Q2 2019 Earnings Call

Company Participants

- James Dimon, Chairman & Chief Executive Officer
- Jennifer A. Piepszak, Chief Financial Officer

Other Participants

- Betsy Graseck, Analyst
- Eric Compton, Analyst
- Erika Najarian, Analyst
- Gerard Cassidy, Analyst
- Glenn Schorr, Analyst
- Jim Mitchell, Analyst
- John McDonald, Analyst
- Ken Usdin, Analyst
- Matt O'Connor, Analyst
- Mike Mayo, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2019 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please standby.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon and Chief Financial Officer, Jennifer Piepszak. Ms. Piepszak, please go ahead.

Jennifer A. Piepszak {BIO 19013293 <GO>}

Thank you operator and good morning, everyone. Before I get started, I'd like to thank Marianne for nearly seven years as CFO and for her support of me over many years, but particularly her support during my transition into this role. So, a huge thanks to Marianne.

James Dimon {BIO 1484062 <GO>}

And I just want to add my thanks to Marianne, as you all know, did a great job, smart, honest, thoughtful of making the Company a better company. So all the thanks goes to Marianne, and we also all know that Jennifer did a great job too.

Jennifer A. Piepszak {BIO 19013293 <GO>}

Thank you, Jamie. Okay. So now on to the presentation, which as always is available on our website and we ask that you please refer to the disclaimer at the back of the presentation.

Starting on Page 1, the firm reported record net income of $9.7 billion, and EPS of $2.82 on revenue of $29.6 billion with a return on tangible common equity of 20%. Included in these results are tax benefits of $768 million related to the resolution of a number of tax audits. Adjusting for this as well as a few other notable items that largely offset, we delivered an 18% ROTCE this quarter.

Underlying performance for the quarter was strong with highlights including client investment assets in consumer banking up 16%, largely driven by net new money flows; in card, 11% growth in sales, and 8% growth in outstandings; number one in global IB fees year-to-date; gaining share across all products and regions; steady results in the commercial bank with net income of $1 billion, while continuing to invest in the business; and in asset and wealth management, record long-term inflows, AUM and client assets. Overall for the firm, total loan growth was 2% year-on-year, but down 1% sequentially. Important to note here that these variances include the impact of loan sales and home lending as we continue to optimize our usage of capital and liquidity across the firm. Credit performance remained strong across businesses, and we delivered another quarter of positive operating leverage.

Now on to Page 2 and some more detail about our second quarter results. Revenue of $29.6 billion was up $1.2 billion or 4% year-on-year as net interest income was up approximately $900 million or 7% on balance sheet growth and mix, as well as higher rates. And non-interest revenue was up approximately $300 million year-on-year, largely driven by the absence of the card rewards liability adjustment we felt in the prior year. Excluding that variance and the other offsetting notable items I mentioned, non-interest revenue was about flat with strong performance in consumer across auto lease, home lending production and consumer business banking, offset by lower markets revenue and IB fees as previously guided.

Expenses of $16.3 billion were up 2% related to continued investments in our businesses, partially offset by a reduction in FDIC charges of approximately $250 million. Credit remains favorable with credit costs of $1.1 billion, down 5% year-on-year. In consumer, credit costs of $1.1 billion were flat as higher net charge-offs were offset by net reserve releases. And in wholesale, credit performance remains favorable with the net charge-off rate of 8 basis points, which was fully reserved for in prior quarters. Once again, we do not see any signs of broad-based deterioration across our portfolios, both consumer and wholesale.

Now on to balance sheet and capital on Page 3. We ended the second quarter with the CET1 ratio of 12.2%, up more than 10 basis points versus last quarter. In the quarter, the firm distributed $7.5 billion of capital to shareholders, and as you know the Fed did not object to our 2019 CCAR capital plan. We are pleased to have significant flexibility with gross repurchase capacity of up to $29.4 billion over the next four quarters, and the Board announced its intention to increase the common dividend to $0.90 per share, effective in the third quarter.

Now on to Page 4, consumer and community banking. CCB generated net income of $4.2 billion and an ROE of 31%. Loans were down slightly year-on-year, driven by home lending down 7%, reflecting the loan sales I just mentioned. However, card loan growth was healthy about 8%, business banking loans were up 2%, and auto loans and leases were flat. We saw strong deposit and investment growth year-on-year with deposits up 3%, and client investment assets up 16%, growing across both physical and digital channels. Card sales were up 11% as growth remained strong across key products. And across the franchise, active mobile users were up 12% year-on-year given continued engagement in our new features. For example, customers have opened over 2 million checking and savings accounts digitally, activated over 60 million Chase Offers, and our enrollment in (inaudible) now exceeds 18 million.

Revenue of $13.8 billion, was up 11%. This increase included two notable items that largely offset. First, the current quarter included a negative MSR adjustment in home lending, driven by updates to our model inputs. And in the prior year, as I mentioned, we had a rewards liability adjustment in cards of approximately $330 million. Consumer and business banking was up 11% on higher deposit NII, driven by margin expansion. Home lending was down 17%. Although excluding the MSR adjustment I just mentioned, revenue would have been up 4%, driven by higher net production revenue on better margins and higher volumes, largely offset by lower NII on spread compression and lower balances.

