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Fourth 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

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

Presentation

Lee McEntire

Good morning. Thank you. Welcome. Thank you for coming to the call to discuss our fourth 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'll make reference to during this call. I hope everyone had a chance to review the 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 before we start 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 the assumptions that are subject to risks and uncertainties. Factors that may cause our actual results to materially differ from expectations are detailed in the earnings materials and the SEC filings available on our website. Information about our non-GAAP financial measures including reconciliations to U.S. GAAP, can also be found in our earnings materials that are available on the website.

So with that, I'm happy to turn the call over to Brian.

Brian Moynihan

So good morning, everyone, and thank you for joining us. Before we begin today, I just want to express our deep concern for our communities, clients, and teammates impacted by the California wildfires. Our top priority, of course, is ensuring the safety and welfare of our team and helping our clients and customers. Our imperturbable Market President, Raul Anaya, is leading our team out there. We have teams on the ground assisting in any way we can and are monitoring the situation to extend support and resources. So far, we have activated our client assistance program, donated $1 million in disaster relief to the American Red Cross, additional contributions to the L.A. Food Bank and the L.A. Chamber Commerce small business efforts.

With that, let's turn to earnings, starting on Page 2 of the presentation. This morning, we reported $6.7 billion in net income. That is $0.82 in EPS for the fourth quarter. That was a solid finish to another good year at Bank of America. We grew revenue on a year-over-year basis in every category in quarter 4. We saw good loan and deposit growth. And Alastair is going to walk you through some of the details of the quarter in a moment, but I want to thank our team for another great year.

For the full year of 2024, we generated $102 billion of revenue and reported net income of $27 billion -- $27.1 billion, or EPS of $3.21. We produced 83 basis points return on assets and 13% return on tangible common equity. We generated these results working from a strong balance sheet that allowed us to support clients in an economy that's continued to grow. It kind of appears to be now settled into a 2% to 3% GDP type growth environment. It has healthy employment levels in the resilient consumer.

The emacity of the American consumer can be seen in our data. So far in the first 2 weeks in January, they're spending money at 4% to 5% clip over last year, similar to what they did in the fourth quarter. And on our business side, the clients are profitable, they're liquid and seeing good productivity. We ended the year with $953 billion of liquidity. We also ended with $201 billion of regulatory CET1 capital and a CET1 ratio of 11.9%, leaving us nearly 115 basis points of excess capital as we begin 2025.

For Bank of America, the year was characterized by a few important highlights that played out as expected and were consistent with our communications to you throughout the year.

First, we saw net interest income bottom out at $13.9 billion on an FTE basis in the second quarter of 2024. We ended the year with the fourth quarter on the same FTE basis at $14.5 billion, and that was a bit better than we expected. This obviously provides a great starting point for 2025. And based on the assumptions Alastair is going to discuss a little later, we should report record NII in 2025. So how did we do that?

We drove organic growth in all the businesses, and that we have highlighted on Slide 3. We saw continued growth in net new checking new households, new companies in Commercial Banking, growth in our institutional markets business. This organic activity enabled us to grow loans and deposits at a pace we believe is to be ahead of our industry average and our peers. A key for us, obviously, is the growth in our deposit franchise.

If you look at Slide 4, you can see we've now grown deposits for 6 consecutive quarters. In the most recent quarter, we saw growth in Consumer balances and stability around noninterest-bearing balances across all the businesses. We continue to price in a disciplined manner, and rates paid moved lower this quarter across the board. Overall rate paid on deposits moved from 210 basis points in the third quarter to 194 basis points this quarter, and were lower -- in the fourth quarter were lower in every business segment.

On the loan side, consumer loans grew in every category linked quarter. Commercial loan demand continued to build off the strengths we saw in third quarter of 2024, and commercial loans grew 5% year-over-year for the fourth quarter and a much faster annualized pace when comparing the third quarter to the fourth quarter of 2024.

So back to Slide 3. In our Wealth Management business, we added 24,000 new households in 2024. We ended the year with $6 trillion in total client balances that we manage for people in America across our Global Wealth and Consumer businesses. Our consumer investments team, what we call Merrill Edge, crossed a new milestone this quarter and now sits in excess of $518 billion in balances. Investment Banking gained share of industry revenue in 2024. Our sales and trading team put up the 11th straight quarter of year-over-year revenue growth and achieved a new full year record of nearly $19 billion in revenue.

Asset quality stabilized and remained strong with net charge-offs declining modestly from third quarter. Earlier in the year, we highlighted that our expectation on consumer credit is that they would stabilize to normal level. And on commercial office losses, they would trend down during the year. We saw both those trends continue in the quarter 4.

On the expense side, we continue to invest in our franchise. And even though spending increases in brand, people, and technology and strong fee growth, which drove incentive and transaction processing costs higher. We managed to create operating leverage in the fourth quarter. Our digitalization and engagement expanded across all our businesses. We saw more than 14 billion logins to our digital platforms in 2024. Our Erica capability surpassed 2.5 billion interactions from its inception, and our CashPro app surpassed $1 trillion in payments made through the app in 2024.

It's also worth noting that digital sales in our consumer product areas crossed 60% in the fourth quarter again. You can see all these trends in our industry-leading digital disclosure on Slides 26, 28 and 30 in the appendix. All of the success and balance sheet strength allowed us to deliver more capital back to our shareholders. We returned $21 billion of capital to shareholders in 2024, which was 75% more than 2023 and included an 8% increase in the common dividend.

So in summary, for both the fourth quarter and for the year, we enjoyed good profitability. We drove healthy returns. We saw good organic client activity across all the businesses. We continue to manage the risk well and increase the capital delivered back to our shareholders. And we positioned ourselves well for growth in 2025. I want to again thank my team for continuing to drive another year of Responsible Growth.

And with that, I'll turn it over to Alastair.

Alastair Borthwick

Thank you, Brian. And I'm going to start on Slide 5 of the earnings presentation because it will provide just a little more context on the quarter.

For the fourth quarter, as Brian noted, we reported $6.7 billion in net income, or $0.82 per share. And before we talk about comparisons between periods, I just need to remind you that our fourth quarter 2023 GAAP net income number included two notable items.

In the fourth quarter of '23, first, we recorded $2.1 billion of pretax expense for the special assessment by the FDIC to the industry to recover losses from the failures of Silicon Valley Bank and Signature Bank, and that reduced EPS last year by $0.20.

Second, we recorded a negative pretax impact to our market-making revenue of approximately $1.6 billion related to the cessation of BSBY as an alternative rate, and that reduced earnings per share last year by $0.15. So when you adjust for the large FDIC assessment and the BSBY cessation charge, fourth quarter ‘23 net income was $5.9 billion or $0.70 per share.

On Slide 6, we note some of the highlights of the quarter. And we reported revenue of $25.5 billion on a fully taxable-equivalent basis, up 15% from the fourth quarter of '23. And if you exclude the fourth quarter '23 BSBY cessation charge, our revenues grew 8% year-over-year. As Brian said, all the revenue items are showing improvement year-over-year. NII grew 3%; investment banking grew 44%. This quarter, our $4 billion of sales and trading revenue marked a fourth quarter record, and it grew 10% from the year ago period. And investment and brokerage fees rose 21%, with both assets under management flows and market levels contributing nicely to the growth. Our card income and service charges grew 7%.

