FitchRatings

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Fitch Upgrades Bank of America IDRs to 'AA-'/'F1+' on Franchise and Strategy Execution

Fitch Ratings - Chicago - 07 Jun 2021: Fitch Ratings has upgraded Bank of America Corporation's (BAC) Long- and Short-Term Issuer Default Ratings (IDRs) to 'AA-'/'F1+' from 'A+'/'F1'. In addition, Fitch has upgraded BAC's stand-alone Viability Rating (VR) to 'aa-' from 'a+'. The Rating Outlook is Stable.

With today's upgrade, BAC is now one of the highest rated banks in Fitch's global universe. The upgrade has been driven by Fitch's view of BAC's robust retail and commercial franchises, which have been further strengthened throughout the pandemic. Furthermore, the upgrade reflects Fitch's belief that BAC's steady strategy of responsibly growing the franchise over the last number of years will result in relatively lower credit costs and strong, consistent earnings performance that meaningfully protect its capital base.

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Bank of America Corporation	LT IDR	AA-	Upgrade		A+
	ST IDR	F1+	Upgrade		F1
	Viability	aa-	Upgrade		a+
	Support	5	Affirmed		5
	Support Floor	NF	Affirmed		NF
	DCR	AA-(dcr)	Upgrade		A+(dcr)
• subordinated	LT	A	Upgrade		A-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	LT	AA-	Upgrade		A+
• preferred	LT	BBB+	Upgrade		BBB
• senior unsecured	ST	F1+	Upgrade		F1
BAC Capital Trust XIII					
• preferred	LT	BBB+	Upgrade		BBB
Merrill Lynch Japan Finance GK	LT IDR	AA-	Upgrade		A+
	ST IDR	F1+	Upgrade		F1
	Support	1	Affirmed		1
• senior unsecured	LT	AA-	Upgrade		A+
• senior unsecured	ST	F1+	Upgrade		F1
BAC Capital Trust XIV					

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• preferred	LT	BBB+	Upgrade		BBB
Bank of America Europe Designated Activity Company	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+
	Support	1	Affirmed		1
	DCR	AA(dcr)	Upgrade		AA-(dcr)
• senior unsecured	ST	F1+	Affirmed		
• short-term deposits	ST	F1+	Affirmed		
BofA Securities, Inc.	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+
• senior unsecured	ST	F1+	Affirmed		F1+
BAC Canada Finance	LT IDR	AA-	Upgrade		A+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Company					
	ST IDR	F1+	Upgrade		F1
	Support	1	Affirmed		1
Countrywide Financial Corporation					
• senior unsecured	LT	AA-	Upgrade		A+
BofA Securities Europe SA	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+
Bank of America, N.A.	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+
	Viability	aa-	Upgrade		a+
	Support	5	Affirmed		5
	Support Floor	NF	Affirmed		NF
	DCR	AA(dcr)	Upgrade		AA-(dcr)
• senior unsecured	LT	AA	Upgrade		AA-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• subordinated	LT	A+	Upgrade		A
• long-term deposits	LT	AA+	Upgrade		AA
• short-term deposits	ST	F1+	Affirmed		F1+
• senior unsecured	ST	F1+	Affirmed		F1+
Merrill Lynch, Pierce, Fenner & Smith, Incorporated	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+
BAC Capital Trust XV					
• preferred	LT	BBB+	Upgrade		BBB
Merrill Lynch International	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+
	Support	1	Affirmed		1

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	DCR	AA(dcr)	Upgrade		AA-(dcr)
FleetBoston Financial Corp.					
• subordinated	LT	A	Upgrade		A-
Merrill Lynch & Co., Inc.					
• subordinated	LT	A	Upgrade		A-
• senior unsecured	LT	AA-	Upgrade		A+
• senior unsecured	ST	F1+	Upgrade		F1
LaSalle Funding LLC					
• senior unsecured	LT	AA-	Upgrade		A+
BofA Securities Japan Co., Ltd.	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Support	1	Affirmed		1
BofA Finance, LLC					
• senior unsecured	LT	AA-	Upgrade		A+
Bank of America California, National Association	LT IDR	AA	Upgrade		AA-
	ST IDR	F1+	Affirmed		F1+
	Viability	aa-	Upgrade		a+
	Support	5	Affirmed		5
	Support Floor	NF	Affirmed		NF
Merrill Lynch B.V.	LT IDR	AA-	Upgrade		A+
	Support	1	Affirmed		1
• senior unsecured	LT	AA-	Upgrade		A+
NationsBank Corp.					

