THE WALL STREET JOURNAL.

Business News: JPMorgan Invests In Mortgage Clearinghouse

By Matt Wirz and Ben Eisen
427 words
23 June 2021
The Wall Street Journal
J
B3
English

JPMorgan Chase & Co. is redoubling efforts to revive a type of mortgage that largely died out after the last financial crisis.

The bank is reinvesting in an electronic clearinghouse for "private-label" mortgages, which are packaged and sold to investors without a guarantee from a government-backed firm like Fannie Mae. The market has been growing during this year's hot housing market.

The investment bank has contributed additional venture capital funding to Maxex LLC, a growing digital exchange for residential mortgages, executives at both companies said. Terms of the deal weren't disclosed. Maxex connects sellers and buyers of the home loans, providing standardized documentation so they can be easily purchased by financial firms. Those firms invest in the loans or bundle them into mortgage-backed bonds, or securitizations, they sell to others.

"If there's a segment of finance that has lagged in utilization of **technology** it's the mortgage business -- it's remarkably inefficient," said James Bennison, an executive at insurer Arch Capital Group, which bought about $120 million of loans on the Maxex platform this year.

Maxex provides a clearinghouse where mortgage lenders can sell loans and where large banks and asset managers can buy them. The company, which launched in 2016, conducts due diligence on the loans it lists for sale and uses a standardized contract for buyers and sellers, streamlining the trading process, said chief executive Tom Pearce.

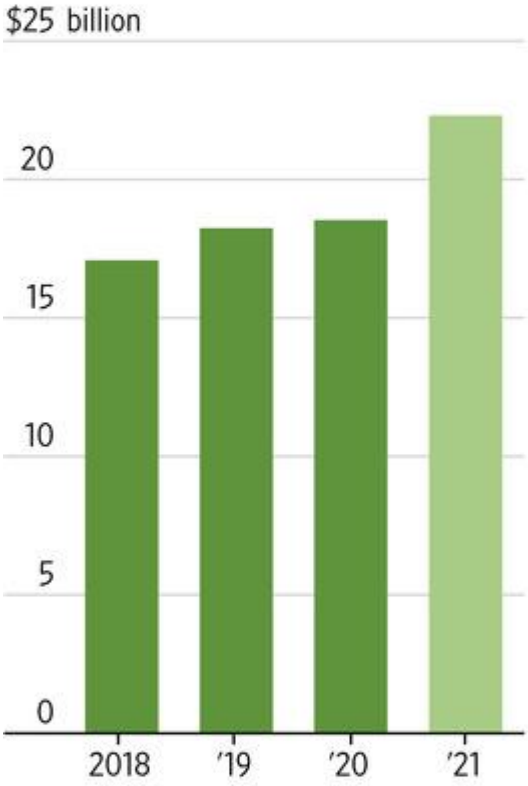
Loans funded on the platform averaged about $1 billion a month this year. JPMorgan has traded about $4 billion this year, up from $2.2 billion in all of 2020, according to Mr. Pearce and Marc Simpson, a managing director at JPMorgan. The bank helped finance Maxex's launch and is investing the new funds to help the platform attract other large banks and institutional investors to increase trading activity, they said.

The market for private-label mortgage bonds played a central role in the financial crisis 2008-09. It grew mightily in the years leading up to the crash, but investors got burned when millions of homeowners stopped paying their mortgages.

Today, government-backed giants Fannie Mae, Freddie Mac and Ginnie Mae dominate the U.S. mortgage industry, guaranteeing more than three-quarters of the mortgages originated last year.

Wall Street banks and investors have long tried to restart the private-label market, with limited success. It remains a tiny fraction of the home lending industry and originations effectively shut down during the early days of the pandemic last year.

Issuance of bonds backed by jumbo mortgages



Note: 2021 figure is through 6/17
Source: JPMorgan Chase & Co.

Document J000000020210623eh6n0000m

THE WALL STREET JOURNAL.

Technology
JPMorgan Buys Nutmeg in U.K. Digital Push

By Simon Clark
408 words
18 June 2021
The Wall Street Journal
J
B4
English

JPMorgan Chase & Co. agreed to buy digital wealth manager Nutmeg Saving and Investment Ltd., part of a push to establish a retail banking presence in the U.K.

Nutmeg, founded in 2012, has more than 140,000 customers and GBP 3.5 billion under management, the equivalent of around $5 billion. A price for the acquisition wasn't disclosed but people familiar with the transaction said it was about $1 billion.

