FitchRatings

Fitch Upgrades Bank of America's LT IDR to 'A+'; Outlook Stable

Fitch Ratings-Chicago-21 June 2018: Fitch Ratings has upgraded Bank of America Corporation's (BAC) Long-Term Rating (IDR) to 'A+' from 'A' and affirmed the short-term IDR at 'F1.' The Rating Outlook is Stable.

The rating action has been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Banks (GTUBs).

KEY RATING DRIVERS

IDRs, VR, SENIOR DEBT

BAC's rating upgrade was primarily driven by a sustained and improved risk adjusted earnings profile that has converged to higher-rated peers. Further, Fitch view BAC's risk appetite as materially improved since the financial crisis, and lower relative to many of its peers. The company's strong and improved franchise, and liquidity position and solid capital ratios are also reflected in the ratings.

BAC's ratings at their revised level are also supported by the strength of its domestic franchise reflecting a strong consumer banking and deposit franchise, its capital markets business, particularly debt underwriting, and its strong wealth management segment. BAC retains leading or near leading market shares in many categories, including retail deposits, mortgage originations, home equity and small business lending, U.S. wealth management, debt underwriting, and global research. Fitch believes that BAC is positioned well for the evolving digitization of the banking industry, and spending commensurately with this banking evolution.

BAC's liquidity position is a ratings strength that is supported by its retail deposit base. Over the past few years, BAC has reported the highest deposit growth of all U.S. banks demonstrating the strength of the bank's deposit franchise. BAC has the highest percentage of deposits to total funding relative to its U.S. peers and it has top three market share in states that comprise nearly 90% of its deposits. This market share strength translates into relatively low cost of deposits, with Fitch estimated realized deposit beta of just 16% to date, stronger than its U.S. GTUB peers and in line with the large regional average. Further, while its LCR is below the GTUB peer group average, we believe there is a higher level of retail deposits underpinning its funding profile. In addition, Fitch believes that the European bank balance sheets are less constrained by leverage requirements and can hold incremental liquidity with less significant capital consequences.

BAC's capital position remains solid for the company's rating level, though the Basel III Common Equity Tier 1 ratio (CET1) and the Fitch Core Capital ratio are below that of peer averages. Fitch attributes this in part to higher RWA density, which was the second highest in the GTUB peer group at March 31, 2018. Fitch notes that BAC's level of operational risk RWA is the highest in absolute and percentage terms, though RWA under both Standardized and Advanced Approaches are now essentially equal to one another. Based on the tangible common equity to tangible assets ratio, BAC had the highest ratio at year-end of the peer group. Even adjusting for netting differences between US GAAP and IFRS, BAC reports the strongest leverage ratio among the GTUBs, at year-end 2017.

Fitch continues to believe that credit metrics for BAC and the rest of the industry remain at or near cyclical troughs. In 1Q18, BAC's overall net charge-off (NCO) ratio remained low at 40 basis points, below that of JPM and Citi. While BAC's level of impaired loans to total loans is higher than the peer average, Fitch placed more emphasis on some of the complementary metrics given how U.S. banks account for troubled debt restructurings (TDRs). Fitch also looks at its core impaired loans ratio excluding accruing TDRs, which makes the ratio more comparable to international peers and more reflective of the bank's current asset quality. In addition, BAC compares well to peers on asset quality complementary metrics, notably the growth of total loans and loan impairment charges.

While BAC's overall earnings profile currently lags some higher-rated U.S. large regional bank peers and is less consistent, Fitch notes that there are certain regulatory rules that will continue to apply to BAC that will not apply to the large regional banks or likely will be applied, done so in a less onerous manner. As such, higher capital and liquidity requirements for BAC provide an added layer of creditor protection relative to less burdensome rules for smaller banks, and lend support to BAC's ratings.

We also note that BAC, along with many of its peers, continues to report one-time items, which has contributed to greater volatility in earnings for BAC relative to some peers. Today's rating action incorporates the previously disclosed estimated $800 million charge that BAC will take in 2Q18 related the redemption of higher cost trust preferred securities. BAC has yet to disclose its long-term earnings target since the tax legislation was passed, though Fitch notes that the company has forecasted the second lowest effective tax rates among its U.S. GTUB peers for 2018. Fitch also expects that BAC will report more consistent earnings in the future, which is in line with an improving trend in the consistency of earnings over time.