And card, merchant services and auto was up 18%, excluding the previously noted rewards liability adjustment, revenue was up 11%, driven by higher card NII on loan growth and margin expansion, and the impact of higher auto lease volumes. Expenses of $7.2 billion were up 4%, driven by continued investments in the business and higher auto lease depreciation, largely offset by efficiencies and lower FDIC charges. Of note, the overhead ratio was 52% and we delivered significant positive operating leverage.

On credit, this quarter included a reserve release in the home lending purchased credit impaired portfolio of $400 million, reflecting improvement in delinquencies and home prices, which was partially offset by a reserve build in card of $200 million. This was primarily driven by growth, and to a lesser extent mix as the newer vintages naturally season and become a larger part of the portfolio. Net charge-offs were up $212 million. Excluding the recovery on a loan sale in home lending in the prior-year, net charge-offs were up $80 million driven by card as we continue to grow the portfolio.

Now turning to the corporate and investment bank on Page 5. CIB reported net income of $2.9 billion and an ROE of 14% on revenue of $9.6 billion. As a reminder, our performance were particularly strong last year, which featured record or near record revenues in overall

IB fees and equity markets. With that in mind, for the quarter, IB revenue of $1.8 billion was down 9% year-on-year in a market that was also down.

Advisory, debt underwriting and equity underwriting fees were down 16%, 13% and 11% respectively, reflecting lower levels of deal activity as well as a 10-year record share in equity underwriting in the prior year. It's worth noting on a year-to-date basis, we continue to rank number one overall, and have gained share across all products and regions, benefiting from our continued investments and bankers.

In advisory, we grew share and announced deal volumes and announced more deals than any other bank. In debt underwriting, we also ranked number one benefiting from our strong lead-left position in leveraged finance. And in equity underwriting, we've seen significant pickup in activity since the first quarter, and we continue to benefit from our leadership positions in tech and healthcare where there has been robust activity. Looking forward, the overall IB pipeline is healthy though lower compared to the elevated activity we saw last year, and with fewer acquisition financing and refinancing opportunities in debt underwriting. Dialog with clients remains active and we expect strong deal flow to continue.

Moving to the markets, total revenue was $5.4 billion, which was flat year-on-year. Our results include a notable gain in fixed income from the IPO of Tradeweb. Excluding this gain, markets revenue would have been down 6% year-on-year against strong second quarter performance last year. Fixed income markets was down 3% on an adjusted basis with relative weakness in EMEA, partially offset by increased client activity in North America rates and agency mortgage trading due to the changing rate environment. Equity markets was down 12% against a record second quarter last year. Subdued client activity and a tough compare contributed to a year-on-year decline in equity derivatives. That said, cash and prime remained stable with client balances in prime reaching an all-time high.

Treasury services and securities services revenues were $1.1 billion and $1 billion, down 4% and 5% year-on-year respectively with organic growth being more than offset by deposit margin compression. As a reminder, similar to last quarter, deposit margin was primarily impacted by funding basis compression rather than client betas, and at the firm-wide level, there is an offset. Sequentially, treasury services was flat and securities services was up 3% on higher balances and fees. Finally, expenses of $5.5 billion were up 2% compared to the prior year with higher legal expenses, partially offset by lower performance-based compensation expense and the comp-to-revenue ratio for the quarter was 28%.

Now moving on to commercial banking on Page 6. Commercial banking reported net income of $1 billion and an ROE of 17%. Revenue of $2.2 billion was down 5% year-on-year, predominantly driven by lower investment banking activity due to our outperformance last year and lower NII on slightly lower deposit balances. Also worth noting here, gross IB revenue of $1.4 billion was up 8% year-to-date on strong syndicated lending and M&A advisory activity, and we continue to progress solidly toward our long-term $3 billion target.

Deposit balances was down 1% year-on-year, and importantly, up 1% sequentially as balances have largely stabilized in total, although we continue to see migration from non-interest to interest-bearing deposits. Expenses of $864 million were up 2% year-on-year, driven by ongoing investments in banker coverage and technology. Loans were up 1%, and C&I loans came flat or up 3% adjusted for the continued run-off in our tax-exempt portfolio. The story here remains unchanged. We saw solid growth in areas where we've been investing including expansion markets and specialized industries, offset by lower acquisition-related and short-term financing activities. CRE loans were up 2% with modestly higher activity in commercial term lending where clients are taking advantage of lower long-term rates, offset by declines in real estate banking where we continue to be selective, given where we are in the cycle. Finally, credit costs were $29 million with a net charge-off rate of 3 basis points.

Now on to asset and wealth management on Page 7. Asset and wealth management reported net income of $719 million with pre-tax margin and ROE of 27%. Revenue of $3.6 billion for the quarter was flat year-on-year as the impact of higher average market levels was offset by lower investment valuation gains. Expenses of $2.6 billion were up 1% year-on-year as continued investments in advisors and technology were partially offset by lower distribution fees.

For the quarter, we saw record net long-term inflows of $36 billion, driven by fixed income, and we had net liquidity inflows of $4 billion. AUM of $2.2 trillion, and overall client assets of $3 trillion, both records were up 7% driven by cumulative net inflows into long-term and liquidity products as well as higher market levels globally. Deposits were up 2% sequentially, and up 1% year-on-year, and similar to the commercial bank, balances in total have largely stabilized. Finally, we had record loan balances, up 7% with strength in both wholesale and mortgage lending.