JPMorgan said in January it would launch a new digital bank in the U.K., offering consumer banking services there for the first time. Called Chase, it is currently being tested internally with JPMorgan employees ahead of a public launch later this year. Nutmeg's savings and investment products won't initially be offered through the retail banking project, the bank said.

JPMorgan is entering a crowded **digital banking** marketplace in the U.K. Regulators encouraged new startups, including Starling Bank Ltd. and Monzo Bank Ltd., to boost competition in the wake of the last global financial crisis. These so-called challenger banks have forced traditional lenders to improve their digital offerings but have struggled to earn profits.

JPMorgan last year considered making a bid for Starling Bank, founded by Anne Boden in 2014, according to people familiar with the situation.

JPMorgan previously tried to launch a digital bank in U.S. cities and markets where it didn't have Chase branches, but closed the product, called Finn, in June 2019 after slow pickup. Bank executives have said they learned lessons from that program, including that the Chase brand resonated better than a new name.

Nutmeg aims to make wealth management more accessible through the internet, Neil Alexander, the company's chief executive, said in a statement. Nutmeg was chosen as a name because the spice, like wealth and investment services, was once rare and costly but is now widely available.

Like other investment sites, it sells access to funds, ETFs and pensions. Nutmeg appeals to investment novices, avoids jargon and provides tools and Q&As about the ins and outs of the finance world.

The company's revenue grew 29% in 2019 to GBP 9.3 million from the previous year, and its loss increased 15% to GBP 21.2 million. Its shareholders, who will be bought out in the deal, include Goldman Sachs Group Inc. and Schroders PLC, the U.K. asset manager.

Document J000000020210618eh6i0000r

THE WALL STREET JOURNAL.

Companies Brace for Reality of Hybrid Work

By Chip Cutter
1,183 words
26 May 2021
The Wall Street Journal
J
A1
English

It took months for bosses and employees to adjust to working remotely in the pandemic. The next era of work might be even more messy.

Companies are laying down new rules and setting expectations for hybrid work as some workers come back in and others remain out of office. At JPMorgan Chase & Co., employees on some teams can schedule work-from-home days, but not on Mondays or Fridays. At Salesforce.com Inc. offices that have reopened, Thursdays are proving to be the most popular in-office day, creating high demand for meeting rooms and collaboration spaces, and prompting the company to rethink its office design.

Executives at PricewaterhouseCoopers LLP voiced worries that workers who stay remote could wind up as second-class corporate citizens, falling behind in promotions and pay, so the company plans to track rates of advancement for office-based and remote staff to make sure nobody lags behind.

After months of discussions, big employers from Humana Inc. in Louisville, Ky., to Nike Inc. near Portland, Ore., said they are cementing plans to return to corporate complexes after Labor Day -- in some cases relaxing capacity restrictions -- while promising employees some measure of flexibility in where they work.

Covid-19 isn't the only factor weighing on workplaces. Many managers now worry about a brain drain from their ranks. Some companies that are hiring said they can't find knowledge workers willing to come into an office five days a week, according to chief executives, human-resource chiefs and recruiters.

OnSolve LLC, a software company in Alpharetta, Ga., is hiring for about 90 new positions this year. CEO Mark Herrington said he is eager for office life to return to normal, but a number of applicants, particularly in technical and engineering roles, insisted on having the option to work from home at least some of the time.

"It's become really sort of a requirement if you're looking for top talent," Mr. Herrington said. "Those folks are pretty much saying, 'Hey, if I can't have a bit of a hybrid work environment, then I'm probably not going to be interested.'"

Research has shown most employees prefer some form of flexibility in where they work. A coming survey of 9,000 workers by Accenture PLC found 83% of respondents viewed a hybrid workplace as optimal, which means companies need to figure out the new mores of work, and fast.

Sabre Corp., the travel-**technology** company that powers major hotel and airline booking systems, has slimmed down to one building from a four-building campus in a suburb of Dallas. Sabre said it plans to bring about 25% of office workers back on site at least three days a week.

The company surveyed its thousands of workers about their preferences and talked extensively with leaders about what worked -- and what didn't -- over the past year. The result: About 25% of Sabre's 7,500-person staff will likely resume a standard office workweek, said Shawn Williams, Sabre's chief people officer. About 30%, or 2,250 people, will stay remote, and the remaining 45% will come into the office to collaborate with peers one or two days a week.

Sorting out who falls into each category takes some work, Mr. Williams said, adding who stays home and who comes in -- and when -- depends on job function and manager approval. Even Sabre executives who had assumed workers would be more engaged in an office setting came to conclude that a flexible approach better suits the new realities of employees, many of whom care for children or elderly parents, or have found a lower cost of living farther from Sabre's headquarters.