Fitch recognizes that asset quality will likely deteriorate from current levels which Fitch views as unsustainable.. However, Fitch believes that mean reversion over time is expected and incorporated in the current ratings. Fitch expects that BAC will maintain what it views to be a lower risk appetite and will continue to focus on its stated "responsible growth" in managing its company.

DERIVATIVE COUNTERPARTY RATING

The Derivative Counterparty Rating (DCR) of the parent company is equalized with the long-term IDR.

The DCRs of Bank of America, Bank of America, N.A, Bank of America Merrill Lynch International Ltd, Merrill Lynch International, and Bank of America Merrill Lynch International Bank Designated Activity Company are equalized with the long-term IDRs of those entities because they have no definitive preferential status over other senior obligations in a resolution scenario and therefore their ratings will move in line with their respective IDRs. These ratings have been assigned because they either have significant derivatives activity or are counterparties to Fitch-rated structured finance transactions.

SUBSIDIARY AND AFFILIATED COMPANY

The Viability Ratings (VRs) remain equalized between BAC and its material operating subsidiaries. The common VR of BAC and its operating companies reflects the correlated performance or failure rate between BAC and these subsidiaries.

However, the Long-Term IDRs for the material U.S. operating entities are rated one notch higher than BAC's Long-Term IDR to reflect Fitch's belief that the U.S. single point of entry (SPE) resolution regime, the implementation of total loss absorbing capacity (TLAC) requirements for U.S. global systemically important banks (G-SIBs), and the presence of substantial holding company debt reduces the default risk of domestic operating subsidiaries' senior liabilities relative to holding company senior debt. These entities include: Bank of America, N.A. and Merrill Lynch, Pierce, Fenner, & Smith. BofAML Securities, Inc. expected ratings reflect the presence of a qualifying junior debt buffer, and that this buffer is sufficient to protect BofAML Securities' obligations from default in case of BAC's failure.

The 'F1' Short-Term IDRs of BAC and its non-bank operating companies reflect Fitch's view that there is less surplus liquidity at these entities than at the bank, particularly given their greater reliance on the holding company for liquidity. The operating companies short-term IDR of 'F1+' map to its 'AA-' long-term IDR.

MATERIAL INTERNATIONAL SUBSIDIARIES

Merrill Lynch International (MLI), Merrill Lynch B.V., BAC Canada Finance, Merrill Lynch Japan Finance GK, and Merrill Lynch Japan Securities Co. Ltd. are wholly owned subsidiaries of NB Holdings Corporation (BAC's intermediate holding company) whose IDRs and debt ratings are aligned with BHC's because of their core strategic role in and integration into the BHC group.

BofA Canada Bank, Bank of America Merrill Lynch International Limited (BAMLI), Bank of America Merrill Lynch International Designated Activity Company are wholly owned subsidiaries of Bank of America, N.A. whose IDRs and debt ratings are aligned with BHC's because of their core strategic role in and integration into the BHC group.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating (SR) and Support Rating Floor (SRF) for BAC reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that BAC becomes non-viable. In Fitch's view, implementation of the Dodd Frank Orderly Liquidation Authority legislation is now sufficiently progressed to provide a framework for resolving banks that is likely to require holding company senior creditors participating in losses, if necessary, instead of or ahead of the company receiving sovereign support.

BAC's international entities have an institutional support rating of '1', which is reflective of Fitch's view of institutional support for the entities. This includes: Merrill Lynch International, Bank of America Merrill Lynch International Bank Designated Activity Company, Merrill Lynch B.V., BAC Canada Finance, Merrill Lynch Japan Finance GK, and Merrill Lynch Japan Securities Co., Ltd.
SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital issued by BAC are all notched down from the common VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

BAC's subordinated debt is one notch down from BAC's VR, its preferred stock is five notches from the VR, which encompasses two notches for non-performance and three notches for loss severity, and BAC's trust preferred securities is four notches from the VR, encompassing two notches for non-performance and two notches for loss severity.

Subordinated debt issued by the operating companies is rated at the same level as subordinated debt issued by BAC reflecting the potential for subordinated creditors in the operating companies to be exposed to loss ahead of senior creditors of BAC.

DEPOSIT RATINGS

Deposit ratings are one notch higher than senior debt ratings reflecting the deposits' superior recovery prospects in case of default given depositor preference in the U.S. BAC's international subsidiaries' deposit ratings are at the same level as their senior debt ratings because their preferential status is less clear and disclosure concerning dually payable deposits makes it difficult to determine if they are eligible for U.S. depositor preference.