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• subordinated	LT	A	Upgrade		A-
• senior unsecured	LT	AA-	Upgrade		A+
Countrywide Home Loans, Inc.					
• senior unsecured	LT	AA-	Upgrade		A+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Key Rating Drivers

IDRs, VR, SENIOR DEBT

At their higher level, BAC's ratings are supported by the strength of its domestic and global franchise. The firm continues to hold leading or near-leading market shares in many categories across all of its segments. This includes leading market share in domestic retail deposits and small business lending within Consumer Banking, and a top market position in client assets, deposits and loans within Global Wealth and Investment Management, and strong positioning in debt underwriting and global research in Global Markets. Moreover, Fitch believes that BAC is very well-positioned for the ongoing advancement of digitization within the financial services industry, and has the capacity to invest sufficiently in order to maintain market leadership.

Today's upgrade also supports Fitch's view of the firm's steady strategy and strong execution. While management has refrained in recent years from publicly disclosing longer-term return targets, Fitch notes that firm actions consistently align with its creditor-friendly "responsible growth" strategy, which has been in place for a number of years. This is evidenced by lower than industry loan growth, its diverse, high quality loan portfolio and less volatile capital markets revenues from quarter to quarter.

Fitch recognizes that BAC's overall earnings generally lag those of similarly rated peers, especially at its now higher rating level. Moreover, the firm's efficiency has deteriorated modestly over the last year due to lower rates and loan balances pressuring overall revenue. Coupled with higher provisions that added around $7 billion to its allowance for credit losses and pandemic-related expenses, BAC's 2020 benchmark operating profit to standardized risk-weighted assets (RWAs) was 1.3%, its lowest level in many years.

Still, Fitch expects BAC's performance to revert to near pre-pandemic levels in the near-to-medium term as excess liquidity is deployed into the firm's securities portfolio, or modest loan growth, and reserve releases continue. However, the bank's asset sensitive positioning may keep pressure on spread revenue until short-term rates explicitly rise. Importantly, Fitch has incorporated into BAC's rating its expectations that benchmark earnings performance will generally fall below that of other highly rated banks in Fitch's universe. However, Fitch also expects that the firm will report consistent, diverse earnings going forward, particularly due to its lower risk appetite compared to peers.

In regards to credit quality, Fitch believes BAC's current and expected level of impaired loans to gross loans is reasonable relative to its rating. Fitch continues to view BAC's exposure to the most vulnerable sectors impacted by the longer-term implications of the pandemic as modest in the context of capital including commercial real estate, which represents under 30% of risk-based capital. Moreover, exposure to consumer asset classes are considered high quality, relationship based and likely to result in lower credit loss content compared to peers.

Today's upgrade also incorporates Fitch's view BAC will continue to manage capital levels well above regulatory minimums and in line with its 'aa-' VR. The firm's regulatory CET1 ratio increased 100 bps yoy to 11.8% at 1Q21 due to a pause of share repurchases, reasonable earnings performance, as well as modestly lower standardized RWAs.

Meanwhile, its reported supplementary leverage ratio has benefited from regulatory relief on the exclusion of central bank deposits and U.S. Treasuries, which expired at the end of 1Q21. Thus, Fitch expects reported capital ratios to trend down due to modestly higher shareholder distributions, primarily via share buybacks, as well as the expiration of temporary leverage ratio relief. However, BAC's rating reflects the view risk-weighted and leverage-based capital levels will remain strong over the rating time horizon and well-above regulatory minimums. Furthermore, the ratings reflect BAC's good performance under regulatory stress testing, which results in a relatively lower stress capital buffer compared to peers.

