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Second Quarter 2024 Earnings Announcement

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BANK OF AMERICA

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

Glenn Schorr – Evercore
Jim Mitchell – Seaport Global
Mike Mayo – Wells Fargo
Steven Chubak – Wolfe Research
Betsy Graseck – Morgan Stanley
Erika Najarian – UBS
Ken Usdin – Jefferies
Gerard Cassidy – RBC Capital Markets
Vivek Juneja – JP Morgan
Matt O'Connor – Deutsche Bank

Presentation

Lee McEntire

Good morning. Welcome. Thank you for joining the call to review our second quarter results. Our earnings release documents are available on the Investor Relations section of the bankofamerica.com website, and they include the earnings presentation that we will make reference to during the call. I hope everyone has had a chance to review those documents.

Our CEO, Brian Moynihan, will make some opening comments before Alastair Borthwick, our CFO, discusses the details of the quarter.

Let me just remind you that we may make forward-looking statements and refer to 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 in our earnings materials and 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 available on our website.

So with that, let me turn the call over to Brian. Thank you.

Brian Moynihan

Thank you, Lee, and good morning, and thank all of you for joining us today. Before I begin today, I just want to reflect a second on the horrible events this weekend. We at Bank of America are clear that there's no place for political violence in our great country, and we continue to wish the former President Trump a speedy recovery. And our thoughts, of course, go out to the victims and their families and others impacted by this terrible event.

With that, let's our attention to the results for the second quarter of 2024 Bank of America Corporation. This quarter, we achieved success in a number of areas, underscoring the benefits of our diversity and the dedication of our team to deliver responsible growth. Our organic growth engine continues to add customers and activity to all our businesses even as we see the drop in net interest income this quarter.

I'm starting on Slide 2. Our net income for the quarter was $6.9 billion after tax or $0.83 in diluted EPS. Attesting to the balance in our franchise, the earnings were split evenly: half in our Consumer and GWIM businesses, which serve people, and the other half in our institutional-focused business, Global Banking and Markets.

We grew revenue from the second quarter 2023, as improvement in noninterest income overcame the decline in net interest income. Fees grew 6% year-over-year and represented 46% of total revenue in the quarter. Our strong fee performance was led by a 14% improvement in asset management fees in our wealth management businesses. We grew investment banking fees 29% year-over-year and saw sales and trading revenue increase 7%. Global Markets had its ninth consecutive quarter of year-over-year growth in sales and trading revenue – a good job by Jimmy DeMare and the team. Card and service charge revenue also grew by 6% year-over-year in our Consumer business.

Much of this fee growth is a result of our intensity around organic growth and is a testament to the diversity of our operating model.

Now onto Slide 3. Organic growth has been driven by several key factors. First, we focus on our customers. We continue to place them at the center of everything we do.

Consumer led the way in delivering solid organic growth with high-quality accounts and engaged clients. For the 22nd consecutive quarter, we had significant net new consumer checking accounts. We expand our customer base and our market share. Specifically, we added 278,000 net new checking accounts this quarter, which brings our first 6 months of 2024 to more than 500,000.

In Wealth Management, we added another 6,100 new relationships this quarter. In our commercial businesses, we added thousands of small businesses and hundreds of commercial banking relationships. This has led to now managing $5.7 trillion in client balances, loans, deposits, and investments across the Consumer and Wealth Management client segments. In those areas, we saw flows of $58 billion in the past 4 quarters.

Our emphasis on personalized financial solutions and superior customer service has strengthened customer loyalty, attracting new clients across all our businesses. Our focus on providing liquidity and risk management solutions to our institutional clients positions us to continue to gain more share of the wallets as well.

Second, we continue to deliver innovative digital solutions. One of the primary contributors of both attracting and retaining customers to our platforms is our digital banking capabilities for our clients across all the businesses. Our fully-integrated consumer banking and investment app drives the utility for our customers across their investment and consumer accounts. Our usage stats are strong proof points. Our second-language capabilities in our consumer businesses further enhance our customers' capabilities. You can see the continued digital growth in the slides on Pages 26, 28, and 30 in the appendix.

A couple highlights: our consumer mobile banking app now serves more than 47 million active users. They logged in 3.5 billion times this quarter. We also committed -- continue to see more sales through use of our digital properties. Digital sales represented 53% of our total sales in the past quarter in our consumer businesses. 23 million consumers are now using Zelle. They send money on Zelle at nearly 2.5x the rate they write checks. And in fact, more Zelle transactions – sent transactions – take place than the combination of customer ATM transaction and cash withdrawals at teller. Simply put, Zelle is becoming a dominant way to move money.

In our Wealth Management business, we are seeing more banking accounts being opened to complement the investment business those clients do with us.

Importantly, these clients are also recognizing the ease of our digital banking capabilities. 75% of our new accounts in our Merrill teammates were opened digitally. 87% of our Global Banking clients also are digitally active. We have innovated and significantly streamlined service requests by enabling clients to directly initiate and track transaction inquiries within our award CashPro® platform, using AI to accomplish that.

Third, we continue to make core strategic investments in our businesses. We're not complacent with the success you see on this page. We continue to strategically invest in our core businesses.

A few examples. While we have the leading retail deposit share in America, we continue to invest and have opened 11 new financial centers this quarter in the first half of the year and renovated another 243. This is investment in both our expansion markets and our growth markets.

In Wealth Management, we continue to invest in our advisor development program. It's grown to 2,300 teammates, allowing us to continuously add more than -- teammates to our 18,000 strong best-in-class financial advisory force across our wealth management businesses. We're also adding teams of experienced advisors strategically in areas across the country.

In our Banking teams, we continue to add to our regional investment banking team. We now have more than 200 regional bankers across the country to better serve our Commercial clients, and they complement our industry coverage to our Corporate clients.

In our Global Markets business, we continue to extend balance sheet to our clients and adding expertise and talent to continue to lead our market share improvement seen over the last several years.

We also have increased our technology initiative spend and expect to spend nearly $4 billion on our technology initiatives this year. We have focused projects around artificial intelligence enhancements with both clients and our teammates. A recent example of our use of AI is our advisor and client insights tool. We've delivered more than 6 million insights year-to-date to our financial advisors, providing them proactive reasons to engage with clients. AI has moved from cost-savings ideas to enhancing the quality of our customer interactions.

Fourth, organic growth is driving integrated flows across our business. We invest heavily in each line of business that compete in the markets based on their particular customer segment. But importantly, we also invest across our lines of business to knit them together and gain market share in the local markets. It's a differentiated advantage for us: our banking leadership position across our businesses and our nationwide franchise. For example, we leverage our franchise by connecting business customers with our wealth management teams. Our teams across all our businesses have made 4 million referrals to other businesses in the first 6 months of this year.