Noninterest expense was $16.8 billion and was up when adjusted for the FDIC special assessment, driven by incentives paid for the strong revenue growth, as Brian noted, and the related activity cost that comes with that. Expense also included additional investments in people, technology, and brand with some major partnerships announced recently. And it included what we expect to be the peak in quarterly costs associated with enhancing our compliance costs and controls.

The good news is we created operating leverage in the quarter. Provision expense for the quarter was $1.5 billion and was consistent with the previous two quarters. And lastly, returns in the fourth quarter were 80 basis points of ROA and 13% return on tangible common equity.

Turning to the balance sheet on Slide 7. We ended the quarter at 3.6 -- sorry, $3.26 trillion of total assets, down $63 billion from the third quarter, driven by seasonally lower levels of client activity in Global Markets, while loans across the businesses grew $20 billion in the quarter. Otherwise, in the quarter, the investments of our excess liquidity saw a $9 billion reduction in hold-to-maturity securities, and at the same time, the combination of shorter-term liquidity investments of cash and available-for-sale securities increased $28 billion.

On the funding side, total deposits grew $35 billion, on an ending basis, as both interest-bearing and noninterest-bearing grew. Long-term debt fell $14 billion, driven by net redemptions and valuations, and Global Markets funding declined in line with assets. Liquidity remains strong with $953 billion of Global Liquidity Sources. That is up modestly compared to the third quarter even as we paid down some debt and retired some preferreds. Shareholders' equity was flat at around $295 billion, and within all of that, we returned $5.5 billion of capital back to shareholders, with $2 billion in common dividends paid and the repurchase of $3.5 billion in shares this quarter. Tangible book value per share of $26.58 rose 9% from the fourth quarter last year.

Turning to regulatory capital. Our CET1 level improved to $201 billion, and the CET1 ratio rose to 11.9%, remaining well above our new 10.7% requirement. Risk-weighted assets increased modestly, as increases in loans were mostly offset by lower RWA supporting our Global Markets client activity. Our supplementary leverage ratio was 5.9%, versus a minimum requirement of 5%, which leaves some capacity for balance sheet growth, and our $460 billion of total loss absorbing capital, means our TLAC ratio remains comfortably above our requirements.

Let's turn to Slide 8. We can go a little deeper on loans by looking at average balances. And loans in the fourth quarter of $1.08 trillion improved 3% year-over-year driven by solid commercial loan growth. Overall, commercial loans grew 5% year-over-year. And importantly, this included an 8% drop in commercial real estate loans. Commercial loans, excluding commercial real estate, grew 7% year-over-year, and the consumer loans grew modestly both linked quarter and year-over-year. As Brian said, on a linked quarter basis, every category of consumer lending grew, and you can see that at the bottom of Slide 8.

If we turn our focus to NII performance and use Slide 9. Regarding NII on a GAAP, non-fully taxable equivalent basis, NII in Q4 was $14.4 billion. And on a fully taxable equivalent basis, NII was $14.5 billion. Several quarters ago, we signaled our expectation that NII would trough in the second quarter of 2024 and begin to grow from there. And this represents now our second quarter of NII growth. And we expect that growth to continue in 2025. In fact, if you look at the 2 quarters after the inflection point, NII is already growing at a 5% rate.

Fourth quarter NII on a fully taxable equivalent basis increased by $399 million from the third quarter, driven by a number of factors. First, it was led by improvement in deposits across the businesses. And even as deposit balances increased linked quarter, our interest expense on those deposits declined by $600 million. Loan growth and fixed-rate asset repricing also benefited us again this quarter.

With regard to a forward view, interest rate expectations continue to drive volatility and predictability, but we'll provide some thoughts for future NII. We expect to start the year in the first quarter with NII modestly higher than the fourth. Remember that the first quarter has 2 fewer days of interest and that's roughly the equivalent of about $250 million of NII equivalent. So even with that, we expect to grow modestly. Then we expect that growth to increase through the year to the point where it could be 6% to 7% higher in 2025 than 2024. We expect to exit the year at least $1 billion higher in the fourth quarter and that would put us in a range of $15.5 billion to $15.7 billion on a fully taxable equivalent basis, and that's obviously significantly higher than the Q2 '24 trough of $13.9 billion.

I have to note the following assumptions. First, we assume that the current forward curve materializes. And while the interest rate curve has changed significantly over a fairly short period of time, as of the 10th of January, the curve was expecting only one rate cut in 2025 that may come in May or June.

Based on our more recent growth experienced, we're assuming loan and deposit growth in 2025 that's higher than 2024, and more consistent with growth in a 2% to 3% GDP environment. The other elements of anticipated growth in NII expected are the benefits of asset repricing as fixed-rate securities and loans and swaps roll off and those get repriced at higher rates. And those themes all remain consistent with our prior conversations with you in the last several earnings calls.

With regard to interest rate sensitivity, on a dynamic deposit basis, we provide a 12-month change in NII for an instantaneous shift in the curve, above or below the forward curve. And on that basis, a 100-basis point increase would benefit NII by roughly $1 billion, while a decrease of 100 basis points would decrease NII over the next 12 months by $2.3 billion.

Lastly, note that our slide showing the trended investment of excess deposits is in our appendix. It's on Page 21. Deposit levels grew to $870 billion over loans at the end of Q4, and that's an incredible source of value for shareholders. And $649 billion, or 54% 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 continue to reinvest in higher-yielding assets.

Okay. Let's now turn to expense, and we'll use Slide 10 for the discussion. We reported $16.8 billion in expense this quarter. And the fourth quarter of '23 included the large FDIC special assessment charge, and excluding that, expense increased. The increased expense from prior periods was driven by a number of factors and was partially offset by a roughly $300 million release of prior period accruals for the FDIC special assessment.

Let's talk about the drivers of the expense. First, in regard to revenue, our markets-related businesses of investment banking, investment and brokerage, and sales & trading, those were up 20% year-over-year. Incentives for the firm were up 15% versus the fourth quarter of '23 and were in large part related to these market-related revenue streams.

On investments that we made, we added bankers and advisers across most of our businesses in 2024, and we also increased investments in our brand with significant sponsorships like the Masters and FIFA, to name a few. And we increased our investments around technology, as well as financial centers. This quarter alone, we added 17 financial centers with 9 of those in our new expansion markets. We're a growth company, and we continue to invest in our future.

As far as head count goes, we've managed our head count carefully, and we've held it fairly flat through the 4 quarters of 2024 at around 213,000 people.

Lastly, we incurred additional costs to accelerate work on compliance and controls. As you likely saw in late December, the OCC issued a compliance consent order to Bank of America, and that's a result of exams done more than a year ago. This order is about correcting or enhancing certain deficiencies in some aspects of our processes that existed at the time. The order doesn't limit any of our growth plans and the order acknowledges we began taking corrective before the order was announced. And as a result of the work in process, we increased our resources substantially in the second half of 2024, and those costs are already embedded in our quarterly run rate.