Now on to corporate on Page 8. Corporate reported net income of $828 million, including the vast majority of the tax benefits that I mentioned earlier. Revenue was $322 million, up $242 million year-on-year due to higher net interest income, driven by higher rates and balance sheet mix, partially offset by net losses on legacy private equity investments versus net gains in the prior year. And expenses of $232 million were down $47 million year-on-year.

Finally, turning to Page 9 and the outlook. On this page, I'll just comment on NII, which should not be surprising, given the changes to the rate environment. As you can see, we are updating our 2019 full year NII outlook to about $57.5 billion. The reduction is based on multiple scenarios, which assume among other things, lower long-end rates and up to three rate cuts this year, which is consistent with current market sentiment. And as a reminder, this compares to rate scenario that assumes euro cuts at the time of first quarter earnings.

So to wrap up, the US consumer remains healthy, overall credit is in great shape, and the earnings power of the Company in evident. We delivered strong returns in the quarter on the diversification and scale of our business model positions us well to outperform in any environment. Understanding there is some macro uncertainty and potential headwinds from the rate outlook, we still expect to grow the franchise and will continue to strategically invest in our businesses, in technology, bankers and beyond.

And with that, operator please open the line for Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Jim Mitchell of Buckingham Research.

Q - Jim Mitchell {BIO 1972127 <GO>}

Hey, good morning. I noticed that card loan growth was particularly strong this quarter. Just wanted to get a sense as what do you feel is driving that uptick? And do you think -- how sustainable is it at sort of 8% year-over-year growth?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So on card loan growth, we feel very good about what we're seeing there. As we talked about at Investor Day, we have a real opportunity with our existing customers, and we talked about how our existing customers have about $250 billion of borrowing (inaudible) about $100 billion of that is squarely within our existing buyback. So, you can think of this as highly targeted to high quality existing customers, and for the first time, we're actually seeing loan growth in cards as a majority of it coming from existing customers versus new customers. And so we're really shifting the paradigm there, and we feel great about being able to harvest the opportunity that we talked to you about at Investor Day.

Q - Jim Mitchell {BIO 1972127 <GO>}

All right. Should we expect just sort of you to continue to reduce the mortgage footprint in this rate environment?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So on the mortgage business, I would say, it was a good quarter on the back of the rally, and so we did see volumes increase, and we saw some margin expansion as well. And so obviously highly rate dependent, but I would say the structural challenges in that business remain unchanged. And so we continue to focus on optimizing the balance sheet across capital and liquidity. And so looking at loan sales and thinking about de-risking the portfolio from a servicing perspective. So through quarter on the back of the rally, but doesn't change the overall structural challenges.

Q - Jim Mitchell {BIO 1972127 <GO>}

Okay. Thanks.

Operator

Our next question is from Erika Najarian of Bank of America.

Q - Erika Najarian {BIO 17048573 <GO>}

Hi. Good morning.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Hi, Erika.

Q - Erika Najarian {BIO 17048573 <GO>}

Hi. So I just wanted to go back to what you were saying earlier in that your guide -- or your guide lower is including of up to three rate cuts this year, which would suggest to me that your net interest income is quite defensive in the face of rate cuts. I guess my first question is could you give us your primary assumptions for that $500 million swing particularly on deposit pricing?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Okay, sure. So, first of all, I'll take you back to the first quarter where our guidance was $58 billion plus, and we talked about some pressure on the long end at that point. That pressure has persisted, and in fact increased. And so we pulled the impact of the long end through in terms of our outlook. And then on the short end, the range of outcomes are obviously quite broad, and so we thought about a range of outcomes of one to three rate cuts. And so if you think about -- it's one -- if it's one cut $57.5 billion plus, and if it is more, $57.5 billion minus. And then based on current end buys, you can think about the third quarter is being $100 million to $150 million below the second quarter, and then a bit more than that in the fourth quarter, given we would have a full quarter at that point.

And then in terms of on betas, I mean largely speaking, you can think of betas as being symmetric. And so on the consumer side, we saw little reprice on the way up, and so there is not a lot of opportunity on the way down. On the wholesale side, if you look at large institutional businesses like our treasury services and securities services, we are largely at full reprice there, and so there should be opportunity there. And then in places like the commercial bank and asset and wealth management, we are still ahead of what the model would have assumed, but we have started to see reprice pick up there. But importantly, I would say, we're not going to lose any valuable customer relationships over few fixed beta, and so we'll see how it goes.

A - James Dimon {BIO 1484062 <GO>}

It's all embedded in your assumption.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And it's all embedded in...

Q - Erika Najarian {BIO 17048573 <GO>}

Okay. Got it. And just going back to Jim's question, I noticed that investment securities balances continue to go up and mortgage loans were down another 5%. Should we think about this as part of the overall, you were saying optimizing capital and liquidity, and therefore, as we think about it going forward, we could also expect to see perhaps some relief in RWA growth and some relief in the continued reserve release as part of the optimization?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So on the RWA side, yes that is precisely why we're doing it. And so when you see loan sales and home lending, yes, they are offset in securities purchases, which are more efficient from a capital perspective, as well as a liquidity perspectives. So, yes. Having said that on reserves, I mean reserves are not necessarily going to be impacted directly by that, because of course that will depend upon the environment and the mix of the portfolio that remains.

A - James Dimon {BIO 1484062 <GO>}

I would just say our standardized capital ratio is 12.2%, advances 13%, advances obviously far more important though than economic number. It simply does not make sense to own all mortgages, where you can (inaudible) standardize, but you can't securitize.