Next, we drive efficiency and effectiveness, and that's through our operational excellence platform. We continue to invest heavily in the future of our franchise and growth while we also have to manage expenses day-to-day. Our focus on operational excellence has enabled us to hold our expense growth up to 2% year-over-year, well below the inflation rates. We continue to work to achieve operating leverage as NII stabilizes and begins to grow again. As you look at it, and Alastair will explain later, a fair portion of the year-over-year increase in expense is due to the formulaic incentives of Wealth Management due to the fee growth in that business.

And last, our capital strength allows us to deliver for all stakeholders. Our capital remained strong as we held our CET1 ratio at 11.9% this quarter. We grew loans, increased our share repurchases to $3.5 billion and paid $1.9 billion in dividends. Average diluted shares dropped below 8 billion shares outstanding. In addition, we also announced our intent to increase our quarterly dividend 8% upon Board approval. Note that 11.9% CET1 ratio remained a solid excess capital position both above our current regulatory requirements and the increased requirement to 10.7% beginning in October as a result of the recent CCAR exam.

Let's turn to Slide 4. A couple of things to note here. First, we've noted for several quarters that the second quarter NII would be the trough for this rate cycle. We expect NII to grow in the third quarter and fourth quarter this year. Alastair is going to provide you some points in detail about the path forward.

One important contributor to that change is the deposit behaviors of our customers. On Slide 4, you'll note that average deposits grew 2% year-over-year and increased modestly linked quarter.

The second quarter in reality is typically a heavy outflow quarter. We have a lot of customers who pay a lot of taxes in that quarter. Quarter-over-quarter increases in rates paid continue to slow again this quarter across all businesses except for Wealth Management. And we show you that on this page, Slide 4, by line of business. While Wealth business deposit rates have moved higher with continued rotation, we expect those rates to begin to stabilize and the rate of the quarterly change to decrease going forward.

Turning to Slide 5. In previous calls, many of you have asked questions or commented upon the question about consumer net charge-offs and when would they stabilize in the second half of 2024. That expectation we have remains unchanged as well. This quarter's net charge-offs were 59 basis points. And for context, this is a stabilization of the rate. I would just remind you, prior to this quarter, I have to go all the way back to 2014 to see a charge-off rate that high, and that's near when we're still emerging from the financial crisis.

On Slide [5 – corrected by company], we highlight the 30- and 90-day plus credit card delinquency trends, which show delinquencies have plateaued for the second consecutive quarter. This should lead to stabilized net credit losses in credit card in the second half of the year.

At the bottom of the page, note a couple of facts: first, on the payment rates, this is the rate of paydown of balances in the month, remain 20% above index to the pre-pandemic levels, even while our card customers have plenty of capacity to borrow. And importantly, because of our relationship-based businesses, look at the right-hand side at the bottom of Page 5. There, you can see our deposit investment balances of our customers who also have a card with us -- remain 25% above their pre-pandemic levels, illustrating continued health of these customers. So if you think about consumer credit, the card charge-offs drive it and have flattened out in terms of delinquencies, and we expect them to improve in the second half.

With regard to commercial real estate, our usual CRE credit exposure slide is included in our appendix. We continue to aggressively work through our loans in our modest CRE office portfolio. We saw a decrease in all the categories: a decrease in reservable criticized loans, a decrease in NPLs and a decrease in net charge-offs. This supports our previous expectation that net charge-offs in the second half of 2024 will be lower than the first half of 2024.

Our second-quarter performance highlights Bank of America's ability to generate strong, sustainable growth through a combination of customer-centric strategies, innovation, strategic investments, and a commitment to a strong balance of risk and reward. We call that responsible growth. We're confident that focused approach will continue to drive long-term success and create value for you, our shareholders.

Now I will turn it to Alastair for additional thoughts.

Alastair M. Borthwick

Thank you, Brian. And I'm going to start on Slide 6 of the earnings presentation. I'll touch on more highlights noted on Slide 6 as we work through the material.

I just want to say upfront that we delivered strong returns with return on average assets of 85 basis points and a return on tangible common equity of nearly 14%.

So let's move to the balance sheet on Slide 7, where you can see we ended the quarter at $3.26 trillion of total assets, relatively unchanged from the first quarter. And not much to note here apart from a mix shift of lower securities balances, mostly offset by an increase in reverse repo and modest loan growth, as well as Global Markets client activity. On the funding side, deposits declined $36 billion on an ending basis, reflecting typical seasonal customer payments and income taxes. And as Brian noted, average deposits were still modestly higher. Liquidity remains strong with $909 billion of Global Liquidity Sources. That was flat compared to the first quarter.

Shareholders' equity was also flat compared to Q1 as earnings were offset by $5.4 billion in capital distributed to shareholders and a $1.9 billion redemption of preferred stock in the quarter. The $5.4 billion of capital contributions included $1.9 billion in common dividends and the repurchase of 3.5 billion in shares. AOCI improved modestly in the quarter, and tangible book value per share of $25.37 rose 9% from the second quarter of last year.

In terms of regulatory capital, our CET1 level improved to $198 billion, and the CET1 ratio was stable at 11.9%. This 11.9% ratio remained well above our current 10% requirement, as well as our new 10.7% requirement as of October 1, 2024. Risk-weighted assets increased modestly, and that was driven by lending activity.

Our Supplemental Leverage Ratio was 6% versus our minimum requirement 5%. And that leaves plenty of capacity for balance sheet growth. And our $468 billion of TLAC means our total loss absorbing capital ratio remains comfortably above our requirements.

Brian already covered deposit trends, so let's turn the balance sheet focus to loans, and we'll look at average balances on Slide 8. You can see average loans in Q2 of $1.051 trillion. They improved 1% year-over-year driven by 5% credit card growth and modest commercial growth. The modest improvement in overall commercial loans included a 2% increase in our domestic commercial loans and leases, partially offset by a 4% decline in commercial real estate.

Middle market lending saw an uptick in the quarter, and we saw good demand in our wealth businesses from custom lending. These areas of growth were largely offset by continued paydowns from our larger corporate clients on interest rate sentiment.

Consumer growth was driven by credit card borrowing. And while home lending balances were flattish, originations picked up a bit this quarter. Lastly, and on a positive note, loan spreads continue to widen.

As we turn our focus then to NII performance and Slide 9, note that we moved the slide we typically used to talk about excess deposits to the appendix on Slide 22, so you can see that there.