Okay. Let's go back to expense and how to think about a forward view. First, most importantly, we remain focused on growing the company and driving operating leverage. Second, we expect the first quarter to include some normal seasonal elevation, and we believe this amount will be roughly $600 million to $700 million, primarily for payroll tax expense. So we think $17.6 billion is a good number to expect for Q1, before seasonally declining in Q2. And that's all part of our expectation that expense should be roughly 2% to 3% higher in 2025 compared to 2024.

Let's now move to credit and turn to Slide 11, where you can see net charge-offs of a little less than $1.5 billion, improving modestly compared to Q3. That's the fourth quarter now that net charge-offs are around $1.5 billion. We've seen consumer losses in a pretty stable range of $1.0 billion to $1.1 billion over those past few quarters. And on the commercial side, we saw losses of $359 million, which is down from the third quarter, driven by the continued decline in commercial real estate office losses. Net charge-off ratio this quarter was 54 basis points, down 4 basis points from the third quarter.

We don't see overall net charge-offs or the related ratio changing much in 2025, without much change in current GDP or the employment environment, we expect the net charge-off ratio to be in the range of 50 to 60 basis points of loans for 2025. Q4 provision expense was $90 million lower than Q3 at $1.5 billion as reserve levels remain constant. And as it relates to reserve levels, on a weighted basis, we're reserved for an unemployment rate a little below 5% by the end of 2025, and that compares to the most recent 4.1% rate reported. On Slide 12, we highlight the credit quality metrics for both consumer and commercial portfolios. And there's nothing really noteworthy here that I want to highlight on this page.

So let's move to the various lines of business starting on Slide 13 with Consumer Banking. That business made nearly $11 billion or 40% of the company's earnings in 2024. In the fourth quarter, Consumer Banking generated $10.6 billion in revenue and $2.8 billion in net income. Both grew modestly from the fourth quarter of '23, as fee improvement for card and service charges is now being complemented by the growth in NII. Consumer Banking continued to deliver strong organic growth with high-quality accounts and engaged clients, and they achieved a new record of client experience scores in December. The organic growth activity noted on Slide 3 includes more than 200,000 net new checking accounts, which now takes us to 6 years' worth of quarter-after-quarter growth. And we showed another strong period of card openings and investment account growth. Investment balances grew 22% to $518 billion with full year flows of $25 billion and market improvement throughout the year. Expense rose 8% as we continued investments in our business.

The biggest story in Consumer this quarter is deposits, because these are the most valuable deposits in the franchise. And in the last 6 months, we believe we've seen the floor begin to form after several periods of slowing decline. Consumer Banking deposits appear to have bottomed in mid-August at around $928 billion and ended the year at $952 billion on an ending basis. Looking at averages, you can see then the deposits grew $4 billion from the third quarter to $942 billion, all while our rate paid declined to 64 basis points. Finally, as you can see in the appendix, Page 26, digital adoption and engagement continued to improve and customer satisfaction scores rose to record levels, illustrating our clients' appreciation of enhanced capabilities from these investments.

On Slide 14, we move to Wealth Management, where the business had a very profitable year, generating $4.2 billion in earnings from nearly $23 billion in revenue. In 2024, our Merrill Lynch and Private Bank advisers added another 24,000 net new relationships. And the professionalism of these teams earned them numerous best-in-class industry rankings as you can see on Slide 27 in the appendix. With a continued increase in banking product usage from our investing clients, the diversity of revenue in the Wealth business continues to improve. The number of GWIM clients that now have banking products with us continues to grow. And at this point, it represents more than 60% of our clients. Importantly, about 30% of our revenue remains in net interest income, which complements the fees earned in our advice model and those have also grown. Net income rose 15% from the fourth quarter of '23 to nearly $1.2 billion.

In the fourth quarter, we reported revenue of $6 billion, growing 15% over the prior year and led by 23% growth in asset management fees. While expenses were up year-over-year, they grew slower than revenue, creating the operating leverage in the business. Business had a 26% pretax margin and generated a strong return on capital of 25%. Average loans were up 4%, driven by growth in custom lending, securities-based lending, and a pickup in mortgage lending. Deposits grew 2% from the third quarter, and the teams were quite disciplined on pricing of those deposits. Both Merrill and the Private Bank continued to see strong organic growth. And that helped to produce excellent asset under management flows of $79 billion this year, reflecting a good mix of new client money as well as existing clients putting money to work. We also want to draw your attention to the continued digital momentum that you'll find on Slide 28. Because, for example, 3 quarters of Merrill bank and brokerage accounts were opened digitally this quarter.

Slide 15 shows the Global Banking results and this business generating $8.1 billion or 30% of the company's earnings in 2024, and it continues to be the most efficient business in the company at less than 50% efficiency ratio. The business saw a nice rebound in investment banking fees in 2024, which we expect to continue in 2025.

In Q4, Global Banking produced earnings of $2.1 billion. Pretax pre-provision results were flat year-over-year as improved investment banking fees offset lower NII and higher expense. The total earnings were down 13% year over year, driven by higher provision expense that came as a result of prior period reserve release. Investment banking fees were $1.7 billion in Q4, growing 44% year-over-year. This was led by mergers and acquisitions. We also saw strength across debt capital markets fees, mostly in leveraged finance, and in equity capital markets fees. And we finished the year strong, maintaining our #3 investment banking fee position.

The fourth quarter saw strong momentum, as the election results provided a lift to sentiment for a more pro-business climate and expectations for more deals to be completed. Expense in this business increased 6% year-over-year, driven by the 13% growth in noninterest income and continued investments in people and technology.

The balance sheet saw good client activity, and it was muted somewhat by the strength of the U.S. dollar. Year-over-year flatness in Global Banking loans includes this foreign exchange impact and a $6 billion decline in commercial real estate from paydowns. Otherwise, loans in Global Banking were up 2%. Deposits have been growing for many quarters now with our commercial and corporate clients. And total Global Banking deposits are now up 10% year-over-year, reaching a new record. So we're seeing strong growth across all the categories from our corporate and commercial clients all the way from the larger end to Business Banking on the lower end. And we also saw a 10% growth in our international deposits.

Turning to Global Markets on Slide 16, I want to focus my comments on results excluding DVA as we normally do. Our team continued their impressive streak of strong revenue and earnings performance. They achieved operating leverage, and they continue to deliver a good return on capital. For the year, record sales and trading results of nearly $19 billion grew 7% from 2023, and they've been growing consistently now on a year-over-year basis for almost 3 years. This led to $5.7 billion in full year profits and represents more than 20% of the company's full year results.

In the fourth quarter, earnings of $955 million grew 30% year-over-year. Revenue, and again this is ex DVA, improved 15% from the fourth quarter of '23, as both Sales & Trading and Investment Banking fees improved nicely year-over-year. Focusing on sales and trading ex DVA, revenue improved 10% year-over-year to $4.1 billion. This is the first time we've recorded more than $4 billion in our Q4 results, and it included Q4 records for both FICC and Equities. FICC grew 13%, while equities improved 6% compared to the fourth quarter '23. FICC benefited from tighter credit spreads as well as increased volatility in interest rates, while equities benefited from increased activity around the U.S. election. Year-over-year expenses were up 7% on revenue improvement and our continued investment in the business.