RATING SENSITIVITIES
VR, IDRs, SENIOR DEBT

At BAC's new ratings level, Fitch envisions limited further ratings upside over the near term. However, if BAC were to meaningfully increase its earnings profile and demonstrate a better than peer stability in earnings, coupled with maintaining a low risk appetite and solid capital ratios, ratings upside could be possible. This would likely be evidenced by better than peer performance under a future economic downturn, for example.

Ratings would be sensitive to BAC materially increasing its risk appetite. This would be measured through various indicators, including, but not limited to: the level and trend in trading assets, the trend in VaR, market risk RWA, early stage delinquencies, and leveraged lending volumes originated.

This rating action today assumes that BAC would maintain liquidity and capital levels at elevated levels relative to smaller similarly-rated U.S. banks, as the company's liquidity and capital are constrained by either resolution planning requirements, liquidity regulations, and/or annual stress testing. As such, downward pressure would be prompted by inadequate internal buffers over regulatory minimum capital and liquidity levels over several quarters.

Downside risks to ratings include any remaining litigation exposures or other unforeseen charges that result in a significant net earnings loss, such that the company's Fitch Core Capital, regulatory or tangible capital ratios begin to meaningfully decline over a multi-quarter period.

Additionally, Fitch expects some credit deterioration across BAC's credit portfolio given the current low point in the credit cycle. Fitch continues to believe that this eventual credit deterioration will be absorbed within the context of the company's current earnings performance. However, if BAC's overall credit quality materially deteriorates beyond peer averages and results in consecutive quarters of a net loss, or the company experiences a severe and unexpected risk management failure, this could lead to a revision in the Outlook back to Negative or potentially a downgrade to the VR.

Fitch expects that BAC, and its peers, remain vulnerable to objections to annual capital plans for qualitative reasons. If this were to occur, it would not likely impact BAC's ratings as Fitch believes qualitative objections reflect regulators' increased expectations of the regulators of the largest banks.

DERIVATIVE COUNTERPARTY RATING

DCRs are primarily sensitive to changes in the respective issuers' long-term IDRs. In addition, they could be upgraded to one notch above the IDR if a change in legislation creates legal preference for derivatives over certain other senior obligations and, in Fitch's view, the volume of all legally subordinated obligations provides a substantial enough buffer to protect derivative counterparties from default in a resolution scenario.

SUBSIDIARY AND AFFILIATED COMPANY

All U.S. bank subsidiaries carry a common VR, regardless of size, as U.S. banks are cross-guaranteed under the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA). Thus subsidiary ratings would be sensitive to any change in BAC's VR. Other subsidiary ratings would be sensitive to the same factors that might drive a change in BAC's IDR.

BofAMLS's expected ratings will convert to final ratings upon final receipt of the remaining key regulatory approvals and further capital injections. Ratings may also be impacted in the event that BofAMLS is unable to receive the key regulatory approvals, BofAMLS is not named as a MLE in the next resolution plan, it fails to be sufficiently capitalized, or most current MLPFS institutional clients do not novate their accounts to this entity.

MATERIAL INTERNATIONAL SUBSIDIARIES

These entities' ratings are sensitive to the same factors that might drive a change in BAC's IDRs.

SUPPORT RATING AND SUPPORT RATING FLOOR

Support ratings would be sensitive to any change in Fitch's view of U.S. sovereign support. However, since support ratings were downgraded in May 2015, there is unlikely to be any change to support ratings.

BAC's international entities' Support Rating of '1' is sensitive to any change in Fitch's views of potential institutional support for these entities.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid ratings are primarily sensitive to any change in BAC's VR.

DEPOSIT RATINGS

BAC's deposit ratings are sensitive to any change in the IDRs.

Fitch has taken the following rating actions:

Bank of America Corporation
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Derivative Counterparty Rating upgraded to 'A+(dcr)' from 'A(dcr)';
--Long-Term senior debt upgraded to 'A+' from 'A';
--Long-Term subordinated debt upgraded to 'A' from 'A-';
--Short-Term IDR affirmed at 'F1';
--Short-Term debt affirmed at 'F1';
--Viability Rating upgraded to 'a+' from 'a';
--Preferred stock upgraded to 'BBB-' from 'BB+';
--Support affirmed at '5';
--Support floor affirmed at 'NF'.