Our excess deposit levels above loans remained high at $850 billion and continued to be a good source of value for shareholders. 52% of our excess liquidity is now in short-dated cash and available-for-sale securities. The longer-dated lower-yielding hold-to-maturity book continues to roll off, and we reinvested again this quarter in higher-yielding assets. The blended yield of cash and securities continued to improve in the quarter and is now 160 basis points above our deposit rate paid.

Regarding NII, on a GAAP…

[Technical difficulty. Company note: see end of prepared remarks for further comments.]

…the forward curve will materialize and this now includes 3 interest rate cuts starting in September, another in November, and one more in December. And the waterfall shows an estimated impact of those rate cuts to our quarterly NII.

The next couple categories are a result of natural management of interest rate risk in a balance sheet mixed with fixed-rate assets and variable-rate assets. And our balance sheet is split roughly half and half.

So we take in liquidity from customers that we used to fund our assets, and then we store excess liquidity in cash and securities. We have fixed assets that mature and pay down, and those supply cash that then gets put back to work on the balance sheet and reprices over time. And we have two basic categories of fixed assets that mature and pay off, and those are securities and loans. On securities, you can see we've got about $10 billion a quarter of cash coming off of our securities portfolio. And we gain roughly 300 basis points of improvement on those assets when we put that money back from the balance sheet.

On loans between resi mortgage and auto, we've got another roughly $10 billion, which reprices with a little less yield improvement than securities. And between the securities and loans, we expect the fixed-rate asset repricing adds about $300 million through our quarterly rate of NII as we get to the fourth quarter.

On the variable-rate asset side, and to protect from down moves in rates, we hedge some of that with cash-flow swaps. And those typically roll off in any given quarter and get replaced over time.

So included in the cash flow hedges is an impact of cessation of BSBY as an alternative rate. If you recall, we took a charge in the fourth quarter of '23. It was $1.6 billion, and we said that would come back to us through time. And beginning in November, we start to see the benefit coming back into NII. And in Q4, that's about $200 million. That Q4 partial-quarter benefit will grow by a slightly smaller sequential NII benefit in Q1 '25, and then it begins to taper off heading into 2026.

In addition, we've got about $150 billion of received-fixed cash-flow hedges protecting us from short rate moves moving lower. Most are hedging floating-rate commercial loans, and the cost of those hedges is reported as contra revenue in commercial loan interest income. These hedges have a weighted-average life of just over two years, and they've got an average fixed rate of approximately 250 basis points.

So starting in the second half of 2025, we begin to get some additional NII tailwind, because the cash-flow hedges with lower fixed-rate legs, where we receive, those will begin to roll off and will likely replace those at higher current market rates at the time. The actual size of the tailwind we'll get from the expiration of those swaps will obviously be highly dependent upon the level and the shape of the yield curve at the time of those maturities. And that stretches out over the course of the next 4 years.

Okay. A couple of other points to make. You'll note, we don't expect much movement around our modestly liability-sensitive Global Markets NII activity.

And lastly, our forward view has an expectation of low-single-digit growth in loans, low-single-digit growth in deposits, with continued slowing of rate-paid movement through the back half of 2024. And you can see our expectation of the combined impact here as well. This last element is the one that has the most potential variability. And obviously, it will depend upon actual deposit and loan growth and pricing and rotation.

Okay. Let's turn to expense, and we'll use Slide 11 for the discussion. We reported $16.3 billion of expense this quarter, and that's more than $900 million lower than Q1, which included $700 million for the FDIC special assessment. Not including the FDIC assessment, expenses were lower than Q1 by $229 million, driven by seasonally-lower payroll tax expense.

Compared to Q2 '23, we're up less than 2%. And that increase is equal to the incentives paid for improved fee revenue. Incentives for our GWIM business alone are up $200 million year-over-year. And that's obviously an expense we're happy to pay when we have a 14% improvement in fees for assets under management.

Our second quarter headcount number included welcoming a diverse class of nearly 2,000 summer interns, who we hope will join us over the course of the next year or two upon their graduation. And absent those interns, our headcount fell by nearly 2,000. In the third quarter, we expect to add approximately 2,500 college graduates for full-time, and that's from more than 120,000 applications received, showing that we remain an employer of choice for talented young people.

Expense levels for the rest of 2024 are expected to bounce around the second quarter level, given the higher fee revenue and investments made for growth.

So let's now move to credit, and we'll turn to Slide 12. There was little change in our asset quality metrics this quarter. Provision expense was $1.5 billion. That was $189 million higher than Q1, driven by a smaller reserve release in Q2.

Net charge-offs of $1.5 billion were little changed, with a small increase in credit card mostly offset by lower commercial real estate office charge-offs. On a weighted basis, we remain reserved for an unemployment rate of nearly 5% by the end of 2025, compared to the most recent 4.1% rate reported. The net charge-off ratio was 59 basis points, largely unchanged from Q1.

On Slide 13, we highlight more credit quality metrics for both our consumer and commercial portfolios. Consumer net charge-offs increased by a modest $31 million versus the first quarter from the flow-through of higher late-stage credit card delinquencies from Q1. Highlighting the change in direction of delinquencies, consumer 90-day plus delinquencies declined in 2Q by $57 million.

Commercial net charge-offs were relatively flat, as lower commercial real estate losses were mostly offset by a small increase in other commercial loans. Our office losses went from $304 million in Q1 to $226 million in Q2. Other commercial real estate loan losses were simply one hotel.

Okay. Let's move to the various lines of business and some brief comments on their results, and I'll start on Slide 14 with Consumer Banking. For the quarter, Consumer earned $2.6 billion on continued strong organic growth, and reported earnings declined 9% year-over-year as revenue declined from lower deposit balances compared to the second quarter of last year.

Customer activity showed another strong quarter, net new checking growth, another strong period of card openings, and investment balances for Consumer clients, which climbed 23% year-over-year to a new record $476 billion. That included 12 months of strong flows at $38 billion in addition to market appreciation over the time. As noted earlier, loans grew nicely year-over-year from credit card, as well as small business where we remain the industry leader.

Team held expense flat year-over-year, reflecting good work with continued business investments for growth, offset by the operational excellence work to improve processes and move more of our transactions to digital.

And as you can see in the appendix, Page 26, digital adoption and engagement continue to improve. And customer satisfaction scores remain near record levels, illustrating customer appreciation of our enhanced capabilities due to our continuous investment.

Moving to Wealth Management on Slide 15. We produced good results, and those included good organic client activity, market favorability and strong AUM flows. And this quarter also saw good lending results. Our comprehensive suite of investment and advisory services, coupled with our commitment to personalized wealth management planning solutions, has enabled us to meet the diverse needs and aspirations of our clients.