And then on Slide 17, you can see All Other with a loss of $407 million in the fourth quarter. We spoke earlier about the fourth quarter '23 charges for BSBY and the FDIC special assessment charge. Their reversal impacts the comparisons on revenue, expense, and net income in this segment. Otherwise, there really isn't anything significant to report here. Our effective tax rate for the quarter was 6%, and excluding discrete items and the tax credits related to investments in renewable energy and affordable housing, the effective tax rate would have been approximately 26%.

Looking forward, we expect the tax rate for 2025 to be in a range of 11% to 13%. And this just includes our expectation for higher expected earnings in 2025 and relatively stable tax credits.

Finally, this quarter, on Page 18, we thought it was important to summarize some of the guidance points we talked through this morning, and we hope you'll find this page helpful. So in summary, we're looking for a strong growth in NII, and we'll look to both continue important investments in the franchise and drive operating leverage as we grow throughout the year. We aren't expecting much movement around credit based on a pretty solid economic outlook. And we remain with a very strong balance sheet with excess capital that we can deploy to grow the business and deliver back to shareholders as appropriate.

So with that, I'll stop there. I thank everybody, and we'll open it up for Q&A.

Q&A

Operator

And we'll take our first question from Steven Chubak with Wolfe Research.

Steven Chubak

So wanted to start off, Alastair, with maybe unpacking some of the drivers of the NII growth in '25. How much of the build that you're guiding to is attributable to loan growth versus some rate or repricing tailwinds, runoff of legacy swaps, what have you? And does that acceleration in NII you cited for the second half continue into '26 given some of those tailwinds should remain in place beyond '25?

Alastair Borthwick

Well, first of all, I admire you asking about '26. I'm always reluctant to talk about the back half of '25. So I'll leave '26 for another time. But we don't have a whole lot of news, Steven, relative to what we talked about in the prior quarters. We're obviously pointing right now to deposit growth in particular because it's beginning to get back to something more normal. There was a period there where deposit balances were declining as people got back to something more normal in their accounts. But we're highlighting here: Consumer found its floor in August, Wealth found its floor in July. And that's giving some support then as we grow deposits. That's helping us with the NII growth. So that hasn't changed. It's just that now we've got successive quarters of growth that we can actually point to.

The loan growth that you asked about is interesting in that -- there were several quarters there where we were bouncing around flattish on loans. In Q2, we added $9 billion of loans. In Q3, we added $19 billion. In Q4, we added $20 billion. So the loan growth has picked up a little bit. We can sort of see a little more optimism with clients, a little more activity, a little more demand from clients for loan growth.

So those two things, a little more confidence around deposit growth, a little more confidence around loan growth, those obviously compound through the course of the year. So that will help us in the back half of '25. And then as you pointed out, we're still a beneficiary of the fixed-asset repricing. That comes from some of the old loans that are on our books that come off in 2025 and we reprice. And then we've got some cash flow swaps that also will mature through the course of the year. So that's what leads us to this idea of we think the NII growth will accelerate to 6% to 7% -- for the full year.

So a little bit of it -- a little bit faster in the back half of the year, we kind of just see that, but that's what gives us the confidence on NII.

Steven Chubak

That's great, Alastair. And maybe a follow-up for Brian. Just at a recent conference, you spoke about the expectation of delivering 200 bps of sustainable operating leverage, laying out an algorithm where revenues grow 4% to 5%, expenses grow 2% to 3%. What gives you confidence in that ability to deliver that level of top-line growth on a sustainable basis? Just want to unpack that a little bit further.

Brian Moynihan

So I think what gives us confidence, we have periods with stable rate environments, a stable economy, growing at a slower rate than it is now. And having produced that for 5 years in a row, I think it was by quarters or something like that. And so it's not something we haven't done. But if you think about the current environment, what's driving is different. Our revenue growth is growing at twice that rate plus and the expense growth is growing close to that number. But when you get to higher growth rates, especially where it's coming from Wealth Management business, market-based business, businesses in investment banking, it attaches a higher sort of instantaneous expense. And yet it still produces even a little bit of operating leverage at a higher growth rate, a good after-tax, a good EPS result, a good net operating income results. So there's different times, different models. This is a model where revenue is growing faster than it might grow all the time in more normalized environments, but the business is coming from are those businesses which have the quickest move relative to expense. Giving you an example of that of the normalized last year's expense -- last year's expense and think about our expectations from '23 to '24 and you look at the growth rate, a big part of the growth rate in expense, about 45% to 50% of it, is the incentives to the wealth management teammates, which is a good thing. And so that means revenue is growing, and we're taking about half of that in.

And if you look at the other pieces added to that. So Steven, simply put: we did it before. We know we can do it. You can see underlying setup. And as you see NII kick in the Consumer business, which is more incrementally profitable because of NII, you see that kick in and you see the expense base there flattening out. And you see the revenue base of the company broaden out, you'll see that we'll get back to the operating leverage that we expected, albeit it may be a little slower year-over-year growth rate, unless you're going to tell the market, it's going to go up 25%, 30% every year and drive the wealth management. When that slows down to a more normal growth rate that will slow down its expense growth rate also, therefore, you'll see the opening up at that level.

So it's not something we make up. It's something we put in our operating principles and it's something we have done a lot of quarters, but we have to sort of get the stability in the relative business position.

Steven Chubak

That's great color.

Brian Moynihan

And Steve, the easiest thing to think about is headcount. At the end of the day, our costs are all people, and that's been relatively stable, and that will start to flow through because during the course of last year, we basically kept the headcount relatively stable. We had some offbeat expenses that we had to deal with, but now we're sort of settling into that 213,000 level of people with the takeout on stuff through operating excellence and putting in on stuff into quiet coverage, expanding our pipes to draw more marketing, more client coverage, more technology investment. So we always are shifting expenses, and that's how we make that operating leverage happen.

Operator

We'll move next to John McDonald with Truist Securities.

John McDonald

Wanted to ask as a first question, just a follow-up to Steve's NII questioning. Alastair, is the deposit growth in the model that you've laid out for the year being used to pay down more expensive funding? You've talked about the ability to kind of self-fund balance sheet growth. And then also, is there any sense of the yield pickup you get on the swap roll off and replacement that you could give us kind of ballpark on?

Brian Moynihan

John, before Alastair starts, welcome back from the cold to be able to be back in coverage and covering our company, and it's always good to know that you're going to consistently ask about NII, but I'll turn it to Alastair to give you that.

John McDonald

Thanks, Brian. You got to be typecast.

Alastair Borthwick

There you go. So I think your first question was if we get the deposit growth we anticipate, do we think we'll use some of that to pay off some of the higher cost liabilities on the balance sheet?

The answer is yes. That's consistent with what we said in prior calls. We've done that. If you look at the other institutional CDs, you'll see they came down by another $7 billion this quarter. So as we grow the really high-quality parts of the deposit franchise that allows us to take those down. And that's one of the things that's going to help grow net interest yield on an ongoing basis. It's not NII accretive necessarily, but it helps us with net interest yield. So that remains a part of the strategy, John, you'll see that continue.