Q - Erika Najarian {BIO 17048573 <GO>}

Got it. Thank you.

Operator

Our next question comes from Mike Mayo of Wells Fargo.

Q - Mike Mayo {BIO 1494617 <GO>}

Hi. So the efficiency ratio went from 56% to 55% year-over-year. And I guess that's with some accelerated tech spending. So, do you plan to keep this pace of tech spending going and what's the current update on that tech spending? Where is it connecting? Where is it not connecting? Because I think you said, it accelerated for a couple of years and maybe we'd see more results in 2020 and 2021?

A - James Dimon {BIO 1484062 <GO>}

If I could just take that one. So, it's about $11.5 billion today. I think it was a little bit lower last year. We had to stay where we are today for next year with something like $11.5 billion, and I think it's becoming -- always becoming more efficient, but what we really have in tech is something is becoming cheaper all the time. And we're also investing money all the time, which we're going to do regardless of the environment. So we're not going to cut things we're trying to build gain date which are build like My Reward programs and Chase My Loan and the credit journey, because there is a recession or something like that.

So, Daniel Gordon will tell you right now that they think they get more efficient spend and we shouldn't help you to spend where we want, but we will -- we have to spend to win in this business and we're very efficient. We are very cautious about how we spend in technology, and we're going to do it regardless of the environment. And we'll try to be more efficient in tech spend too.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

That's right. And our investments in technology create capacity in terms of productivity to continue to invest, and we talked a lot about AI and machine learning. It's early innings there, and there is a lot that we're going to be able to do to invest there and become more productive, and then cloud, developers can become more productive using the cloud.

A - James Dimon {BIO 1484062 <GO>}

Look, it's amazing. Our forward costs with all the things around the world today are down because of -- effectively for the AI and Big Data and stuff like that. And so it's hard to compete, in fact in You Invest, you look at our client investment asset grew 16%, a portion of its You Invest, and obviously You Invest cost hundreds of million of dollars to build. So you got to put all these things in perspective about how you start making decisions going forward.

Q - Mike Mayo {BIO 1494617 <GO>}

And then follow-up, Jamie you mentioned the environment and all the things taking place in the world. How is the environment now? I mean, on the one hand, you have trade war, you have lower interest rates, you have capital markets, which are down for the big banks. You have a lot of pessimism on the other hand, you highlighted your results. What's -- you know I would think, when you take the temperature of the environment, what's the temperature?

A - James Dimon {BIO 1484062 <GO>}

It's not that bad. Uncertainty is a constant. The one thing in life is you know it's going to be uncertainty going forward. And geopolitical tension is kind of a constant. Those things maybe a little bit higher now than normal, but we -- I think, we see is global growth is north of 3%. You kind of expect United States to be 2.5% this year. The consumer in the United States is doing fine. Business sentiment is a little bit worse, mostly probably driven by trade war.

All right. And you travel around the world. You know that Japan is growing, and Europe is growing a little bit, and Brazil's gone from negative four to zero. A lot of countries have opportunity to expand. They don't have to be great, but they should be doing better (inaudible). So I wouldn't get too pessimistic, wherein obviously, the Fed will react to what the data they are seeing. I would say, it's more important what's going on than just what the Fed does. If Fed's cutting rates, if it's going to recession, that's not a good rate cut. If the Fed actually raises rates, when rates are booming, that's not so bad.

Q - Mike Mayo {BIO 1494617 <GO>}

All right. Thank you.

Operator

Our next question comes from Glenn Schorr of Evercore ISI.

Q - Glenn Schorr {BIO 1881019 <GO>}

Hi, thanks. I'm not sure if I missed it, but I forget, total average loans were up 2% year-on-year, but that was impacted by the loan sales. Can you tell us either size of loan sales or what average loan growth was up year-on-year without that?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So, yeah, a few things going on in loan growth, as you said, Glenn. So we have the loan sales, we also have the run-off of the tax-exempt portfolio. So, you can think about loan growth probably closer to 4% if you adjust for those items. And importantly, as we always say, loan growth is an outcome, not an input. And we feel good about the loan growth that we're seeing in terms of the areas where we're investing. And then, for the full year, you can think about a number if you adjust for the loan sales and ex-CIB of 2% to 3% full-year.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay, I appreciate that. And then, just curious on the non-interest bearing deposits only being down 2% year-on-year, we've seen a lot bigger numbers at some peers. Is that just strength of JPMorgan franchise or are you doing anything actively to manage that lack of mix shift?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

So, as I said, we are seeing balances stabilize in the Commercial Bank and AWM. We are still seeing some migration from non-interest bearing to interest bearing, but largely we're seeing those balances stabilize, and then we do of course have continued growth in the consumer bank. And the second quarter is typically seasonally high in the consumer bank. So we have some growth in non-interest bearing there. And even in the consumer bank where we've seen growth decelerate, that's largely as a result of consumer spending. So, that feels healthy as well.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay. Maybe last one, on -- appreciate the guide on 2019. Because it's a half, if you looked forward into 2020 with no incremental rate cuts, is it remotely linear? In other words, if we think about if the ongoing rate and current environment persist into next year after the two or three cuts this year, are we looking at $1 billion, or is it way too complex to oversimplify like that?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, it's probably more complicated, Glenn, and so just given the range of outcomes are as broad as they are, and importantly, if we're looking at cuts that our insurance cuts that sustain the expansion versus cuts that may be in response to a broader economic slowdown, there are other things that we would be talking about. So, we're not going to give further guidance on 2020 until we know more.