Net income rose 5% from the second quarter of last year to a little more than $1 billion. In Q2, we reported revenue of $5.6 billion, growing 6% over the prior year. As Brian noted, strong 14% growth in fee revenue from investment and brokerage services overcame the NII headwind. Expense growth reflects the fee growth and other investments for the future. The business had a 25% margin, and it generated a strong return on capital of more than 22%. Average loans were up 2% year-over-year, driven by strong growth we're seeing in custom lending and a pickup in mortgage lending.

Both Merrill and the Private Bank continued to see good organic growth. And they produced strong assets under management flows of $58 billion since last year's second quarter, which reflects a mix of new client money, as well as existing clients putting more of their money to work. I also want to highlight the continued digital momentum in this business, and you can find that on Slide 28.

On Slide 16, we turn to Global Banking results. And here, the business produced earnings of $2.1 billion, down 20% year-over-year as improved investment banking fees and treasury services revenue were overcome by lower net interest income and higher provision expense. Revenue declined 6% driven by the impact of interest rates and deposit rotation. The diversified revenue across products and regions reflects the strength of our Global Banking franchise.

In our GTS business, fees for managing the cash of clients offsets a lot of the NII pressure from higher rates. And clients are accessing the capital markets for their capital needs instead of borrowing.

Investment banking had a strong quarter, growing fees 29% year-over-year to nearly $1.6 billion, led by debt capital markets fees, mostly in leveraged finance and investment grade.

And we finished the quarter strong, maintaining our #3 investment banking fee position globally. A solid start to 2024 has left us in a good position with top 3 rankings now in North America, Latin America, and EMEA and #6 in APAC. And we're seeing strong performance in important industry groups as well.

An increase in provision expense from last year was driven by the commercial real estate net charge-offs I discussed earlier. And expense increased 3% year-over-year, including continued investment in the business.

Switching to Global Markets on Slide 17. I'll focus my comments on results excluding DVA, as I normally do. The team had another terrific quarter as we generated good revenue growth and achieved operating leverage and continued to deliver a solid return on capital. Earnings of $1.4 billion grew 19% year-over-year, and return on average allocated capital was 13%.

Revenue – and again, this is ex DVA – improved 10% from the second quarter of '23. Focusing on sales and trading ex DVA, revenue improved 7% year-over-year to $4.7 billion, and that's the highest second quarter in over a decade. FICC was down 1%, while Equities increased 20% compared to Q2 '23. FICC revenues remained strong, and versus Q2 '23, they were modestly lower, driven by a weaker macro trading quarter in FX and rates, and that was largely offset by better commodities and mortgage trading. Equities was driven by strong trading results in derivatives and cash equities. Year-over-year expenses were up 4% on revenue improvement and continued investment in the business.

Finally, on Slide 18, All Other shows a loss of $0.3 billion, and that was little changed year-over-year as lower expense was offset by lower provision costs as a result of reserve changes. Our effective tax rate for the quarter was 9%, and excluding discrete items and the tax credits related to investments in renewable energy and affordable housing, the effective tax rate would have been 25%.

And with that, I think we'll stop there, and we'll jump into questions.

Lee McEntire

All right. Alastair, Brian, I just wanted to -- I did hear some feedback that maybe the audio from the call got interrupted for a moment. So at the point at which it got interrupted, I just want to reiterate a couple of points that Alastair was making.

If you go back to Slide 9, where I think we lost the audio was where we started beginning a discussion about the performance from Q1 to Q2 of net interest income. That was driven by higher funding costs and the rotation of deposits seeking higher-yield alternatives. And while higher again in Q2, both the rotation and the rate-paid increases did continue to slow down.

On the Slide 10, I think the only points that I would make that Alastair began to discuss there was: we are just reiterating our expectation that quarter 2 would be the bottom for the NII in the rate cycle that we have been in. And our trajectory remains the same: the belief that our NII will begin to rise in Q3 compared to Q2 and then rise again in Q4. We provided the range of expectations that Alastair covered. And we expect Q4 NII to be around the $14.5 billion level, plus or minus. That would be approximately 4% to 5% higher than this quarter's NII.

And he began that discussion by making sure that you know that we pick up an extra day of net interest income in the Q3, providing about $125 million of additional NII that also carries through into Q4. You see that on the slide. It also assumes that the current forward curve will materialize. Those -- that interest rate cuts will start in September. We will expect another one in November and December in the curve. And the waterfall includes an estimated impact of those rates to quarterly net interest income. And so then – we started the discussion – he began the discussion on the fixed-asset repricing, which then I think is where the audio picked back up again.

And so we're happy to answer some questions on that. I know you'll have questions, but just wanted to re-cover that point -- those points for you.

Q&A

Operator

[Operator Instructions] We'll take our first question from Glenn Schorr of Evercore.

Glenn Schorr

And definitely appreciate Slide 10 a lot. I know you would have given us a 2025 NII guide if you wanted to give us one. So feel free to give that if you want, but that's not my question. My question is given all the pieces of the puzzle that you gave us, expectations for modest loan and deposit growth and slowing deposit-seeking behavior -- if you get that 4% pickup from 2Q to 4Q this year that you're expecting -- right now or at least recently, consensus had NII looking flattish with that fourth quarter number. And that doesn't make a lot of sense, given all the pieces. So maybe if you can just comment directionally if you don't want to give the number of -- does it make sense to you that we collectively be expecting flat NII with your higher fourth quarter numbers?

Alastair Borthwick

So Glenn, you're right. We're probably not going to give guidance around 2025 for all the reasons that you would expect. What we're trying to do here is reinforce for everyone what we've been saying from the beginning of the year. And that is we think Q2 is a trough, and we believe from this point, we're in a good position to grow.

Now when you look at some of the elements of this bridge, you'll draw your own conclusions with respect to fixed-rate asset pricing is going to persist for some period of time. And you'll be able to draw your own conclusions.

But I just want to point out, we've been pretty clear on our guidance for Q1 and Q2. We've always felt like this would be the trough. We feel like Q3 and Q4 are likely to be better. You can see our work here. We've laid it all out. Nothing's really changed in terms of that.

And the most important thing, I think, for everybody here is we feel like 2024 is a really foundational year. It's this twist period where we just got to get through the last of the deposit rotation, and we're establishing a foundation for growth from here. So that's what we're trying to convey.

Glenn Schorr

Maybe I could just ask a follow-up on deposits within the wealth business. You have $4 trillion of client assets. I'm curious if you break out the split between brokerage and advisory accounts -- and can you hear me okay? I'm hearing tons of feedback, sorry. Okay. Sorry.

