significant amount through reappraisal and relook, and we have the CECL reserves. But importantly, the charge-offs are falling already.

John McDonald

Got it. And 1 bigger picture question as you think about the Basel III and the opportunity to mitigate and optimize. Does a 15% ROTCE feel like a good aspiration for the company over time, Brian, through the cycle? I mean recognizing that's where you are already today. But as you factor in the potential for new rules, anything about that?

Brian Moynihan

Yes. So I think if we're doing on -- I think a simple way to think about it is if we're doing on $194 million of capital, which we did it this quarter. And that is -- you need about another, say, $10 billion to put a buffer on the end state need, $10 billion to $11 billion, to $195 billion, plus 0.5%, which is our normal buffer. Without any mitigation, that would be a very modest increase of 10 over 200, let's make it simple. And that would hit the ROTCE a bit. And we -- I'm sure we can figure out ways to price to get that back.

But remember, we're different than everybody else, John, because we're actually sitting on this amount of capital today. And so we are getting a 15% return on it. So I don't want to -- don't take that as saying I agree with the rules, but saying we got to deal with the cards that are dealt to us. The rules say that you have to have $195 billion plus about $10 billion of cushion for -- and maybe a little bit more of cushion. But depending on -- 50 basis points or so. But we're doing 15% today, so there will be a slight dilution to that number, but not something we couldn't make up, and that's before any mitigation ones.

And there's always mitigation, you know that, you've been around this industry for a long time. So there's always mitigation: how you construct things, what you'll do, what you not do. And I fully expect there'll be modifications in the rules which ought to help also. But I think the simple point is, we earned that amount of capital today, so it's not like some calculation I have to think through. It's right there today.

Operator

We'll take our next question from Vivek Juneja with JPMorgan.

Vivek Juneja

Alastair, question, just want to clarify your NII comment. So if rates stay higher, are better, are you implying that rate cuts would therefore be negative for you from an NII standpoint?

Alastair Borthwick

Yes, I'm saying, Vivek, if you think about what rate cuts look like in the back half of next year, in the absence of that, we might guide NII higher, yes. That's what I'm trying to communicate.

Vivek Juneja

And is that because your assets -- you have that many floating rate assets that would reprice faster than you can cut funding costs?

Alastair Borthwick

Yes. On the way down, I'd anticipate that as rates are going down, it's going to cut into our margin on our deposit spreads. So that's essentially what we're talking about.

Brian Moynihan

Yes, Vivek, I think, I just listened to you and Alastair. I think, remember the forward curve has multiple cuts in it next year. And I think the question was if those didn't occur, what would happen. And I think Alastair said NII would be higher if those cuts didn't occur. It's not a rate -- it's just mathematically at 75 basis points in the second half of next year of not being cut would hold us higher cause of all the deposits being worth more and the floating rate assets holding pricing up better. Dominant part of our balance sheet. I just sense that you're talking by each other, but maybe not.

Operator

We'll take our next question from Ken Usdin with Jefferies.

Ken Usdin

Just a follow-up on the securities portfolio on the AFS side, Alastair, how much of that $180 billion is still swapped? And can you kind of help us understand what the kind of all-in yield is on that book? And if you would still also have repricing help going forward on that book as well as I mentioned earlier on the HTM maturities?

Alastair Borthwick

Yes. So most of the book we swapped to floating. We've tried to establish that over the course of time. So you can almost think about most all of the available-for-sale securities re-pricing kind of every day, every week, every 2 weeks, whatever it may be. So it that tends to look a little bit more like the cash moves over time. There's a few securities in there that are fixed rate, but very, very little in terms of the total complexion, Ken.

Ken Usdin

Okay. That helps. And then I just wanted to also say, on the fee side, obviously, another really good job both on the Investment Bank and the trading businesses, still in uncertain environments. Just wanted to get your thoughts. You were able to hold the IB fees flat sequentially, which was, I think, better than you had indicated. Just your thoughts on reopening here in the markets and how you're kind of expecting the business to hopefully, albeit understanding it's still an uncertain environment.