Bank of America N.A.
--Long-Term IDR upgraded to 'AA-' from 'A+'; Outlook Stable;
--Long-Term senior debt upgraded to 'AA-' from 'A+';
--Derivative Counterparty Rating upgraded to 'AA-(dcr)' from 'A+(dcr)';
--Long-Term subordinated debt upgraded to 'A' from 'A-';
--Short-Term IDR upgraded to 'F1+' from 'F1';
--Short-Term debt upgraded to 'F1+' from 'F1';
--Long-Term deposit rating upgraded to 'AA' from 'AA-';
--Short-Term deposits affirmed at 'F1+';
--Viability Rating upgraded to 'a+' from 'a';
--Support affirmed at '5';
--Support floor affirmed at 'NF'.

Bank of America California, National Association
--Long-Term IDR upgraded to 'AA-' from 'A+'; Outlook Stable;
--Short-Term IDR upgraded to 'F1+' from 'F1';
--Viability Rating upgraded to 'a+' from 'a';
--Support affirmed at '5';
--Support floor affirmed at 'NF'.

Merrill Lynch & Co., Inc.
--Long-Term senior debt upgraded to 'A+' from 'A';
--Long-Term subordinated debt upgraded to 'A' from 'A-';
--Short-Term debt affirmed at 'F1'.

Merrill Lynch, Pierce, Fenner & Smith, Inc.
--Long-Term IDR upgraded to 'AA-' from 'A+'; Outlook Stable;
--Short-Term IDR upgraded to 'F1+' from 'F1.'

BofA Canada Bank
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Long-Term senior debt upgraded to 'A+' from 'A';
--Long-Term subordinated debt upgraded to 'A' from 'A-';
--Short-Term IDR affirmed at 'F1'.

Bank of America Merrill Lynch International Designated Activity Company (formerly known as Merrill Lynch International Bank Designated Activity Company)
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Derivative Counterparty Rating upgraded to 'A+(dcr)' from 'A(dcr)';
--Short-Term IDR affirmed at 'F1';
--Support affirmed at '1'.

Bank of America Merrill Lynch International Limited
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Derivative Counterparty Rating upgraded to 'A+(dcr)' from 'A(dcr)';
--Short-Term IDR affirmed at 'F1'.

Merrill Lynch International
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Derivative Counterparty Rating upgraded to 'A+(dcr)' from 'A(dcr)';
--Short-Term IDR affirmed at 'F1';
--Support affirmed at '1'.

Merrill Lynch B.V.
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Long-Term senior debt upgraded to 'A+' from 'A';

--Support affirmed at '1'.

BofAML Securities, Inc.
--Long-term IDR upgraded to 'AA-(EXP)' from 'A+(EXP)'; Outlook Stable;
--Short-term IDR upgraded to 'F1+(EXP)' from 'F1(EXP)'.

Merrill Lynch & Co., Canada Ltd.
--Short-Term IDR affirmed at 'F1';
--Short-Term debt affirmed at 'F1'.

BAC Canada Finance Co.
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Short-Term IDR affirmed at 'F1';
--Support affirmed at '1'.

Merrill Lynch Japan Finance GK.
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Long-Term senior debt upgraded to 'A+' from 'A';
--Short-Term IDR affirmed at 'F1';
--Short-Term debt affirmed at 'F1';
--Support affirmed at '1'.

Merrill Lynch Japan Securities Co., Ltd.
--Long-Term IDR upgraded to 'A+' from 'A'; Outlook Stable;
--Short-Term IDR affirmed at 'F1';
--Support affirmed at '1'.

Merrill Lynch S.A.
Countrywide Financial Corp.
Countrywide Home Loans, Inc.
LaSalle Funding LLC
BofA Finance, LLC
--Long-Term senior debt upgraded to 'A+' from 'A'.

FleetBoston Financial Corp
--Long-Term subordinated debt upgraded to 'A' from 'A-'.

NationsBank Corp
--Long-term senior unsecured upgraded to 'A+' from 'A';
--Subordinated debt upgraded to 'A' from 'A-'.

BAC Capital Trust XIII, XIV, XV
Countrywide Capital III

Merrill Lynch Capital Trust I
--Trust preferred securities upgraded to 'BBB' from 'BBB-'.

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018) (https://www.fitchratings.com/site/re/10023430)

Additional Disclosures

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