"The workforce of the future isn't going to come in to go crank a spreadsheet. You'll crank a spreadsheet at home just fine," Mr. Williams said.

Tope Awotona, the founder and CEO of Calendly, an Atlanta maker of scheduling software, said he is hiring in places like Georgia, Florida and Texas, and plans to give people the option to come into an office or not. He is providing staff with memberships to co-working spaces, so they don't have to work from home if they don't want to.

"We want to be what we call a remote-first company, but not a remote-only company," he said. "All we care about is that you get your job done from anywhere."

Jon Stross, a co-founder of Greenhouse Software Inc., predicts most companies will find hybrid work difficult to navigate. Several years ago, the recruiting-software provider split some of its engineering teams between a New York office and remote locations.

"It didn't work nearly as well" as when everybody was all remote or working together in the office, he said, adding distributed workers complained of feeling left out while people who could meet easily in the office or for happy hour appeared to solve problems with each other in person. Greenhouse opted to run teams either fully remote or fully in offices in cities such as New York or San Francisco.

The company said it is impossible for everybody to be in the same room all the time, so it developed norms for meetings, making sure in-office colleagues don't have side conversations that those dialing in can't hear, Mr. Stross said.

"There's going to be a bunch of unintended consequences that we'll be grappling with," he said of the new era of hybrid work. "It's going to be a mess."

JPMorgan Chase, whose CEO Jamie Dimon is notably bullish on offices, has recalled all U.S. employees by early July, but each business unit is designing different approaches, a spokesman said.

One rule emerging for some New York teams: They can pick one permanent day to work remotely each week, as long as it isn't Monday or Friday, according to a person familiar with the matter. Employees can request a second remote day, which could be a Monday or Friday, as long as they seek permission each week to work one of those days from home, the person said.

At a Salesforce office open in Australia, less than a quarter of its individual desks are used by employees, while meeting areas are widely booked, particularly at the end of the week. As the company reopens in the U.S., it is developing more collaboration spaces, said Brent Hyder, the company's chief people officer. "People do different things in the beginning of the week versus the last part of the week" in a hybrid world, he said.

In addition to tracking career outcomes for in-person and remote staff, consulting and accounting giant PwC will frequently poll staff to learn what is working and what isn't, said Tim Ryan, U.S. chairman. "We'll make a lot of little mistakes, I can promise you that," he said."My goal is not to wake up a year from now and find out we made a major mistake."

Document J000000020210526eh5q0001w

THE WALL STREET JOURNAL.

Banks to Offer Credit Cards to Scoreless People

By Peter Rudegeair and AnnaMaria Andriotis
910 words
14 May 2021
The Wall Street Journal
J
B1
English

Some of the largest U.S. banks plan to start sharing data on customers' deposit accounts as part of a government-backed initiative to extend credit to people who have traditionally lacked opportunities to borrow.

JPMorgan Chase & Co., Wells Fargo & Co., U.S. Bancorp and others will factor in information from applicants' checking or savings accounts at other financial institutions to increase their chances of being approved for credit cards, according to people familiar with the matter. The pilot program is expected to launch this year.

It is aimed at individuals who don't have credit scores but who are financially responsible. The banks would consider applicants' account balances over time and their overdraft histories, the people said.

The effort, if successful, would mark a significant change in the underwriting tactics of big banks, which for decades have enshrined credit scores and credit reports as the main tools to determine who gets a loan. They generally reflect a person's borrowing history in the U.S., including whether they pay their loans on time. Those who pay only with cash or debit cards, or who are new to the U.S., often don't have credit scores.

Some 53 million adults in the U.S. don't have traditional credit scores, according to Fair Isaac Corp., the creator of FICO credit scores. Many are often limited to payday loans and other costly forms of credit.

Black and Hispanic adults in the U.S. are more likely than white or Asian adults to lack credit scores, according to a 2015 report by the Consumer Financial Protection Bureau.

Banks have for years tinkered with ways to approve borrowers with limited or no credit histories, though the efforts have tended to be small-scale and company-specific. FICO announced in 2018 a scoring system that factors in how consumers manage their bank accounts. Few lenders -- and no banks -- signed up for it, according to people familiar with the matter.

JPMorgan, Bank of America Corp. and other big banks in recent years developed risk models based on their own customers' bank-account activity to approve financing for applicants with limited or no credit histories, some of the people said. That has resulted in credit-card approvals for about 700,000 additional customers at JPMorgan since 2016, some of these people said.