Alastair Borthwick

Yes. So this is I suppose, unusual and not unusual. Investment Banking, obviously, has the potential for swings in fees, and what's interesting about this one is, we've now been bouncing around this sort of $1.1 billion per quarter, $1.2 billion per quarter. And normally, investment banking you'd expect to return within a year or so, and we're now 7 quarters into this. So we've got a good pipeline. And mostly what I think corporate America and around the world, C-suite executives are looking for, is the confidence that comes from macroeconomic certainty, geopolitical certainty.

So for as long as we've got the volatility, it's going to stay in this kind of a range. But if you were to look back in periods past, Investment Banking can come back very, very quickly to a more historical range of kind of $1.3 billion, $1.4 billion, $1.5 billion per quarter. It's just that we've grown tired of predicting when that might be, Ken.

Brian Moynihan

Yes. Ken, let me give you 2 other pieces. One, the pipeline still is strong. But more importantly, Matthew and the team have done a good job of building out our capabilities to serve our huge middle-market client base, our Global Commercial Banking client base, under Wendy's leadership, and that number is growing quickly. And that's a market which is -- we're relatively unpenetrated in. We had good market share with our clients that we did business with, but we continue -- meaning Investment Banking business with. And so that's generating probably better performance for us than others in terms of holding our position flat relative to up a little bit year-over-year, flat year-over-year versus a down market. So we added -- we basically doubled the size of that team, and we'll double it again. It's that kind of opportunity for us.

Operator

We'll take our next question from Manan Gosalia with Morgan Stanley.

Manan Gosalia

My question was around deposit growth, and what level of deposit growth you think you need from here. Should it be in line with loan growth? Or are you happy to let some of the more maybe non-transaction deposits run off? And the reason I ask is because, as noted in some of the prior questions, some of your peers are saying that there's more room for Consumer deposits to reprice higher, especially core checking accounts. It sort of sounds like you disagree with that. So wanted to assess how much you might need to respond if competitors act differently.

Brian Moynihan

So a couple of things. One, just broad based, we have a $1.9 trillion of deposits and $1 trillion of loans. So we have a tremendously high deposit base. But also, if you think about -- if you look at the Slide 5 or whatever, as we show the deposits by business.

In the banking business, Global Banking, I think 6 quarters, we've been relatively flat, so -- and starting to grow off of that. That is fully priced. And it's not like corporate treasurers wait around to talk to you about what you're paying, and the noninterest-bearing percentage has drifted down. The amount they hold in excess of that, part of that to pay fees, has been relatively stable. And so we feel very good about that.

If you look at Wealth Management, basically, all the movement was made -- has been made pretty much to the higher rate environment, i.e., buying treasury securities directly. If you look at our Wealth Management business, the amount of short-term cash-oriented type investments, money market funds, et cetera, treasuries, et cetera, has gone from like $500 billion to $700 billion or $800 billion over the last several -- last couple of years. So that move has taken place. And then -- and so the rest of it is now in a relatively stable base. You can see those numbers flat.

If you go to the Consumer side, there's basically 2 or 3 things. One is, in the medium income households, plus or minus, you're seeing the slow spend down, even though they still have multiples of what they had pre-pandemic in our accounts. And even though that's a small part of the overall deposit base, there's still a slow trend where that's drifting down, as all the things you read about go on. And the higher end part of that base, in a broad Consumer base, they're actually below the pandemic by about 20%. And that's because they move the money into the market, and you can see that in some of the preferred category pricing.

So where people think about checking and money markets in this, we think -- I always have thought about it a little more straightforward, which is transactional cash and investment cash. The investment cash has largely been re-suited across the businesses. The transactional cash holds because it's money in motion moving every day. And for our Consumer business, that's represented by the $0.5 trillion of checking account balance that you can see on the page, with some modest amounts in money markets and stuff that are carried as the cushion people have. And if they move the money in the market, they've moved it.

And so we're watching Consumer because there's a little more drifting there, and it's up $250 billion since pre-pandemic. And you're saying you have the dynamics of loans, student loan repayments starting, that's 1 million of our customers pay student loans. You have the dynamics of interest rate impacts on cash, carry of loan balances, so that's higher. And that will sort out, but it takes a lot longer. That's across 37 million people, so it's -- the impact takes a while to sort through. And so we feel good about it.