As it relates to the cash flow swaps and how those reprice? No, we typically don't lay out the table of what we've got on and how it reprices over time, but it is embedded in our guidance. So each quarter, when I give you guidance for the next quarter, that will incorporate what we know is coming off on the cash flow swaps and how that does. The other fixed-rate assets you can kind of see in our supplemental information just based on the originations of resi mortgage, the originations of auto loans. And every time, obviously, we're booking new residential mortgage and old residential mortgages come off, we're picking up 250 basis points every time there. So you can see that happening each time you pick up the supplemental. We just don't tend to disclose the cash flow swaps. So I will do that for you each quarter as we go through the year.

John McDonald

Okay. And then just to switch topics so Brian doesn't make fun of me.

Brian Moynihan

That's all right, John.

John McDonald

Now in terms of capital, how are you thinking about the CET1 target and the buffer that feels appropriate in this environment? And how does that play into your thinking on buybacks?

Brian Moynihan

So I think we bought $3.5 billion this quarter. We'd expect to continue to step back the highest levels, we are in the money, we pay the dividend, we invest in the growth of the business, and then we use the rest of buyback stock. That was $3.5 billion in the past couple of quarters. So at this earnings rate, that seems – that level that makes sense.

We're 11.9%, we think at a 10.7% requirement, a buffer of 11 -- 50, that's 11.2%. Obviously, there's going to be some sort of changes in the capital rules, and we'll have to settle it after we see that, and we hope some relief in the volatility of the CCAR outcomes. Because remember that last year, we jumped quite a bit without a lot of correlation to the actual risk of the company and stuff. So we'll -- hopefully, we'll see that settle back in.

John McDonald

Okay. Does that leave you towards a mid-teens ROTCE target, Brian, as NIM normalizes and capital normalizes?

Brian Moynihan

Yes. I think the capital normalization will be more sort of holding that capital to grow through it and not have to retain more capital for growth, frankly, if there's math that helps us favor it. But the NIM is probably more critical to move the yield from sub-2% this quarter -- 2% this quarter to 2.10%+ at the end of the fourth quarter and then moving from there. That, as you know, is -- all that flows to the bottom line. So we'll continue to drive the ROTCE back up as -- if you look back in the areas where there was any front-end -- Fed funds was 2%. We were running a couple of hundred basis points more. It's the huge zero-interest deposit base, especially in consumer and low-interest deposit base that provides a lot of leverage. So that will be a driver. The capital return would help some, but I think that will be more complex based on all the different rules and what happens.

Operator

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

Glenn Schorr

I have a relative question on trading. I know how impossible it is to predict really the environment. But you took share in investment banking, and you've invested and gotten benefits from that. You have invested in trading. So maybe it's a weird question because you just put up record revenues in FICC and Equities, as you mentioned. But when we see good environments like this, some companies tend to really blow out numbers.

You guys have zero loss days; you don't tend to blow out numbers. Is that a comment about gaps in the business mix that you'd like to invest more and fill in? Is that a comment about risk tolerance? I'm just curious how to think about it on a relative basis?

Brian Moynihan

I think you have to back up -- Jim DeMare and the team are driving the business; 11 straight quarters of year-over-year growth. Frankly, I'm not sure any other company comes close to matching that. So other people have more volatile up and down as you're prospecting. But over the course of time, we just want us to keep walking up the ladder, and they've done a great job of doing that, continuing to drive the business.

In fact, if you look at year-over-year comparisons, because your point was obviously something we asked ourselves, and we looked at the last 48 hours, here 24 hours – basically, a lot of people in the same range as opposed to fourth quarter, where some people's last year's fourth quarter was down a lot in the prior year. Ours was more stable. And I think last year's fourth quarter was one of the highest fourth quarters we ever had. And then we put another 10% plus growth on top of it.

So think of us as being that business has just is imperturbable. It just keeps calmly growing forward and driving itself up without having maybe some of that more traditional trading house up and down. Not because we're not good at. They're very good at it, not because they aren't getting share, because, frankly, if you look at the last 3 or 4 years, they continue to gain share, it's just we have a little less volatility in principal activity on a given day.

Glenn Schorr

Okay. I appreciate that. This might be a simple follow-up, but on your comments when talking about credit and reserves, you reserve for unemployment a little bit below 5%. We're 4.1% now. I think that's the way this cycle has played out, I think that's typical BofA conservatism. I think that's the accounting.

But I guess my question is your reserves will be fine, your P&L will be fine, but if that plays out, does that completely change how we're thinking about the pickup in consumer spending, overall loan growth, things like that? Because that is -- we're talking about just the next 4 quarters?

Brian Moynihan

Yes. This is where you got, Glenn, you got to kind of get away from reserve-setting methodologies versus what we really believe is from our research team and your research team, your economist research team would tell you. Our core assumption is the GDP grows in the low 2s this year. The unemployment stays between 4.1% and I think -- maybe gets up to 4.3%, something like that. So this is literally a weighting of a base case, which would match that and an adverse case and some other cases just in the way we build methodologies for the reserves because you're reserving for uncertain future, and that's how it has it. I don't take it as a thought that we really believe we're going to see 4.8% unemployment in the next 4 quarters. And so hopeful that answers it.

Operator

We'll move next to Erika Najarian with UBS.

Erika Najarian

My first question, just as a follow-up. Brian, I think I heard you say in response to John's question that you think the exit-rate net interest margin will be 2.1%, I think in 4Q '25, I just wanted to confirm that I heard that correctly. And underneath that, Alastair, could you talk about the repricing or down deposit beta dynamics that you would assume to get to that net interest margin?

Brian Moynihan

Yes. So the simple answer is you've stated what I stated to John, but I'll let Alastair answer the second part of the question.

Alastair Borthwick

So generally, Erika, we're obviously following the Fed rate cuts just repricing things accordingly. There are, I think, two things going on right now that are interesting. The first one is, generally speaking, in the commercial businesses with the higher-end deposits. We're typically following the rate cuts and just going down 25 basis points. Obviously, at the other extreme on the noninterest-bearing, there's nothing we can do with that. It's already noninterest bearing. But we're following the Fed cuts, we're moving the rates with discipline accordingly.

And then the second thing that's going on is there was some rotation going on over the course of the past 2 years, where there have been a lot of things going from noninterest-bearing into interest-bearing across the different parts of our businesses. That has slowed significantly. So you look at, for example, Consumer noninterest-bearing, that seems to have bottomed out in February of last year, and the noninterest-bearing balances are growing now again. So that rotation is slowing also. Both of those things are factoring into our guidance.

Brian Moynihan

Yes. So Erika, if you look at the interesting part, that's gone on in the last couple of quarters just from a deposit behavior. If you look at our accounts that were here prior to the pandemic to now, you saw a run-up and then you saw a little depletion and it's basically stabilized at a level. But if you look at it in the aggregate, all the depletion is actually driven by the highest-balance accounts, like 250, 500 average balances -- million and the others are still multiples of where they were before, that's been going on, and they've been growing, and they're growing 9% year-over-year in the lower balance accounts as people make more money in store more cash and have cash flow.

So if you think about what had happened is our average balance count was around 7,000, went up to 11,000, and now it's basically stable at 9,000 checking accounts, and that's kind of -- and you can grow out from there. That is very valuable because checking is either zero or very low interest. And so it's where the growth we see coming as deposits grow in Consumer that helps produce -- irrespective of the market dynamics or the higher at the market price deposits where you see the impact of the deposit franchise coming through.