Q - Glenn Schorr {BIO 1881019 <GO>}

Okay. Thank you. Appreciate it.

Operator

Our next question is from Gerard Cassidy of RBC.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you. Good morning. When you take a look at your merchant services business, you had some really strong growth year-over-year, I think it was up 12%. And then your card volumes excluding the commercial card were also up very strong. Can you share with us what's driving that strong growth, the double-digit rate of growth?

A - James Dimon {BIO 1484062 <GO>}

Thanks for noticing.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, I would say that is firing on all cylinders, so it's brand, it's people, it's products. It certainly help to have the backdrop of a healthy US consumer as well. And in fact retail sales this morning looks strong. So we can expect that to continue.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Is it more the market, as you just referenced the retail sales, they were strong. Is it more of that or are you guys also seeing gains in market share that gives you an added boost?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah, we have taken share in -- a little bit of share in card. As you know, we're at number one in sales there. I think importantly, what's helpful in card is that we don't even need to take share to grow just given the secular tailwind that we have in the card business on the electronification of cash.

And we're taking share in merchant acquiring, yes.

A - James Dimon {BIO 1484062 <GO>}

We expect to do -- take more share in the future.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Speaking of the future, can you guys give us some color on what your first read of Libra is that the Facebook announcement about the process -- payments system that they're going to initiate?

A - James Dimon {BIO 1484062 <GO>}

Yeah. So just to put it in perspective, Gerry, we've been talking about blockchain for seven years and very little has happened, and and you're going to be talking about Libra three years from now. So I wouldn't spend too much time on it. We don't mind competition, and the request is all going to be the same. The governments need one level playing field, and governments are going to insist that people who hold money or move money all live according to rules where they have the right controls in place. No one wants to (inaudible) terrorism or criminal activities, and that's going to be true for everybody involved in this, not only (inaudible) doing to their KYC, BSA for a long period of time. And those (inaudible) I think will become for everybody going forward and they should.

Q - Gerard Cassidy {BIO 1505265 <GO>}

Thank you.

Operator

Our next question is from John McDonald of Autonomous.

Q - John McDonald {BIO 21440002 <GO>}

Hi. I wanted to ask about the CCAR, and you've got a big authorization this year. How did you approach the CCAR plan this year in relation to your long-term CET1 target, 11% and 12% that you talked about?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So as we think about capital distribution, first, we would start by always saying that we prefer to use our capital to invest and grow our businesses. And then to have a competitive and sustainable dividend, and only then to return excess capital to our shareholders. And so we are pleased with the approval, and the additional capacity to return that $29.4 billion to shareholders.

Having said that, we are still targeting the upper end of the 11% to 12% range. We're always going to want to have a management buffer, because as I had said, our first priority will always be to invest and grow our businesses. And then of course there remains a lot of uncertainty in terms of the regulatory capital framework. And then, importantly, we wouldn't actually need to make that decision for a few more quarters, given the way the capital distribution plan is laid out over four quarters. But as of now, we are still targeting the upper end of 11% to 12%.

Q - John McDonald {BIO 21440002 <GO>}

Okay. Thanks, Jen. And any updated thoughts on CECL or could you remind us of what your thoughts on initial impact there? Thanks.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So, it hasn't changed from Investor Day. Our range continues to be $4 billion to $6 billion, and we're prepared for the January 1 implementation.

A - James Dimon {BIO 1484062 <GO>}

Just to take this chance, so CCAR is one test a year on stress. We do 120 a week. And so we are always prepared for stress. CCAR has us losing $20 million or $30 million over nine consecutive quarters. I just want to remind you all that the nine quarters after Lehman, the real stress event, we made $20 million to $30 million. And CCAR assumes you're going to grow your balance sheet, it assumes you're going to continue your dividend and stuff like that. We have plenty of capital. I mean, our capital Cup Runneth Over and we fully deploy that capital.

Remember, the things like opening branches, for every branch, we'll eventually use $10 million of capital. So 400 branches will eventually be $4 billion of capital. So restraints on growth, also restrains on capital usage and the ability to finance US economy. So we're really optimistic about our ability to somehow use our capital, including like the InstaMed acquisition we just did, which I think closes sometime soon and so.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Q - Betsy Graseck {BIO 4799503 <GO>}

Hey, good morning. Jamie, you mentioned about Blockchain, we've been hearing about it for seven years and not much has happened. But I think you at JPM have built a Blockchain solution for at least your correspondent banks. And I guess I wanted to understand where you think you're planning on taking that right now, it's just an AML KYC use case, but is that something that you think you could deliver more functionality over, over time?

A - James Dimon {BIO 1484062 <GO>}

No. We think the Blockchain is real, but -- and the reason it takes so long is that the people agree to the protocol, people write a lot of code to get into it. The one you're referring to, high end [ph], is giving you information of all banks. So right now banks transfer lot of information among each other (inaudible) trade finance and correspondent banking and stuff like that. So I think we have 120 banks signed up. We're going to have four -- so right now, it's for bank wholesale use to have immediate information. We all have the same information, you can move things, but eventually, you'll be able to move money quicker with data. So yes, we're optimistic about that. And we're going to roll that out as soon as we can and constantly test it and make sure it's secure and all that.