Fitch continues to view BAC's funding flexibility and access to the capital markets as a rating strength. Given the scope of the company's activities, BAC is visible in virtually all major funding markets and has been able to demonstrate ready and cost-effective access for its liquidity needs. Further, BAC continues to have the highest percentage of deposits to total funding relative to its U.S. peers, and its robust national market share, which has strengthened even further during the pandemic, translates into relatively low cost of deposits, which should give it a competitive advantage when rates begin to move upward.

DOMESTIC SUBSIDIARY AND AFFILIATED COMPANY

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

The Long-Term IDRs for the material U.S. operating entities are rated one notch higher than BAC's 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. (BANA), Bank of America California, National Association, Merrill Lynch, Pierce, Fenner, & Smith, Inc., and BofA Securities, Inc.

MATERIAL INTERNATIONAL SUBSIDIARIES

Merrill Lynch International (MLI), BofA Securities Europe SA (BoASE) and BofA Securities Japan Co. Ltd (BoASJ) are operating subsidiaries of BAC. For foreign operating companies, uplift to IDRs may be applied on the basis of accepted resolution plans that identify key foreign subsidiaries to be beneficiaries of intra-group resources, among other factors. MLI, BoASE and BoASJ meet this criterion, and as such, have received uplift on their IDRs above BAC's.

Bank of America Europe Designated Activity Company (BoAE DAC) is a subsidiary of BANA, which already received a one-notch uplift above BAC as noted above. Per Fitch's Bank Rating Criteria, where the Long-Term IDR of an operating company has been notched up, its IDR will serve as the anchor rating for the IDRs of highly integrated international subsidiaries on the basis of accepted resolution plans that identify key foreign subsidiaries to be beneficiaries of intra-group resources, among other factors. BoAE DAC meets this criteria and as such, its IDRs are equalized with BANA's.

Merrill Lynch B.V., Merrill Lynch Japan Finance GK, and BAC Canada Finance Co. IDRs and debt ratings are aligned with BAC's VR, reflecting their core strategic role in and integration into the group.

Holding Company

The firm's intermediate holding company (IHC), NB Holdings Corp (NBHC), is meant to improve the resolvability of BAC. Under this structure, BAC's holding company has contributed substantial liquidity and capital to IHC, which it will then hold for the benefit of material entities.

The IHC does not have third-party debt. Instead, it channels capital and liquidity among material entities as, and when, required to supplement pre-positioned resources at these entities. The firm has entered into a contractually binding support agreement between the parent companies and material legal entities to ensure resources will be promptly and directly provided to the right entities in resolution.

This structure is designed to prevent capital and liquidity provided by IHC from becoming unduly trapped in any legal entities, thus improving the likelihood of an orderly resolution. A committed credit facility from IHC is in place to supplement dividends from IHC and BAC, allowing liquidity to flow to the holding company under business as usual (BAU) terms in order to service holding company obligations.

The structure has resulted in holding company double leverage above 120%, which is a sensitivity outlined in the criteria that would typically result in additional notching between BAC and its operating subsidiaries. However, Fitch believes specific protections within the legal structure make it appropriate to look through the IHC when calculating double leverage and will provide for uninterrupted liquidity availability from the IHC under BAU. Additionally, Fitch believes that core double leverage, or double leverage assuming the IHC did not exist, will remain below 120%.

DERIVATIVE COUNTERPARTY RATING

The DCRs of BANA, MLI, and BoASE DAC 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.

SUPPORT RATING AND SUPPORT RATING FLOOR

BAC's Support Rating (SR) and Support Rating Floor (SRF) 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, Dodd Frank Orderly Liquidation Authority legislation provides a framework for resolving banks that are 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 reflects Fitch's view of institutional support for the entities. This includes MLI, BoAE DAC, Merrill Lynch B.V., BAC Canada Finance, Merrill Lynch Japan Finance GK, and BoASJ.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

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

BAC's subordinated debt rating reflects the baseline notching for loss severity of two notches from the VR. Fitch believes that the loss severity of subordinated debt of BANA is reduced by the presence of the holding company and TLAC and the approach Fitch expects authorities to take for resolution/restructuring. Therefore, Fitch has applied alternative notching to BANA's subordinated debt rating to one-notch from its VR. This reflects one notch for loss severity and no notches for non-performance.