So $4 trillion in client assets -- great. $4 trillion of client assets in wealth. I'm curious if you could give us the split between brokerage and advisory. And the reason I'm asking is: I'm curious how you've been handling rate paid on cash in advisory accounts and whether we should expect any behavioral changes following the recent wealth news. Sorry for the feedback.

Brian Moynihan

Look, Glenn, I'm not sure that distinction would be the distinction I'd look to. We've gone through a massive change in cash infused in the economy and withdrawn now under monetary policy, and so as we stabilize, our instructions to our team are to grow our deposit base a little bit faster than the economy. That means you have to price across the board to achieve that. And what -- if you look at the Slide 4 where I showed you sort of the change, what you see is the Wealth Management business takes a little bit longer because those clients have more investment cash with us, not what you're thinking investment accounts in their money, how they think about cash, they don't need for daily cash flow, and they move that around. That largely is over. And if you look in the last four or six weeks, we're seeing those deposits in that business bounce around the $280 billion level, not a lot of movement. And it'll keep moving in and out depending on customers paying down their income taxes, taking more risk in the market and all those things, but the deposit pricing changes that we made to ensure that they were at a platform they could grow, having been as high as $350 billion down to $280 billion were made in the quarter and all through the P&L.

Operator

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

Jim Mitchell

Maybe just a quick follow-up, and I don't mean to beat a dead horse on NII, but can we just -- can you just help us think through the puts and takes on -- you have rate cuts at the end of the year, forward curve implies more next year. As that cumulative impact starts to hit next year, what -- I guess what gives you confidence that this is sort of the trough? What are all the puts and takes that we should think about in how we model the NII for next year when we think about the forward curve and that impact?

Alastair Borthwick

Jim, I think this bridge probably is all the right inputs for any given year. I mean we've chosen to do it for 2024. We've always resisted going out too far for the very simple reason that there's so many variables, and they start to multiply with one another.

If you think about even the rate cut one here, we're using the 3 cuts: September, November, December. If I did this as of Wednesday of last week, there would have been 2. Earlier in the year, there were 6. So since we don't know what that path looks like, it's very challenging then to provide guidance for '25 at this stage.

But what we're laying out here is these are the component parts. We're going to get some benefit from fixed-rate asset pricing over time. We're going to get some benefit in the immediate term from the BSBY cessation, and that's leading back into the P&L. As that rolls off, we'll get benefit from cash flow hedges repricing. And then we use the forward curves, same as you do, for the rate cuts. We benefit a little bit from Global Markets' liability sensitivity. And then that final piece is the piece that we're trying to drive in terms of organic growth. We're trying to drive this loan growth, trying to drive the deposit growth.

And as Brian pointed out, it's been a pretty unusual period in history where we've had an enormous change in the rate structure and in the fiscal stimulus and the effects now fading away to something more normal. But that last box will come down to your assumptions versus our assumptions. And we will update you as we go through the next couple of quarters, and we'll give you a better sense towards the end of the year.

Jim Mitchell

Okay. That's all fair. And maybe just on the growth piece, maybe deposits seem to have bottomed for you guys in the second quarter of last year. You've had good growth. I think Brian pointed out, even with the tax headwind this quarter, you grew sequentially. So good performance, but still pretty modest.

How are you thinking about the growth trajectory from here, I guess, as we think about -- is it -- does it accelerate with rate cuts in your view? What are the dynamics are you thinking about as sort of returning to that historical kind of mid-single-digit deposit growth within BofA and the industry?

Alastair Borthwick

Well, I think Brian covered Slide 4. That top-left chart gives a sense for what's going on with the growth, that's average growth over time there. We did four quarters in a row. So we feel good about that part.

Q2 does tend to be a slower quarter just with all the tax payments. So we think deposits will do better over time, particularly as we get past peak Fed funds.

We feel like the pricing in rotation as -- you can sort of see in our numbers, they're slowing. So we're getting towards the end there. We're getting towards the end of QT. So we're not quite finished on all of those things yet. I'd be careful to getting too excited about deposit growth, but we feel like we're doing okay so far, and we just got to keep driving that.

Operator

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

Mike Mayo

I'll start with a simple question. You mentioned loan spreads have improved. Why is that? Where is that? Do you expect that to continue?

Alastair Borthwick

Loan spreads have improved for us, Mike, over the course of the past, I think it's now 8 or 9 quarters. It's primarily in the commercial businesses. And it's largely because we have to price the balance sheet for the returns that our shareholders expect.

And that's true, I think, for the industry, and we've been quite purposeful in that regard. So we've tried to balance price and growth over the course of time, but it's primarily a commercial phenomenon at this point. And I would expect that to continue for the foreseeable future, but it's a competitive environment, so we're going to see.

Mike Mayo

Okay. You gave us Slide 10, a lot of details there. You talked about the September rate cuts, the fixed-asset repricing, securities repricing, loans repricing, mortgage and auto, lots maturing November, received fixed-cash swaps, and a whole litany of stuff. But I think when you put it all together, what it's led to is the net interest margin of only 1.93%.

In fact, I think your yield on your assets is below Fed funds right now. So would you agree that you're under earning with that NIM of 1.93%? And I know I've asked this question before, but you always have to mark to market.

What is a normal NIM? I mean you were 2.5% in 2017. You were 3.0% in 2004. And I know the composition has changed and everything. But what's normal NIM? And what do you think is a normal return on tangible common equity through the cycle?

Alastair Borthwick

So I'd say right now, in terms of the 1.93%, we feel like we are underearning. We feel like that number is going to go up over time. It will go up as net interest income goes up. But additionally, I think the balance sheet is likely to stay kind of flattish here. So the numerator is going to grow. The denominator is going to stay pretty tight here. So we think we're underearning there. We think through a cycle, we've got to get back to a more normal number like 2.30-ish over time. That takes a while. It's a grind, Mike, quarter after quarter. So that's where we're headed.

And in terms of return on allocated capital, right now, we're right around that 14%. We want to be 15% or higher for our shareholder. A lot of it is because we've accrued an awful lot of capital over the time -- over the course of time -- in advance of any potential capital changes.

And the other final thing I'll just remind you is we're a little different than some of the regional banks in that we've got an enormous Global Markets business, and that obviously makes an impact on the headline NIM number.

Mike Mayo

Okay. And then just I wasn't clear. You said net charge-offs in the second half should be less than the first half, and I wasn't sure if that related to cards or I wasn't sure what...

Brian Moynihan

Mike, that was me. And basically, what I'm saying is you've plateaued in terms of the delinquencies, which means the second half is pretty well determined, as you know, because it's just a march from 30 to 60 to 90 to 180. And it will be -- the charge-off rate will be flattish. We're kind of back to normal at 3.80% or so. That's -- we underwrite to actually have a higher charge-off rate, quite frankly, in that intolerance, but that 3 80 is kind of where we see it since, 3.80%.