But I think people look by category and this and that, you have to think about more how a customer – whether it's a business or a consumer – behaves. And what we've seen is them adjusting their behavior based on their household circumstances. And largely through the system and most of it coming a little bit slower in consumer just because of the natural question that they're -- if there was a lot of stimulus that went in those accounts, what do I do with it over time, and now they're doing something.

Manan Gosalia

Got it. That's helpful detail. So I guess just in terms of deposit growth from here, would you still prefer to grow deposits in line with loans? Or is there a little bit more room for that to come down?

Brian Moynihan

We prefer to grow deposits in line with customer growth and activity. So in the last 4 quarters, in Consumer, I think we're up another 900,000 net new checking accounts, not -- which average balance is around $11,000. They come in at lower than that, mature up to that. We grow -- we have a transactional banking business for all types of customers, and we grow it irrespectively. That produces $2 trillion. You have a loan business to customers, that produces $1 trillion. And that difference then is a wonderful thing to have every day.

Operator

We'll take our next question from Chris Kotowski with Oppenheimer.

Chris Kotowski

I've been looking at your average balance sheet on Page 8 of the supplement, and I noticed that in this quarter, your overall yield on earning assets were up 20 basis points, and lo and behold, the yield on interest-bearing liabilities was also up 20 basis points. And was there some benefit, unusual for amortization or something like that? Or is it just a function of that -- behind all the moving parts of balances better than you thought?

Alastair Borthwick

Well, I don't think it was an amortization issue. I think it was just the way the entire balance sheet works across assets, liabilities when you think about all the various moving pieces. So I don't think there's anything particularly notable there.

Chris Kotowski

Okay. No, it's just stunning with all the moving pieces how the earning asset yield and the liability yields really moved in tandem.

Operator

For our final question today, we have a follow-up from Vivek Juneja with JPMorgan.

Vivek Juneja

Brian, trading has grown nicely – in equities you said it was led by financing. Is there room in your balance sheet from a capital standpoint to keep growing that? And second question related to trading would be, in your guidance on NII for next year, what are you assuming for trading NII in there?

Brian Moynihan

Let me just hit the first one, and Alastair can get the second one. The capacity, if you think about the constraint on RWA, as you know, Vivek in your experience in the business, that equity financing is not RWA intense. So -- but it is asset size intense. Now, when you look at us with our Supplemental Leverage Ratio, 100-plus basis points over the requirements, we have lots of room on the asset size. But in the return on equity, return on the risk in that business is very strong. So Jim and the team have done a good job, and Soofian, for the equities side. And we continue to experience -- so there's plenty of room. And in fact, we have brought the balance sheet up by over $200 billion largely due to the financing side, and a lot of that due to equities. And we can continue to do that if the clients need the capabilities in the product. So that's a simple answer. Yes, there's a lot of capacity, and largely driven by our huge capital base and our effect -- on all the size measures, we're way over the requirements. I think 100 basis points on that is probably almost $50 billion of overage. So you have a lot of room to go.

Alastair Borthwick

And then, Vivek, in terms of the NII guidance, we include Global Markets in there. So it's just part of a big, diversified portfolio. I think we would point to -- Global Markets remains liability sensitive. You can see that in the way NII has come down in '21, and '22, and into '23 with rates going up. So it will perform according to the rate curve. And then, we may put a little bit of modest balance sheet growth in there, as Brian pointed out, just to continue investing in the business. But it's in the NII guide, and it will follow the forward curve.

Brian Moynihan

Well, thank you for joining us. Just in closing, I'd go back to the key points. Strong earnings for the company. Earnings growth year-over-year for the 3 months and 9 months, and double digit. The returns of 15% of tangible common equity are very strong. We have the capital to meet the new capital rules as proposed before any mitigation, before any changes in those rules. And yes, we're returning 15% on that capital today. So we feel good about the path ahead for the company.

We continue to do it the old-fashioned way, growing our clients, growing our revenues from those clients and driving responsible growth. Thank you.