So Consumer being down 1 basis point quarter-to-quarter doesn't sound like a lot, but you got to remember a lot of the stuff, it doesn't really price but are they growing that stuff? And each $10 billion of growth in that area is very important to us.

Erika Najarian

Got it. That's very helpful. And just as a follow-up, both you and Alastair have during -- over the course of 2024, started introducing the concept of a normalized net interest margin of 2.3%. With the neutral rate maybe around 4%, does -- can BofA get there more quickly, particularly given the deposit dynamics that you mentioned, Brian?

I guess I'm trying to -- we're just trying to figure out, you guys did introduce the concept of normalized NIM. So I'm not trying to seek out guidance in terms of '26 or '27 or whatever, but you had to have told us that for a reason. And I'm just wondering if the forward curve or what the dynamics are that would lay out the path to achieve that over the medium term?

Brian Moynihan

If the Fed funds rate stays higher, we'll get there faster is the simple -- because that's obvious because the sheer volume of low-interest. So if we were sitting here in the October, I think when we're talking about that – the amount of rate cuts was still, I don't know how many more -- 3 or 4 more than we've had so far – and now we're down to 1. So as it stays at a higher nominal rate, you'll see this adjustment come through.

There are two caveats at. One is we're carrying a larger markets balance sheet, which, by definition, is a little less robust in that area. And then secondly, we're carrying a lot of low -- a lot of excess liquidity just because we're running that down as Alastair said. So during -- you have the buildup after -- during the pandemic, we built up a lot of term financing and running off. So all that will help us. But it will go faster than we'd otherwise say mid last year to now just because the nominal rate environment stays higher.

Operator

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

Mike Mayo

So you kind of upped your NII guide for the next several quarters. And this was the first question asked. But how much is short rate? How much is long rate? But most importantly, how much of this is a little bit more steepness in the yield curve? And what part of the yield curve is most important for that? And what's the sensitivity for every 10 basis points of additional steepness that add how much NII or something along those lines?

Alastair Borthwick

So Mike, it's still the short term that drives probably 90% of the sensitivity around NII. Because if you think about it, we just don't have enough fixed-rate assets repricing to really drive NII. In any given quarter, you've got a few billion of resi mortgage, a few billion of CVL repricing – let's call that $10 billion to $12 billion. You've got $8 billion to $10 billion of hold-to-maturity securities repricing. But that's in the context of a $3.3 trillion balance sheet. So it's still the short term that drives most of the NII. So when Brian says, obviously, we're helped by the fact that there might be 2 or 3 rate cuts less than they were previously – that's obviously helpful.

But the big thing is always for us in terms of year-over-year growth, it's always about deposit growth and loan growth. The fixed rate asset repricing is turbo charges a little bit at the margin, but it's about deposit and loan growth, and those are the important ones. And getting back to growth now in each of our businesses, gives us a stronger foundation, leading into 2025, than we had this year when we still had at the beginning of the year, Consumer coming down, Wealth coming down. Now that they've found the floor, it's slightly different.

Mike Mayo

Got it. And then a big picture question. Brian, with the new incoming administration and a different tone as it relates to bank regulation. In fact, the incoming Treasury Secretary said he would like to reinvigorate banks. So if you were talk to them, and maybe their listening, what would you like to see changed as it relates to bank regulation?

And then a specific question, I know it's going to be tough. If you give me any sense would be great. But your CET1 ratio, if you didn't have gold plating, if you had a level playing field, if you took out some of the extraneous operating risk penalty, how much would your CET1 ratio increase in that sort of world?

Brian Moynihan

So Mike, I think your second question brings up -- the places that our industry, our company have been advocating heavily is that we've had a little bit of a situation from pre-pandemic to-post pandemic where you've seen capital -- required capital go up nominally 10%, 15%, 20%. And not a big change in the risk of the companies. And that is to all the mathematics behind all the counting, right?

And so we're saying, oh, well, wait, we aren't indexing the G-SIB. So therefore, our relative size economy isn't growing as fast as -- it was intended to be indexed on that basis, isn't there. You've had, as you said, sort of accretion of sort of methodologies that keep pulling more in, including the stress test volatility that we've all pointed out to them.

And then -- and the last point you make it -- is if you look at this concept of Basel III making equivalent around the world is completely off in a different world, because we're using advanced -- excuse me, the rest of the world is using advanced. We're using standardized, gold plate or whatever you want to talk about; it's just apples and oranges. And so I would never think that we go -- and we ever got to Europe, our numbers would be probably a big -- a lot higher, but that's not going to happen because just we're going to have -- we as a society have a more conservatively capitalized industry.

So I think it's simply put if they were to take into account our clear statement -- our clear advocacy about as an industry about index the GSIB, take the volatility out of CCAR, how can it change so much in the relatively same scenario. And also, behind the scenes, all the changes in a counting, not accounting, but a counting for risk you're increasing capital requirements and without any explicit decision to do so. And we think that, that would be worth probably 100 basis points or so. If you really sat back and thought about it, how do you get there, Mike? Think about our volatility in CCAR outcomes, I think we went from -- we went up by, I don't know, 50, 70 basis points last year, whatever it was. The risk of the company didn't change. As a matter of fact, it probably went down, honestly. And so that's what we're working on.

So we want to see that. And then in the day-to-day supervision, we just want to see people focused on safety and soundness and good management and making sure there's the regular agencies cooperate on things like BSA and AML and things that -- everybody is all over the place, and the industry is trying to sort it out in the middle. And we've given precise points to look at, and we'll see what happens.

Operator

We'll move next to Jim Mitchell with Seaport Global Securities.

Jim Mitchell

Maybe just dialing in on the deposit growth. You clearly have been outperforming the peer group. But maybe I just want to focus on Consumer for a second. You generated $1.1 million of net new checking accounts, which seems best among peers. I think that's showing up in better Consumer deposit growth in 4Q. So what do you think you're doing differently that's generating that kind of consistent success in adding new accounts?

Brian Moynihan

Look, at the end of the day, our brand is best received in terms of our scores, our customer service capabilities are scoring at the highest they've ever come. The fairness of our account structures of transparency, the digital capabilities, it's just winning in the market. It's a $1 billion net new checking accounts and not 92%, 90 -- whatever they are primary. They start with an average balance of 2,000 to 3,000. They move to 6,000, 7,000 over the course of 6 months. This is just a great job done by Dean Athanasia and Aron Levine and Holly O'Neill that run this business for us -- just continue to drive it. Then on top of that, we've layered in ways with various business lines to help generate accounts.

So our work we do with companies to offer our best products and services as a benefit to their employees helps us generate some extra growth. Our ability to do business around college campuses, which is not huge for this quarter's growth. But because we are generating the amount of openings at twice the rate of young people exist in society for our customers 5 years ago, 5 years later, the people out working and they're great customers. So it's a whole bunch of things. And so -- and it's -- but it's relentless and sustainable.