Mike Mayo

Okay. Credit card charge-offs should flatten or decline in the second half relative to the first half?

Brian Moynihan

Exactly. Remember, if you think about all the charge-offs, that's not -- that's the dominant part of it on the consumer side by a lot. And then the commercial, we spoke to the question of CRE office, which has been -- dropped quarter-to-quarter, and we expect the second half to be better also.

Operator

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

Steven Chubak

So I wanted to ask just on, just building on some of the NIM questions from earlier, a lot of it's been focused on asset repricing, both loans and securities. I was hoping you could speak to the opportunity to potentially optimize some of your higher-cost funding.

And just given multiple sources of NIM improvement, looking beyond '24, how should we think about the pace of NIM build as we -- I know it's a longer timeline to get to the 2.30% to 2.40%, but just how to think about the expectations around the NIM trajectory beyond '24.

Alastair Borthwick

Well, your first point is a question of can we pay down some of the higher-cost securities? The answer to that is yes. And that would be an expectation of ours as part of this. We've got some shorter-dated CDs that can roll off. We can replace those or not. We have shorter-dated debt.

We've taken our long-term debt footprint down as we've continued to build the strength of the company. So there's a lot of different ways; it doesn't have to be securities reinvestment. It can be paying down higher-cost liabilities as well. So we've got a lot of different ways that we can use the reinvestment, if you like, around the fixed rate. And then what was the second -- the second question was over what time period...

Steven Chubak

The NIM trajectory beyond '24.

Alastair Borthwick

Yes. So look, we're obviously on it right now. We feel like this is the trough. We're trying to build it from here, and we'll make meaningful strides on that through 2025. That's where we're going.

Operator

We'll take our next question from Betsy Graseck of Morgan Stanley.

Betsy Graseck

Yes, another question on NII. Alastair, I did, I think, hear you correctly when you said that as you go into the second half of '25, there's going to be incremental benefits coming from swap roll off. Did I hear that right?

Alastair Borthwick

Yes, that's right. Second half of '25. So as we get closer, we'll be able to give you some kind of bridge like this that allows you to see what that looks like. But it's just -- it's a year out right now.

Betsy Graseck

Yes, for sure. But I'm just wondering, is there anything that's -- I guess what I just would like to understand a little better is how the swap book is impacting Slide 10. And then is it gradual into the second half of '25? Or is it a switch on in 3Q? Just to understand how the swap book is playing into this.

Alastair Borthwick

Yes. So the part that's important for Slide 10 around the second half of this year is just the BSBY piece. It's not from cash flow swaps. Any cash flow swaps we have to roll off in the course of the next 12 months really, they're all kind of current coupon-ish, because anything that we did there was to do with LIBOR-cessation or whatever, and so they all got re-couponed. So I wouldn't worry about that.

In the second half and onwards, some of the older, longer-dated things, they've got the lower coupons. So that's when – you know the BSBY number over time will disappear. But in the second half of '25, the cash flow number will begin to appear. So -- and we'll give you a sense for what that looks like over time, Betsy.

Betsy Graseck

Okay. Got it. And then on the -- for right-hand side of Slide 10, you've got the yellow box, $50 million to $200 million. Could you just give us a sense as to what's the inputs to the $50 million versus the $200 million just so we can be able to track it as we go through the rest of the next 2 quarters?

Alastair Borthwick

Yes. We're essentially using 4 variables. We're thinking: what will the loan growth be? What will the deposit growth look like? What will be the rotation between noninterest-bearing and interest-bearing? And what will be any pricing changes we need to make, right? Then rotation and pricing are pretty closely -- you can call it the same thing. If you use more conservative numbers, you get towards the lower end. If you use slightly more constructive numbers, you get towards the higher.

I think the point we're trying to convey is -- this last part, this yellow box is always the unknowable at the beginning of the quarter where we're projecting. The pieces in the green, we kind of feel like we know what those look like. That's pretty predictable at this point. But we've got a little more certainty around that. So the teams -- we got 213,000 people who are working really hard to try and make that dotted yellow box at the higher end. But obviously, it depends on our assumptions, and it depends on our actuals.

Operator

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

Erika Najarian

Just my first question is trying to square what you're telling us on the net interest income trajectory in the setup versus your disclosure. So Alastair, you told us about, as a response to Glenn's question, the benefit from fixed-asset repricing, cash flow hedges repricing in the second half of '25.

And when I look at Table 40 from your Q, in both a parallel shift and a steepener scenario, down 100 is negative to net interest income. Is it because this is a 12-month look? And like you pointed out in the second half of '25, you have underwater cash flow hedges that are rolling off. In other words, as we go through 2025, do you get less asset sensitive? And additionally, what is the notional on those cash flow hedges that you're talking about?

Alastair Borthwick

Yes. So the asset sensitivity that we disclosed is meant to give a sense for what happens if nothing changes. It's totally static. So that's one difference.

Number two, it's off of the future curve. So it's 100 above whatever or below whatever the future curve is. So I think it's a really helpful thing for sort of short-term moves in rates like take, for example, that orange box on Page 10. It's helpful for something like that, but it's less helpful in terms of a predictor of where 2025 NII would be because there's so many other inputs, Erika, over time.

Erika Najarian

And what's the notional of the cash flow hedges that you're referring to?

Alastair Borthwick

Over time? I'd say about $150 billion.

Erika Najarian

And how much of that starts rolling off in the second half of 2025?

Alastair Borthwick

Well, I'd think about it like this. You can almost think about it like it's like $10 billion or so every quarter. It's just that the ones that roll off for the first -- next 12 months, they're all kind of current coupon so they won't really have any impact. Once you get into the second half of 2025, they're a little bit lower rated. So that's when you begin to get some benefit there. And then I think probably Lee can give you more details following.

Erika Najarian

Got it. And if I could just slide in one more question on the normalized NIM. Q3 and Q4 clearly is much higher than where you are now. Alastair, you mentioned we should assume a flattish balance sheet. But I think I had conversations with the company before in that half of that path between 1.9%-ish to 2.3% to 2.4% has to do with balance sheet efficiency.

And I'm wondering if you could carry out the balance sheet efficiency with -- and keep your balance sheet flattish. In other words, obviously, what the market is going to do is take your earning assets today and apply 2, 3, 5 and say, okay, over time, whether it's '26 or '27, this is what BofA can earn under a normalized curve. I'm wondering if that's the right math to do, or should we expect some shrinkage of the balance sheet if you can -- that's part of the path for?