I remind people when it comes to moving money, JPMorgan Chase moves $6 trillion a day, quite securely, and quite cheaply. So you've got to look at the problem you're trying to solve, but people legitimately said, well, you didn't have real time payments. That will be true. And now we do effectively sell [ph] from P2P, and now we do effectively (inaudible) in TCH, so we are building the things that the future is going to want, APIs, Blockchain ledgers that have much more data, real-time moving of money that also goes through floor checks, et cetera. So we're quite optimistic about it. It's going to take a while to get everyone using it. One day, it'll have to be opened up to a broader customer set, possibly.

Q - Betsy Graseck {BIO 4799503 <GO>}

So, one of the things that's coming out in these Senate and House, financial services, banking committee meetings is this desire for real-time payments, desire for a cheaper solution for payments, and that's supposedly what Libra is going to offer. But to your point, it seems like you're already doing that. The question is, how do we think about the outlook for interchange, and is there -- you know, what's your strategy towards interchange pricing here as we go over this, through this period?

A - James Dimon {BIO 1484062 <GO>}

(inaudible) this real-time P2P free shape and secure (inaudible). So when people say do it, that's already done. That's not cross-border, so there are people who might want to do that cross-border, and cross-border remittances are much, much smaller than actual use of debit card, credit card payment systems here, and (inaudible) built in real-time payments is actually already in use. And to me, the issue there is going to be fraud -- you know, to make sure with real-time payments, you also put it through effectively real-time floor checks and stuff like that.

In the United States, credit cards, debit cards, people love these cards. The beneficiary is the consumer, and always remember, that's who we're here to serve. And someone is going to pay eventually for services provided, but people like their credit cards. They use their credit cards far more than they use their debit cards. I don't remember the last time I used my debit card.

Q - Betsy Graseck {BIO 4799503 <GO>}

Yes, when you get rewards, it is great. Okay, thanks.

A - James Dimon {BIO 1484062 <GO>}

And at JPMorgan, they will be getting more free stuff. You get free -- you can buy and sell stock for free. We just gave you a very good -- it just got rolled out, we only have a few accounts with local investing, very cheap, very clear. So we're going to say and give our clients more and better and faster and cheaper all the time. And now we package that with (inaudible) banking and (inaudible) card, or discounts on mortgages. That all remains to be seen, but the future is very bright. If we can do more for our customer, that's a very good thing.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

And don't forget on credit cards, you get charge back rights and you get the flow.

A - James Dimon {BIO 1484062 <GO>}

Right. And you get (inaudible) you're a Chase customer, you get your FICO score for free, you're going to be able to -- we're going to tell customers a great (inaudible) how they can improve their FICO score. You get offers like this Chase (inaudible) I mean, we don't really market, but it's really taking off.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So the Chase offers, we talked about that at Investor Day. It's like a really powerful flywheel where we can deliver value to our large merchant clients in terms of being able to bring a very large customer base to them, and then we can deliver that value to our customers at zero cost to us. And so, as I said, in the presentation, we've had over 60 million Chase offers activated, and so this is really powerful and benefits not just our consumers, but our large merchant clients and at zero cost to us.

Q - Betsy Graseck {BIO 4799503 <GO>}

So a message of more efficient, less cost maybe needs to get heard on the Hill as well.

A - James Dimon {BIO 1484062 <GO>}

Yeah. We talk to the Hill all the time, and a lot of people understand that. And of course, they always want you to do a better job for consumers, which we have been.

Q - Betsy Graseck {BIO 4799503 <GO>}

Yeah, I guess the final question here is just on the under-banked. Is there something, or is than an offer that you have for them? Are you considering that, because I'm just thinking about where fintech is trying to exploit you, and I know it's a catchphrase under-banked, that is being used by, they were doesn't necessarily seem like it's solving anything for them, but maybe you've got a better solution that we just don't focus on.

A - James Dimon {BIO 1484062 <GO>}

So we have (inaudible) JP have. I think 25% of our branches are in my neighbourhoods. We go to those neighborhoods, we do some philanthropy, we're doing more and more financial education, which I think is really important. I just mentioned the FICO score, but thing is there might be other things we can do. We do Chase chat, so we get people in the branch educate them about saving, FICO scores, what you need to do to get a mortgage to buy a house and stuff like that.

And then we have a product, which really is great, called Secure Banking. And think of it as a card, but it's the full thing. You can overdraft. I think it's $4.95 a month, but you can use ATMs, you can have direct deposit, you can do online mobile payments and stuff like that. So we think that's a great product to be under-banked, and I think that's going now 25%, and we've kind of pushed that a little bit more, so we're always (inaudible).

And then we also have special, I call it, venture banking, (inaudible) fund. We're making loans (inaudible) non-traditional bank loans that's helping to grow your businesses. So we're finding a lot of ways to do it and we have a lot of (inaudible) time to understand it. I would say we're at the forefront of that.

Fintech, of course always going to try to eat your lunch, and I think that's good, that's called American capitalism, and we have to stay on our toes to compete. But we are, like, when Jen was at cards, she rolled out last year the announcement of Chase My Plan and Chase My Loan, so that people can use their credit balances immediately to do what they want to do and do it well. We rolled out Zelle P2P, that's good for everybody. So if you have a bank account, you can move money to your friends and relatives without even paying the $10 money changer fees and stuff like that. So we're always trying to do a better job for the American consumer, and we think we'll do a great job for them, and if there are legitimate complaints, we'll fix it.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

That's right, and you mentioned the 25% in LMI (inaudible) branch footprint in our expansion markets, that's 30%.