And yet, we still have lots of ways to grow. And we weren't in -- we just entered a lot of markets over the last 5 years. Denver, Cleveland, Columbus, Cincinnati, Indianapolis, Minneapolis, Milwaukee now, Lexington, et cetera. That's one way. And then if you think about in the Wealth Management teammates and Katy Knox and Lindsay and Eric do a great job there, but we have a lot of room to go where we continue to outfit those clients with a full range of services of Bank of America. And even Merrill Edge has a lot going on there. So there's a fair amount of deposits that come from our Merrill Edge originations, which are 300,000 accounts year-over-year, and those are all $100,000 starting accounts, not $3,000.

Jim Mitchell

Right. No, that all makes sense. And then maybe pivoting on the expense side, the guidance of 2% to 3% growth. It's kind of a pretty decent step down for what we saw in the back half of the year.

So what areas do you see sort of slowing on the expense side given your optimism on organic growth, how do you kind of decelerate the expense growth in '25?

Brian Moynihan

I think three key things. One is if we get the year-over-year growth in the markets-related businesses, in the high double digits or 20% growth that expense guidance might be a little tight, but again, you would cheer for that. So this is assuming a 5% to 6% growth in the S&P-type of numbers. So that takes some of the growth pressure off. The aggregate numbers are locked in at a high level and growing merit.

And then the second thing is, frankly, just getting a lot of this work behind us and some remediation and look backs and things are all completed and behind us. And then third is just keeping the headcount and getting -- continuing to focus on OpEx and generating capabilities. And so as we stepped into some of these national brand campaigns around some of the major properties we've affiliated with most recently yesterday in the US Soccer including men's and women's teams, FIFA, The Master’s, these are all things we're paying by just driving other efficiencies.

So from a company that for years have gone down and expenses, the idea growing 2%, 3% is not that hard a concept, albeit the growth in the back half of this year was a bit driven by the incentive explosion that happened because of the explosion of markets. When they took off, our teammates did a great job of capturing revenue and incentives went up.

Operator

We'll move next to Vivek Juneja with JPMorgan.

Vivek Juneja

I have two separate questions. First one with expenses. Just want to clarify to the last question, Brian, what you said. So what are you assuming for incentive comp in '25 in your guidance? Is it flat year-on-year? Are you assuming some increase? Any color on that?

Brian Moynihan

It will grow with the markets and stuff, but we have other efficiencies that offset some of that growth.

Vivek Juneja

Okay. Second one, I guess, I can't leave you disappointed. I must give you and Alastair love on NII. So let me ask a little nitty question on that. BSBY hedges, since those started to accrete this quarter, how much was the benefit this quarter? And what is the cadence of that as we look out over '25?

Alastair Borthwick

So we think about the BSBY accreting back into the P&L, kind of like the same way we do with the other cash flow swaps, Vivek. So I'd say a couple of hundred this quarter. And then when we give you the guidance with all the cash flow swaps, it's all included in there.

So when I say that we think this year Q1 should be up modestly, that is after the $250 million of day count adjustment and it's including deposit growth, loan growth and all the cash flow swap activity.

Vivek Juneja

Okay. So that 200 -- a couple of hundred million, that probably -- given that it's $1.6 billion to be recovered over a couple of years, that should continue at this pace all through '25 then, right? At least that particular item?

Alastair Borthwick

Most of it will take place in 2025. It sort of burns back into the P&L. And then there'll be a little bit in 2026 and a tiny bit in '27.

Vivek Juneja

And then -- sorry, if I may, another one. Brian, to your comment on capital you said you want to keep a 50-basis point buffer your CET1, 11.9%, 50 basis point 11.2%. Is there a plan to go down to the 11.2% at some point and therefore step up your buyback? Or what's the thinking there?

Brian Moynihan

I wouldn't assume that we're going to take it down through a lot of buybacks in your modeling. It's going to be there to support growth. But Vivek, the simple answer is we've got to get a set of rules to quit moving around on us. And once we get them, then we can give you better guidance on that. Because it's just hard to hard to estimate when you could have more excess if they do what -- we as an industry expect them to do. And then we have a different conversation. Right now, we we'll probably grow part of that away through the good work of our team in terms of loan growth and in the Markets business as we continue to invest in that business. So -- so don't expect us to deplete that ratio down quickly. But I'm holding my right to change that if we get the capital levels straightened out in the new rules.

Operator

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

Matt O'Connor

Just if there was some relief on capital, are there areas that you would incrementally lean into? Obviously, without knowing all the rules, it's a charge to know for sure. But just other areas that you're like, if we have an extra 100 basis points, or 50 or 150, you would do a little bit more in some areas than you have been?

Brian Moynihan

None of our businesses are constrained because of capital. So if the Consumer team had more credit card loan growth that was based on what they think the right risk balances and getting paid for it, et cetera. That's gone on. You saw us just grow balances last quarter, the auto loans, whatever. And so I think it -- I don't see that Wealth Management -- obviously, not much of an RWA users in a lot of ways. And then the real question is, in the Global Banking business, again, they're getting strong loan growth. There's nothing that we're slowing them down.

In the Markets business, we continue to drive the capital up, being the lowest return on equity business we have. We have to be a little careful that we don't do it, but Jim and the team have done a great job. And we've basically -- their balance sheet is $300 billion larger than it was 4 or 5 years ago, and they've grown their -- we've grown through the GSIBs, as you know from 2.5 to 3.0 and we'll keep probably growing through those and that we use some.

But it's not like we'd say you can't have it because of capital. It's really just running the company, keeping a balance in the overall management of the risk and where we want to take risk and how we do it. And then frankly, it's -- they come up with business plans, and we've never had to say we don't have enough capital to do that. That's not the issue.

Matt O'Connor

And I guess, like depending on how the capital rules are tweaked, it could make some businesses just more profitable, right? So even though you have enough capital to put those businesses if the returns aren't making your hurdles, maybe it could with some tweaks. And I've heard some of your peers talk about like equity prime brokerage as one area that could have higher returns if capital requirements to reduce. And again, we don't know exactly how it's going to play out, but do you envision any kind of changes to how you evaluate businesses?

Brian Moynihan

Yes. I think it won't change how we evaluate businesses because regulatory capital is only one of the ways we look at it, we look at the risk and sort of market-based capital and other things. But it could -- sort for lack of a better term, limit the penalty to some of these businesses down some. But -- but you also have to remember the ROA and the mix of businesses, and there's another side of this because we have 6% tangible common equity, and we got to produce returns on that and low ROA businesses affect that.

So there are things that will favor it under regulatory capital but not favored under sort of market-based disciplines. So we work through all that. I don't expect to see change in how we do it, but I also don't think that any of our businesses are constrained because we're not having capital. So if Jim and the team have a chance to go prime brokerage and make it work. In our company, we can have other businesses which have very high ROAs to make up for it. In some other companies, it'd be more important for them because they don't have those other businesses in relative size to the Markets business.

Operator

We'll move next to Gerard Cassidy with RBC.

Gerard Cassidy

Brian, we've talked about this in the past and also with you, Alastair. Obviously, credit quality for you and your peers has been -- is very strong. In view of the rate cycle, we just came through where we went from zero to plus 5% at the short end of the curve and really never saw a surge in charge-offs due to rates going up that much.