BAC's preferred stock rating is four notches down from the VR, which encompasses two notches for non-performance and two 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. This is according with Fitch's Bank Rating Criteria.

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.

RATING SENSITIVITIES

IDRs, VRs AND SENIOR DEBT

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--At its current rating level, BAC is among the highest rated banks in the world. Fitch does not see further ratings upside given the firm's overall complexity, despite expected solid performance through time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Fitch recognizes that economic uncertainty remains related to pandemic and the measures that have been taken by governments and central banks have aided in bank performance, broadly. As the impact of these measures wanes, Fitch is sensitive to BAC's financial performance and credit quality, which are expected to be strong at its new rating level. As such, negative pressure could be placed on BAC's ratings and/or Outlook if there is evidence of outsized deterioration in the level and volatility of earnings and credit quality relative to peers.

Negative pressure could be placed on BAC's ratings and/or Outlook if its Common Equity Tier 1 (CET1) were to decline to its most recent stress capital buffer minimum without a credible plan to rebuild it above could also pressure ratings. Moreover, although not expected, the firm's rating and/or Rating Outlook would be sensitive to the firm's SLR nearing or falling below 5%.

BAC's ratings would be sensitive to any material governance deficiencies or risk management weaknesses that expose the bank to heightened reputational risk or regulatory scrutiny. Fitch notes that the bank is currently not subject to any public regulatory enforcement actions. BAC's ratings would also be pressured if its global markets businesses post quarterly losses, which could be indicative of weaknesses in risk controls.

DOMESTIC 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.

MATERIAL INTERNATIONAL SUBSIDIARIES

These entities' ratings are sensitive to the same factors that might drive a change in BAC's IDRs or Fitch's view of BAC's ability and propensity to support these international subsidiaries.

Moreover, BAC's international subsidiaries' ratings are also sensitive to those factors described in Annex 2: Rating Banks Above the Sovereign in Fitch's Bank Rating Criteria. Specifically, the Long-Term IDR of BoAJS is now two notches above the sovereign rating of Japan, where it is domiciled. Therefore, BoASJ's rating could become sensitive to the downside if the Japanese sovereign is downgraded.

Holding Company

Although not expected, if specific protections within BAC's legal structure do not hold up, and do not allow for uninterrupted liquidity availability from the IHC under BAU, the holding company's rating could be notched down accordingly. Additionally, if Fitch observes that core double leverage, or double leverage assuming the IHC did not exist, or consistently exceeds 120%, negative rating action could occur.

DERIVATIVE COUNTERPARTY RATINGS (DCRs)

DCRs are primarily sensitive to changes in the respective issuers' Long-Term IDRs. In addition, they could be upgraded 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.

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.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Fitch Ratings Analysts

Bain Rumohr
Senior Director
Primary Rating Analyst
+1 312 368 3153
Fitch Ratings, Inc. One North Wacker Drive Chicago, IL 60606

Christopher Wolfe
Managing Director
Secondary Rating Analyst
+1 212 908 0771

Alan Adkins
Managing Director
Committee Chairperson
+44 20 3530 1702

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Applicable Criteria

Bank Rating Criteria (pub.28 Feb 2020) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

BAC Canada Finance Company	EU Endorsed, UK Endorsed
BAC Capital Trust XIII	EU Endorsed, UK Endorsed
BAC Capital Trust XIV	EU Endorsed, UK Endorsed
BAC Capital Trust XV	EU Endorsed, UK Endorsed
Bank of America California, National Association	EU Endorsed, UK Endorsed
Bank of America Corporation	EU Endorsed, UK Endorsed
Bank of America Europe Designated Activity Company	EU Endorsed, UK Endorsed
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