Alastair Borthwick

Yes. I think what will happen is the underlying growth of the company will still be there. But we have some things that we know, just like Steve asked that question if there's any higher rate shorter-dated stuff you'd like to pay off. Yes, there will be over time.

So I think we've got some ability to almost like self-fund the first $100 billion, $150 billion of growth in terms of earning assets. So that's why we're saying that will keep the denominator down while we're growing the numerator.

Operator

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

Ken Usdin

Alastair, I just wanted to ask you a little bit more on the securities portfolio side because you also have, what, $180 billion or so of pay-fixed swaps on the AFS book. And so we know about the HTM maturity schedule. But how do you look at that AFS book? And how much are those pay-fixed swaps currently in the money and kind of like how you're just thinking about that side of the portfolio as well?

Alastair Borthwick

Yes. Just remember, those have received-fixed. So remember, start -- that there. You remember that is when we put the AFS in our portfolio, it's so that we've got a group of securities that are sitting there. They're typically treasuries. We swap them to floating so that they look like they're cash as far as we're concerned. We don't have to worry about impact then to regulatory capital flowing through. And they just view -- to us, they just look like cash equivalents. So that's how we think about it, Ken.

Ken Usdin

Okay. And then how do you manage that going forward with regards to like the rate forecast? Do those come off as the securities book matures or...

Alastair Borthwick

Well, I mean, it's less of an interest rate call for us. It's more of going back to this concept of we've got $1.9 trillion of deposits. And we've got $1.05 trillion of loans. So we've got $850 billion of excess. So when the excess comes in, we can do a variety of different things.

We'd love to put it in loans. So that's always our first love. But in the absence of that, we're going to put it in cash or we're going to put it in available-for-sale, probably swap to floating for the most part. And we can choose to put things in hold-to-maturity if we choose to. But obviously, right now, we feel like we want hold-to-maturity just continuing to pay down. That's what we've been having over the course of the past 11 quarters. We're just going to keep going with that. So no particular changes to our philosophy around available-for-sale.

Ken Usdin

Okay. And a quick one on expenses. I believe you said that costs are kind of hanging here at around the $16.3 billion that was reported. And so just kind of put any color on puts and takes here. Just is that better kind of revenue-related comp against your ongoing efficiencies and just how do you think about longer-term expense growth again?

Brian Moynihan

Sure, Ken. I think honestly, the second quarter is sort of emblematic. If you think about last year's second quarter and this year's second quarter, we went up by $300 billion -- $300 million, excuse me. As Alastair said, 200 of which is wealth management – that's incentive comp. Other growth was really other incentive comps.

So the idea, the pressures we face now are really more due to fee growth in the businesses, which typically have a tighter correlation between fees and expenses and incentive comp related to those fees. So that was -- that's not a -- that's a good expense growth – that's what you want. It does grow, and it grows at a good rate.

Headcount has basically been bouncing around relatively flat. We're 212,000 this quarter, even adding a bunch of summer teammates. We were 215,000 last year this quarter, the same summer teammates included. So managing headcount, redeploying people; we have the cleanup stuff going on. We have the new initiatives going on. We're freeing up work and moving it over. So we feel good about managing the company. And that's against inflation rate and wages that are 3% to 5% going on in inflation and all the services we buy in the third-party markets, obviously, that the world experiences.

So we feel good about how we're managing expenses. The key is it's pretty simple. As you follow the revenue side of equation that Alastair has been talking about with your colleagues on NII stuff -- as that lifts and the expenses stay relatively flat, you start moving towards positive operating leverage. We're minus 1% or something like that this quarter, kind of hanging in there. And we'll expect that to go back to the 5-year track we had all the way up until the pandemic hit and things got thrown asunder.

Operator

We'll take our next question from Gerard Cassidy of RBC.

Gerard Cassidy

Brian, you talked, and Alastair, both of you talked about the excess deposits. I think it was Slide 22 you pointed to. Can you share with us as you go forward, and assuming the Federal Reserve does cut interest rates – I know you put, I think, 3 Fed fund rate cuts in your Slide 10 – but as we go out into the end of '25, the forward curve is calling for obviously more rate cuts. Could you tell us how you expect to price your deposits as rates continue to fall? With this excess deposit level, can you be more aggressive in lowering your deposit costs?

Brian Moynihan

I think that's very business- and, more importantly, customer-specific views, Gerard. So we think our deposit strategies in the context of how our customers utilize our services. And so if you think about the parts that price up in Global Banking or the investment-related cash in the Consumer business and Wealth Management, that will come back down as rates come because the short-term equivalents come down. Some of it's absolutely mechanical because it's actually priced to meet a money market fund equivalent, that will happen. And so yes, I think if you think about us being all in, if you look on that slide at 203 basis points, there'll be some pickup as rates come down and those higher -- those zero-interest balance accounts are low-interest checking, they don't really move because they're zero-interest to low-interest. So they'll be kind of static.

But they're still extremely valuable in the current context. So when you think of all the consumer, I think 60-odd basis points or so, that's driven by the fact that we have 40-odd million transactional primary checking accounts that is growing at 1 million a year, multiple years in a row -- 900,000 to a million a year that are maturing from $3,000 up to $7,000 or $8,000 in balances, as people mature the relationship with us. That's where the tremendous value of the deposit base of this company goes.

And so if you think about $1.9 trillion -- $1 trillion having grown $100 billion, almost from the trough, if you think about it growing linked quarter, multiple quarters in a row, we think about even as we look now to grow deposit balances above that amount that – those are good dynamics. So we think about it. But it'll move. But remember, part of our deposit pricing is never going to move because it's zero.

Gerard Cassidy

Right, right. No doubt, those are the golden deposits. And one other question on Slide 10. And also, I think if I recall your first quarter Q, you guys indicated you were asset sensitive. I would assume that the Slide 10 also shows that with the 3 rate cuts.

Alastair, what would it take to move to a more neutral position on the balance sheet or even a liability-sensitive position should the Fed really get into a rate-cutting environment?

Alastair Borthwick

Yes. So this is -- this shows that we're asset sensitive. That's why the red box obviously is bigger than the green box. It's the Market's piece that's liability sensitive. So we're still asset-sensitive, Gerard.

What it would take for us is either we can have a lot more rotation into interest-bearing, or we could buy some short-dated duration fixed rate. So those are the two alternatives.

And if you look at the course of time, if you got to go back to our Qs over time, you'd see that we've become less and less rate-sensitive over time. We've really narrowed the corridor of whether rates go up by 100 or down by 100, what could that outcome look like, narrowed that pretty substantially over time because return on lock-in rates here, recognizing the NII is up $4 billion or $5 billion over the course of the past several years per quarter.