When you guys look at credit quality, is it due to better underwriting standards or sticking to your underwriting standards, or is it your customers themselves because we all went through the pandemic are just much stronger balance sheets, more resilient. What would you account for so far that this credit cycle has been fairly benign for you and your peers?

Alastair Borthwick

Yes. Look, it's definitely been benign. I think one thing that hasn't changed, our underwriting strategy, our standards, our risk appetite our client selection, those really haven't changed, Gerard. But I think you're right.

Look, things are obviously different than 2019. 2019, we didn't have this rate structure. So that's a little bit harder at the margin for the consumer. At the same time, the consumer is stronger. I mean, we can see that in the deposit balances. We can see it right now in the consumer spending in the 3% to 4% range. We can see it and the balances being elevated over 5 years ago. We can see it in the unemployment level, the income level, home prices, wealth effect.

So look, 2019 was freakishly low in terms of like a historical norm. But things have settled in here. We sort of said a year ago, we thought they would plateau right around where we are. We're glad to see 3 or 4 quarters now with some stability. It feels pretty good on the consumer side. It feels very good still on the commercial side. So that's why we're sort of laying out our expectation, unless there's a big change in the economy, we think we're going to be around this 50 to 60 basis points over the course of the next year or so.

Gerard Cassidy

Very good. And then as a follow-up, I share your optimism on the outlook for the economy and many of your peers on the capital markets business. I think many investors do.

One of the risks -- I mean, when you guys sit down at night, everything is going well. What do you talk about is what curveballs do we have to watch out for? Is it a rate environment that changes quickly without anybody really expecting it? Is it complacency? What are some of the risks that you guys think about?

Brian Moynihan

Well, you have wars and hopefully, a resolution of one that's just happening as we speak. But you have wars, you have trade wars, et cetera, that bothers. You have the availability of resource around the world, whether it's physical resource or human resource to do work, it’s shortages of that because unemployment rates a lot of countries are pretty low. And so can you get the productivity to keep growing the economy, but all the usual things.

But if you think about it, Gerard, just to be clear, we've seen a 15-year run from after the pandemic -- excuse me, after the financial -- global financial crisis or more, year run where you've seen constantly improving our credit statistics that then interrupted in the pandemic a little bit and then because the stimulus dropped down again and now it's back to normal, but that's a long-term trend.

So it's not complacency. It's just that how much leverage is building up in the system that there will be difficulties with, either at the household level, at the company level. And then a lot of it's outside the banking system. So we worry about that and how it reverberates into the banking system because just leverage that exists out there that at higher levels than we traditionally have given in the banking system still affect us because that means if people can't carry it, there'll be restructuring of companies and bankruptcies and things like that, which are going on today, but they're going on a level which is very manageable.

So we worry about all those things and the federal debt levels and the pinch that will come out of state and federal spending if they have to -- they need to slow down the growth. All those things are factors which we think about. And the way we manage the company is to run it so that given those events, we can continue to operate. And that's why the stress testing, quite frankly, is a good thing because it makes you think about the parade of horribles happening, even though they don't happen and make sure that you are positioned to survive them.

And if you said to the question Alastair answered, one of the big impacts across time here in the banking industry is because the top 30 institutions are doing stress testing, which assumes that you're wrong in your underwriting and the economy goes from 4% employment, 10% employment overnight -- unemployment overnight. Think about the impact of that on bringing the underwriting narrower so that you can afford that capital that you have to hold for that outcome, even though that outcome hasn't occurred. That's going across a big portion of the banking industry.

So I just think it's more fundamentally structured, but leverage is going to be the issue it always is, and you're always trying to find the P. Where is the excess leverage and how do you make sure you're avoiding it.

Gerard Cassidy

No, that's very helpful. And Alastair, I liked your comment about when you're talking about the 17 financial centers that you're a growth company, hopefully, that will be reflected in the P/E shortly.

Alastair Borthwick

Well, there's plenty of room on the P/E multiple, but I'll let you work on that, Gerard. We'll work on our part.

Operator

And we'll take our final question from Betsy Graseck with Morgan Stanley.

Betsy Graseck

So Brian, here's the question. Small business optimism is up, and you've got a flat curve at the front end and -- and so I'm kind of wondering how that feeds into C&I demand? And I'm wondering what your conversations with not only small business, mid-business corporates, it'd be really interesting to hear how you think they're preparing for this change?

Brian Moynihan

Sure, Betsy. So small business small, medium-sized businesses. So in our business banking category and -- we have Small Business, Business Banking, we have Global Commercial Bank, you think Middle Market. Across that environment, the draw rates and lines of credit stuff are still much lower than they were in a pre-pandemic and things like that.

And to your point, the higher interest rate environment affects them most quickly and importantly because they use lines of credit to do things. Buy a piece of equipment, hire some more people when the payroll dynamics of that, whatever it is. And they might permanently finance that, but immediately, they use lines. And the draw rate's 400 basis points over where it normally runs, so to speak, which means that they're drawing at less rate, and that probably means they're doing a little less. And so we haven't seen that move a lot. That's a to-come in terms of loan growth, as Alastair mentioned earlier.

But their optimism has changed, and you saw that -- and that's really around the other things when you talk to our small business customers, and we made make these points to people in Washington is the over the regulation, the impact, the -- it's hard to do business, hard to get things done. The rules coming out. They don't have the big staffs that we do, and other companies do, that can deal with all that. And so it all confuses, it slows them down and makes them hesitate.

Their belief is that that's changed. And that's why you see the optimism come up, and then we got to translate that optimism into activity, and then you'll see the loan growth come. But I think it was -- it's a quick change, and it's based on their view of how easy it will be for them to get things done both at state and federal level.

Betsy Graseck

Yes, I'm just looking at you, Bank of America is one of the few that actually had small business loan growth year-on-year. And I know a lot of that came a couple of quarters ago. But with this very sharp increase in small business optimism, I would think that could potentially be something you could benefit from?

Brian Moynihan

No question. And so but the real dollar volume of benefit is going to be -- the small business loans, I think grew -- have been growing quarter after quarter year-over-year for a good chunk at a time now. And we feel good about that. But the dollar volume change in the middle market business from a little more drawing on the lines consistent with what people have done before is a lot of loan balance, there's $200 billion of balances in that business. So it doesn't take a lot to kick it up.

Betsy Graseck

Right. I got that.

Brian Moynihan

So I think, look, we're the largest lender to small business. And those customers tell us they're optimistic and they see forward. And the issues were -- I couldn't get enough people, and that's something we got to be careful of. The regulations were hurting me. And then the interest rates and the interest rate is coming down a little bit, helps them and the other two, the strong belief is that will be more readily available.

Operator

And it does appear that there are no further questions at this time. I would now like to turn it back to Brian for any additional or closing remarks.

Brian Moynihan

Sure. Well, thanks, everyone, for joining us today. We finished 2024 with good momentum as we enter '25. The economy is resilient and healthy. The consumers continue to spend a solid and healthy rate. The employment levels are strong. The asset quality we can see is very good. Our loans have now grown for several quarters in a row here. Deposits have grown for 6 straight quarters. The rate environment continues to be constructive. And then the added value in the last couple of quarters is the fee business have come on strong, given the extra market activity.

All that sets us up well for 2025. Thank you for your support. We look forward to talking to you next time.

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