The new pilot program is designed to be further-reaching and more organized. About 10 banks agreed to exchange data, according to one of the people familiar with the matter, an unusual level of collaboration. JPMorgan, for example, might approve a credit-card application from a person who has a deposit account at Wells Fargo but doesn't have a credit score.

The plans grew out of Project REACh, or the Roundtable for Economic Access and Change, an effort launched last summer by the Office of the Comptroller of the Currency. After protests following the killing of George Floyd in police custody, the OCC convened bankers, financial-**technology** executives and nonprofit leaders to brainstorm on how to increase credit access to disadvantaged communities.

The agency at the time was run by Brian Brooks, a Trump pick. Michael Hsu, who is now the acting comptroller, said that he is excited to be part of Project REACh.

"Its mission -- to remove barriers for minorities and underserved people to fully and fairly participate in the nation's economy -- is critically important, especially now," Mr. Hsu said.

JPMorgan is expected to be the first to use the deposit-account data in evaluating credit-card applicants. As soon as this fall, the bank plans to start approving applications based on those inputs from the other banks.

"It's not a Hail Mary," said Marianne Lake, chief executive of consumer lending at JPMorgan. "It's something that we know works."

Banks are discussing using the main credit-reporting firms -- Equifax Inc., Experian PLC and TransUnion -- as well as Early Warning Services LLC as the conduits for this data sharing, the people said. Early Warning Services is a bank-owned organization that oversees the Zelle money-transfer network.

The bank-account data will be reviewed after banks try to check applicants' credit scores and find that they don't have one, according to people familiar with the matter. Not having any returned checks, for example, could improve a person's chances of being approved.

The banks are also discussing eventually working with other data providers and aggregators, such as Plaid Inc. and Finicity, to consider an applicant's history paying rent and utility bills, some of the people said, adding that the banks decided to start with deposit-account data because it is more widespread and easily available.

The banks in the pilot could eventually drop out. They could also open themselves to loan losses if this new method overestimates borrowers' creditworthiness.

Banks might also have to contend with concerns regarding data privacy and transparency. Under the pilot, the fine print on a credit-card application, which usually gives a bank permission to access a person's credit history, will also cover looking up bank-account data, some of the people familiar with the matter said.

For banks, the planned changes address an issue of social importance and provide them with a new commercial opportunity. Consumers approved under these new methods who demonstrate good borrowing behavior could eventually qualify for auto loans, mortgages and other products.

Document J000000020210514eh5e00029

THE WALL STREET JOURNAL.

Heard on the Street
Wall Street Banks Do More With Less --- Investing arms of JPMorgan, Goldman posted huge returns, suggesting they may be undervalued

By Telis Demos
606 words
15 April 2021
The Wall Street Journal
J
B12
English

[Financial Analysis and Commentary]

The resilience of big banks' lending books may be the big news this quarter. But their Wall Street arms may not be getting enough credit for their own performance.

JPMorgan Chase and Wells Fargo have started doing what investors were expecting, which is to release reserves for potential credit losses taken at the height of the pandemic's economic shock. Defaults haven't materialized to the levels feared, and the economy looks to be on an upswing. JPMorgan released $5.2 billion worth of reserves in the first quarter, and Wells Fargo released $1.6 billion.

That is important to see, but ultimately these are paper profits, not more cash to be put to work. Reserve releases also don't necessarily get fully reflected back into the bank's core equity capital, since regulators gave banks a form of pandemic relief by delaying some of the impact of loss reserving on key capital levels.

It is core capital, not just earnings, that is needed to fuel banks' shares further, as growing deposits weigh down balance sheets. This is key to avoid constraints on future lending, when demand picks up, or buybacks, to boost returns in the meantime. JPMorgan issued $1.5 billion worth of preferred shares in the quarter, as it had said may be needed to stay well clear of leverage-ratio minimum levels.

Given these constraints, the even better news for investors is that core Wall Street businesses are generating huge earnings without needing to use substantially more capital. That wasn't always the case, as volatility and volumes could sometimes force banks to take on even more risk to keep up. JPMorgan said its corporate and investment bank's return on equity was 27% in the first quarter, up from 26% in the fourth quarter. That figure was just 14% at the end of 2019. At Goldman Sachs, global markets return on average common equity was up over 10 percentage points over the quarter, to about 27%.

This may be part of a larger shift on Wall Street after years of stepped-up regulation and **technology** change. A study by bank analysts at Morgan Stanley and consultants at Oliver Wyman found that in 2020, every dollar of revenue in markets and investment banking required 21% less balance sheet and 34% less value-at-risk than 10 years earlier. Good performance from capital efficient units such as merger advisory also helps.