Q - Betsy Graseck {BIO 4799503 <GO>}

Thanks.

Operator

Our next question is from Ken Usdin of Jefferies.

Q - Ken Usdin {BIO 3363625 <GO>}

Thanks a lot. Good morning. Just wanted to ask on the balance sheet last year, so you've seen a huge jump in the trading related assets, and I know you had the accounting change that you mentioned in the supplement. But could you talk about, is that related to market share gains, is it related to just specific strategies with regard to managing liquidity, and it doesn't seem to be equally growing on the asset side in the trading liability. So just can you explain the dynamics behind that now that adds to the net interest income story? Thanks.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So in terms of the balance sheet growth that you saw quarter-over-quarter, that was primarily related to our balance sheet intensive businesses in markets businesses. And then we were down on a spot basis quarter-over-quarter. But, you know, we start with deposit growth, and so we have had strong deposit growth, and so you see that reflected on the balance sheet side as well, and you would have seen securities balances up as well, and some of that is adding duration and some of that is short duration securities that are higher yielding than IOER, and, yes.

Q - Ken Usdin {BIO 3363625 <GO>}

Okay. So it is part of the liquidity management strategy. Okay. Jamie, did you say what the amount of the gains that you had on the loan sales this quarter?

A - James Dimon {BIO 1484062 <GO>}

(inaudible) if you get a higher return in repo than you get in IOER, you're going to do that. If you get a higher return in standardized -- using standardized capital on securities than you are on wholly owned loans, you're going to do that, and that's what we've seen in some of these things.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

That's right. The securities growth, I should have mentioned also due to the home sales and home lending.

Q - Ken Usdin {BIO 3363625 <GO>}

Right. Okay, got it. That makes sense. Did you say what the -- can you tell us what the amount of the gains on the loan sales this quarter were, if they were above trend?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

We haven't disclosed the amount of the gains, and we had some loan sales in the fourth quarter, the first quarter and in the second quarter. The first and second quarter in terms of the notional amount, the first quarter was about $7 billion and the second quarter was about $9 billion, so just a little bit more.

A - James Dimon {BIO 1484062 <GO>}

The gains in the second quarter net-net were -- they show up in different places, but not much, not material.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yeah.

Q - Ken Usdin {BIO 3363625 <GO>}

Got it. And lastly, just any thoughts on the investment banking pipeline and just continuation of the outlook across the buckets there? Thanks.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So in terms of the investment banking pipeline, I'll just remind you that the third quarter is typically a seasonally lower quarter, and so sequentially you should think about IB fees being down a bit. That said, the pipeline is healthy, although off a record performance last year which is assumption of a reversion to more normal level of activity, as well as some overhang from macro uncertainty.

In M&A, still feels very healthy and is still a space where companies are looking for synergistic opportunities for growth, especially in North America, perhaps Europe a bit more muted. ECM, we had a very strong second quarter, so that will taper off in the second half a bit, but I would say deals are getting done well in the current environment. And then DCM, DCM will be more subdued, reflecting a slowdown in acquisition financing activity as well as refinancing opportunities, but albeit with a good backdrop for new issuance given the rate environment.

Operator

Our next question is from Matt O'Connor of Deutsche Bank.

Q - Matt O'Connor

Good morning. So I realized rate expectations can change quickly, but how do you think about managing the company in a rate environment that follows the curve that's out there for three to four cuts? And you said earlier you wouldn't cut back on technology, but are there other areas in expenses? Do you think about managing the balance sheet and liquidity a little bit different?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So in terms of balance sheet management, we manage the balance sheet in both directions. It's a negatively convex balance sheet, and so all else being equal, as rates are declining, we would naturally just drift shorter, driven both by assets and liabilities. So you would expect us to add duration, which we did this quarter. But we're not going to change the way we run the company because of the rate environment. We're going to continue serving our clients, investing with discipline, and managing the balance sheet across all dimensions, that being capital, liquidity and duration.

And then in terms of expenses, again we're not going to change the way we run the company because of an interest rate environment, and I'll just say again that the range of outcomes are very broad here and so if we end up with insurance cuts, it's a temporary headwind, and if we end up with cuts in response to a broader economic slowdown, there will be a lot more to talk about. But as Jamie always says, we're not going to change the way we run the company because of the macro environment.

That said, in a broader slowdown, obviously there are natural levers on volume-related expenses, and we re-decision a large part of our investment portfolio on an annual basis. We will always continue to invest in the things that we think are important, but we would have that opportunity, depending upon the opportunity, to take a look at that.

A - James Dimon {BIO 1484062 <GO>}

Remember in a real recession, okay, there are always opportunities to reduce your costs and vendors fall all over themselves to give you better deals and stuff like that. There are also huge opportunities to spend your money wisely. So the Sapphire card was birthed in '09 and you could imagine that (inaudible) we have this great opportunity, but we're not going to take it, and so I think you've got to be very careful. (inaudible) marketing money is usually better spent in a downturn, the returns on it usually double.

Q - Matt O'Connor

And you talked about the capital and your thought process there. Obviously the authorization of the buyback is a very big number. Is it your expectation that you will use it all, or is that still to be determined based on balance sheet growth, stock price, and the environment?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

I would say still to be determined. Our first choice will always be to use our excess capital to invest and grow our business, so still to be determined. And as you know, it's over four quarters, and so we have time to think about it, but obviously pleased to have the flexibility.