Brian Moynihan

Yes. The last thing I'd say, Gerard, for a person who's been around this business as many years as you have, this has been a very abnormal rate environment for the last 15 years or so. And if you get to where you have a more -- Fed funds rate of 3.5%, which is what our experts predict sort of stops out at -- the ability to bring that sensitivity tighter and tighter is there, because you actually have room to move down without hitting zero floors and stuff. So there's -- and so stability, the rate -- time periods in which the rate environment doesn't flip around. And then secondly, a higher nominal rate environment allow you to manage to that outcome, because part of the other outcome for us is just as the rate structure is nominally very low is the zero floors kick in. And that creates an amount of sensitivity that over time will go away if rate structure is higher, if that makes sense to you.

Gerard Cassidy

Yes. No, it does. And just, Brian or Alastair, one last quick question. I noticed on Slide 25, your home equity loan balances actually increased. I think that's the first time in maybe over 2 or 3 years. Was there a new program? Or what are you seeing that drives that? And should that -- or can that continue as we go forward into '25?

Brian Moynihan

Yes. I think it just reflects that the people have locked in low-rate loans, and now if they want to borrow, it's an expensive view because they've got a fixed-rate mortgage loan, and they got a home equity sitting on top of -- why wouldn't they use it.

I'd like -- for it was only 2 years. It's been 4 or 5 years since that balance went to $30 billion and started declining. So it's good to see -- I'll note at the bottom of that page, if you look at year-over-year mortgage production, you have $5.7 billion and $5.9 billion.

And you look at home equity line production, which is new originations in the boxes, solid. But it is nice to finally see that the actual balances have stabilized, and we'll see -- they're kind of flattish, they're not really growing. But it's nice to see them not just keep coming down, and hopefully, they'll start to be utilized. Our expectation would be they will be as consumers over time want to take out part of the equity in their home at a rate that is reasonable but doesn't require to refinance the whole first.

Operator

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

Vivek Juneja

Just a little color on noninterest-bearing deposits. When you look at it on an average basis, the decline has clearly slowed sharply. Period end was down at a faster rate. Is that just the noise around end of 1Q? Or what are you seeing as you look sort of month by month? Is that truly slowing or -- and talk to it a little bit by customer segment, if you can, please?

Alastair Borthwick

Yes. I think the fact, you're catching two things. First one is, it is slowing. That rotation is slowing, and we would expect that because, at the end of the day, this is mostly cash in motion. It's transactional accounts. That's why it's noninterest-bearing.

And the answer why it's a little different this quarter is because of the seasonality of tax payments. For anyone who has a big tax payment due -- they frequently just allow it to -- they may pull it out of their brokerage account, put it into their noninterest-bearing, and then they're wiring it out from there. So that's again an example of money in motion, but that's what's going on in this quarter.

Vivek Juneja

A quick one. VISA-B derivative gains: did you have anything in your equity derivatives trading revenues this quarter?

Alastair Borthwick

Nothing to highlight. Nothing to note. That's a position we sold years ago. And anything that's happened with Visa would just unwind on the balance sheet. We've recycled it. So it shouldn't have any impact to revenue.

Operator

We'll take a question from Matt O'Connor of Deutsche Bank.

Matt O'Connor

How are you guys thinking about kind of targeted capital levels going forward? Obviously, we're still waiting for final rules. Maybe there's a little more volatility in your SCB than you would have thought, but you still got a nice buffer.

And then I guess one last piece, I was thinking is the remixing of the balance sheet. That's been commented kind of throughout this call, over time probably causes a little creep in RWAs, right, like loans higher than, say, securities. So lots of excess capital, but some puts and takes. And how are you thinking about it between now and when we get final guidelines?

Alastair Borthwick

So first off, I think we always want to use the capital to grow the business. So if we need to use it to support RWA growth for loans or something, that's a good outcome, and that's what we want to do first.

Second, we maintained 11.9% quarter-to-quarter with a little bit of RWA increase. I think that would be sort of emblematic. And we bought $3.5 billion; paid out $1.9 billion in dividends. So you expect that kind of to continue on in terms of that basic idea of: we don't need a lot of capital to grow because the RWA demands are met with a fairly straightforward amount. We're earning a nice amount of dollars, and we'll deploy it back in the dividend and the buybacks. We'll -- our job is to make -- our view is we'll maintain a 50 basis point type of management buffer to whatever the requirements are. The volatility, well, there's a whole different discussion on that in terms of the wisdom of that. But the reality is that the volatility is absorbable, because you have time to plan into it and get done within the rates we've seen.

So whether we agree with the volatility or not, we've easily absorbed it. And the new rules coming out, we'll see what happens, and we'll adjust. But just think of basically a requirement of 10.7% under the new SCB plus 0.50% is 11.2%. Maybe you get a little tighter if you feel you've got great insight into what happens next year, but -- and then I think the finalization of Basel III will come through. And we'll see what that is and see how that all correlates to the various aspects.

But we feel good about where we are and expect that all current earnings are basically available to support the growth we're talking about; in the current economic environment, that's relatively modest need. But really, the rest of it just goes plowing back to you.

Matt O'Connor

Okay. And then just to summarize that, I mean, do you think about bringing down the 11.9% to 11.2% kind of in the near term, or to state the obvious like that's a little bit more theoretical and wait for the capital rules to play out?

Brian Moynihan

I think we just -- we need to see how the next 60, 90, 120 days play out here -- a lot of discussion about the timing of a re-proposal or not, et cetera. So we have a lot of flexibility and -- but we continue to focus on shareholder value creation, all of that. But I think we're in a critical spot for the industry in terms of learning the outcome of a lot of these things over the next short period of time here.

Operator

That concludes our question-and-answer session for the day. I'd be happy to return the call to Brian Moynihan for closing comments.

Brian Moynihan

Thank you, operator. Thank all of you for joining us today. Obviously, a lot of focus on NII, and we gave you the Slide 10 to give you the bridge. Alastair answered a lot of the questions; Lee is here to answer it.

The key is to understand what's driving that, which is deposit performance, which has stabilized and starting to grow for like 6 quarters in a row now. Loan growth is very low and very low, but just staying positive. Those are going to drive the value of this franchise, and that's core organic growth by our customers.

That's coupled with strong fee performance this quarter in terms of wealth management fees, investment banking fees, consumer fees even growing, global payment services fees, and, of course, the great work done by our markets team.

So that level was flattish expenses -- it gives us a chance to start driving operating leverage again in the company, and that generates a lot of earnings, a lot of excess capital, and we put that back in your hands.

So thank you for your time and attention. We look forward to talking to you next quarter.