Wall Street revenues may be near or at their cyclical high, but then again they may not be if the U.S. economy is about to enter a multiyear boom, as JPMorgan Chief Executive Jamie Dimon now says he expects. That should turn up plenty of opportunities for banks' trading desks, M&A advisers, and so on, not to mention their ordinary lending business.

On a price-to-tangible book value basis, JPMorgan and Goldman Sachs are trading near five-year highs. But on a price-to-forward-earnings basis, they are still significantly cheaper than the S&P 500, at about 59% and 43% of the index, respectively. Historically, such discounts reflected banks' capital intensiveness and earnings volatility. But there are signs now that both are improving.

Banks have just been through a real-life stress test featuring a once-in-a-century pandemic and a surge in unemployment to double-digit levels. Their strong performance suggests banks' discount to the rest of the stock market may be bigger than it needs to be.

page,5043

Document J000000020210415eh4f0000z

The New York Times

Business/Financial Desk; SECTB
JPMorgan Chief Predicts a Boom

By Lauren Hirsch
605 words
8 April 2021
The New York Times
NYTF
Late Edition - Final
5
English

In his annual letter to shareholders, the chief executive of JPMorgan Chase weighed in on the nation's economy, climate change and tax loopholes.

The annual letter to shareholders by JPMorgan Chase's chief executive, Jamie Dimon, was published early Wednesday. The letter, which is widely read on Wall Street, is not just an overview of the bank's business but also covers Mr. Dimon's thoughts on everything from leadership lessons to public policy prescriptions.

''The U.S. economy will likely boom.'' A combination of excess savings, deficit spending, vaccinations and ''euphoria around the end of the pandemic,'' Mr. Dimon wrote, may create a boom that ''could easily run into 2023.'' That could justify high stock valuations, but not the price of U.S. debt, given the ''huge supply'' soon to hit the market. There is a chance that a rise in inflation will be ''more than temporary,'' he wrote, forcing the Federal Reserve to raise interest rates aggressively. ''Rapidly raising rates to offset an overheating economy is a typical cause of a recession,'' he wrote, but he hopes for ''the Goldilocks scenario'' of fast growth, gently increasing inflation and a measured rise in interest rates.

''Banks are playing an increasingly smaller role in the financial system.'' Mr. Dimon cited competition from an already large shadow banking system and **fintech** companies, as well as ''Amazon, Apple, Facebook, Google and now Walmart.'' He argued that those nonbank competitors should be more strictly regulated; their growth has ''partially been made possible'' by avoiding banking rules, he wrote. And when it comes to tougher regulation of big banks, he wrote, ''the cost to the economy of having fail-safe banks may not be worth it.''

''China's leaders believe that America is in decline.'' The United States has faced tough times before, but today, ''the Chinese see an America that is losing ground in **technology**, infrastructure and education -- a nation torn and crippled by politics, as well as racial and income inequality -- and a country unable to coordinate government policies (fiscal, monetary, industrial, regulatory) in any coherent way to accomplish national goals,'' he wrote. ''Unfortunately, recently, there is a lot of truth to this.''

''The solution is not as simple as walking away from fossil fuels.'' Addressing climate change doesn't mean ''abandoning'' companies that produce and use fossil fuels, Mr. Dimon wrote, but working with them to reduce their environmental impact. He sees ''huge opportunity in sustainable and low-carbon technologies and businesses'' and plans to evaluate clients' progress according to reductions in carbon intensity -- emissions per unit of output -- which adjusts for factors like size.

Other notable news (and views) from the letter:

With more widespread remote working, JPMorgan may need only 60 seats for every 100 employees. ''This will significantly reduce our need for real estate,'' Mr. Dimon wrote.

JPMorgan spends more than $600 million a year on **cybersecurity**.

Mr. Dimon cited tax loopholes that he thought the United States could do without: carried interest; tax breaks for racing cars, private jets and horse racing; and a land conservation tax break for golf courses.

This was Mr. Dimon's longest letter yet, at 35,000 words over 66 pages. The steadily expanding letters -- aside from a shorter edition last year, weeks after Mr. Dimon had emergency heart surgery -- could be seen as a reflection of the range of issues that top executives are now expected, or compelled, to address.

The annual letter that Jamie Dimon of JPMorgan Chase published on Wednesday was, at 66 pages, his longest yet. (PHOTOGRAPH BY JEENAH MOON/REUTERS)

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