Q - Matt O'Connor

Is the timing of that even, or is there flexibility there too?

A - James Dimon {BIO 1484062 <GO>}

It has been in the past, but we can change that every day.

Operator

Our next question is from Saul Martinez of UBS.

Q - Saul Martinez {BIO 5811266 <GO>}

Hey, good morning. A couple of questions. First on the NII outlook beyond this year, and I fully appreciate (inaudible) not giving guidance beyond this year, but you do have the guidance from Investor Day out there of a sustainable NII of $58 billion to $60 billion, that was set in a very, very different rate environment. If we were to see multiple rate cuts, how do we think about that guidance, and how -- what are some of the moving parts that might get you perhaps to the lower end of that $58 billion to $60 billion? Is it simply dependent on how the economy responds, deposit pricing? If you can just kind of outline what you think some of those moving parts are?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Sure. So the guidance we gave at Investor Day, steady state $58 billion to $60 billion, I would say largely still stands, importantly because when we talked about that at Investor Day, we weren't assuming any further benefit from rates, so we were assuming that any incremental increases in rates would be offset in re-price, and so the majority of that growth was going to come from balance sheet growth and mix. And If you remember the slide, there were a number of arrows on the slide even at that time, which was obviously a different rate environment. We were implying that there were a number of different paths to get there. And so that obviously continues to be true, and so there may be a different path to get there. It may take a little bit longer, but we still believe in that steady state number because we still believe in the growth of the franchise.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, that's helpful. If I could change gears a little bit, you recently announced that you're closing Finn, or you closed Finn, and I think the stated logic is you learned that millennials don't need a separate brand or experience. But can you just elaborate on the logic there and what you learned from that experience, because it does seem to maybe fly in the face of what some other entities or financial institutions are doing with their digital banking strategy?

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

(inaudible) we learned a lot in Finn. You said it, that we learned that importance of the power of the Chase brand certainly means that we don't need a separate brand. We also learned about a number of features that our customers love, and we were able to reuse those features and port them over to the Chase mobile app. And so I think we always need to be testing and learning and doing things like this, and not afraid to shut them down when we learned what we needed to learn and can serve our customers through the primary Chase mobile app.

A - James Dimon {BIO 1484062 <GO>}

We learned a lot, like how to do digital account openings only digital. Because when you do it as a retail bank, you tend to rely on what you already have, so there are a lot of lessons here. We're always going to be learning from kind of skunkworks and learning from things like that, and so we don't look at those kind of things like failures at all. That is how you learn, and Jeff Bezos will tell you mistakes are good, mistakes are what make you smart and better, and so I hope we made some really good mistakes that can teach us all of our businesses at one point. The people doing Finn did a great job, they're embedded, and by the way, you can open a Chase account now and never go into a branch. And you can open (inaudible) it takes minutes to open an account, so we got much better at digital only, where we got separated from the physical branch system.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Yes, and the digital account opening is now about 25% of our new account activity.

A - James Dimon {BIO 1484062 <GO>}

And we'll do -- we'll be doing it in small business and merchant processing and all these various things.

Q - Saul Martinez {BIO 5811266 <GO>}

Got it. Thanks very much.

Operator

Our next question is from Eric Compton of Morningstar.

Q - Eric Compton {BIO 19549203 <GO>}

Good morning. Thanks for taking my questions. So this question kind of ties into some of the items already mentioned, longer term kind of tech focus, and also related to Finn. So there has been some press recently about reasons for closing down the Finn app. And one of the items that was mentioned was some of the difficulties banks can potentially run into with their legacy platforms, which for the most part are built on COBOL, which has been around since the sixties and depending on who you talk to, these legacy platforms can either be you know like huge problems for banks or not really a big deal.

So I guess from the outside, at least for me, it can be kind of hard to tell what really is going on there. So my question is, as you compete with fintech firms who are building new platforms from scratch, how do you strategically view dealing with your own legacy platforms? Is there a need to kind of redo these things eventually in order to actually compete with newer tech over time? Do these legacy platforms really hamstring you in any way, or is the hype around those issues really overdone, and if so, why? Thanks.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

The hype has been around now for the better part of a decade, right, and we seem to be doing fine. But that is true, and some of these legacy platforms are also the reason why you have 50 million customers. But it is true that over time, these (inaudible) would be reformulated and re-factored to be cloud eligible and things like that, and those things are more efficient. So your costs will go down, your error rates will go down.

So, the way I'd look at it a little bit is we run like 6,000 or 7,000 applications. Over time, those will be marginalized and being re-factored to be cloud eligible (inaudible) the cloud, very public cloud, and yes, it will be more efficient. But we've also had tons of new digital platforms, AIs that are built around these things that do the customer service side that they see to open accounts in minutes, to get your free credit journey, that we can modify so many things in days and weeks as opposed to years because you're not monkeying [ph] with the whole legacy system, and so it's a little bit of both. But those numbers are embedded in our tech spend. The re-factoring, building data centers, getting better AI [ph], they're all in those numbers.

Operator

And we have no further questions at this time.

A - James Dimon {BIO 1484062 <GO>}

Well, thank you very much. Jen, you did a great job. We'll talk to you all in a quarter. Thank you.

A - Jennifer A. Piepszak {BIO 19013293 <GO>}

Thanks, everyone, and thanks, Jamie.

Operator

Thank you for participating in today's call. You may now disconnect.
