Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's First Quarter 2017 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 stand-by. At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Marianne Lake. Ms. Lake, please go ahead.

Marianne Lake

Thanks operator and good morning everyone. I'm going to take you through the earnings presentation which is available on our website. Please refer to the disclaimer at the back of the presentation.

Starting on page one, we are off to a good start this year with net income of $6.4 billion, EPS of $1.65, and the return on tangible common equity of 13% on revenue of $25.6 billion with the continuing momentum from last year driving strong performance across all of our businesses.

Highlights for the quarter include average core loan growth of 9% year-on-year, reflecting growth trends across products; continued double-digit consumer deposit growth; strong card sales, up 15%; and Merchant volume up 11%. In addition, we achieved a number of records across our businesses, most notably net income and IB fees for a first quarter in the CIB; net income and revenue for the commercial bank; and asset under management and banking balances in asset and wealth management. Overall, the credit environment remained benign. In consumer, there were no reserve actions taken across our core portfolios while in wholesale we had a net reserve release of about $90 million driven by energy, resulting in net releases in both the CIB and the commercial bank.

We see no significant items here on the page, but there are a few notable items in our results that I will highlight here too. The first is the tax benefit, a bit less than $400 million and the benefit relates to the difference in stock price between vesting date and grant date for our employee equity award. And while such an adjustment is business as usual, the recent appreciation in our stock price has caused the benefit to be outside this quarter with the largest impact occurring to CIB and to a lesser extent asset and wealth management.

Second is a write-down of our student loan portfolio of approximately $160 million after tax as we move these loans to held-for-sale and explore alternatives to that portfolio. And last is Firm-wide legal expense of around $140 million after tax relating to a number of matters across businesses, some positive and negative, and with the most significant impact being in the AWM business.

Moving on to page 2 and some more detail about the first quarter. Revenues of $25.6 billion was up $1.5 billion or 6% year-on-year with the increase evenly split between net interest income and non-interest revenue. NII reflected the impact of higher rates and continued growth, and NII reflected higher CIB revenues, partially offset by card acquisition cost and lower MSR risk management.

Adjusted expense of $14.8 billion was up 7% year-on-year, mainly driven by higher compensation on increased revenue and higher auto lease depreciation. In addition, the combination of the impact of the FDIC surcharge as well as a foundation contribution this quarter accounted to nearly $200 million of the year-on-year expense change. Adjusted for the student lending write-down I just mentioned, credit cost of $1.1 billion will be down approximately $700 million year-on-year as higher charge-offs in card were offset by a wholesale net reserve release this quarter versus a sizeable build in the prior year.

Moving to balance sheet and capital on page 3. We ended the quarter with both standardized and advanced fully phased-in CET1 of 12.4%, in line with our expectations and overall driven by net capital generation. We continue to manage our balance sheet with discipline. Total assets returned to above $2.5 trillion, reflecting the continuation of strong deposit growth as well as our trading balance is normalizing from very low levels at the end of the year.

From a liquidity perspective, HQLA was flat at year-end and the Firm remained compliant with all liquidity requirements. We continued to grow tangible book value per share while returning $4.6 billion of net capital to shareholders in the first quarter, which included $2.8 billion of net repurchase and common dividend of $0.50. And this $4.6 billion compares to $3.8 billion returned last quarter. As you know, we recently submitted the 2017 CCAR capital plan to Federal Reserve. And as you'd expect, we have no feedback to give you for now.

Moving on to page four, and the consumer and community bank. CCB generated $2 billion of net income and ROE 15%. Core loans were up 11% with strength across products. Mortgage was up 15%, card up 9%, business banking up 9% and auto loans and leases up 12%.

Deposit growth continued to outperform industry, up 11% with about half of deposit growth from existing customers as we continue to deepen relationship. We continued to see very strong growth metrics in card for the quarter with sales up 15% and new account originations up 9%.

Merchant processing volumes were up 11% year-on-year and active mobile customers up 14%. Revenue of $11 billion was down modestly; consumer and business banking revenue was up 8% on strong deposit growth and we are starting to see the long-awaited improvement in deposit margins.

Mortgage revenue was down 18%, driven by lower net servicing revenue, reflecting lower MSR risk management as well as portfolio run-off. And card, commerce solutions and auto revenue was down 3% driven by continued investment in card new account acquisitions that will provide long-term value. It was predominantly offset by net interest income on higher loan balances as well as higher auto lease income. Expense of $6.4 billion was up 5% year-on-year on auto lease depreciation and continued business growth.

Finally, the credit trend in our core portfolio remained favorable. Net charge-off increased year-on-year, primarily driven by a $470 million write-down of our student loan portfolio, against which we released $250 million of reserve and card charge-offs were up in line with expectations and in line with guidance. Moving to mortgage and auto credit, our portfolio is continues to perform very well.

Now turning to page five and the corporate and investment bank. CIB delivered a strong result with reported ROE of 18% and net income of $3.2 billion. But remember, a significant portion of the tax benefit on the stock update is reflected in these results. Revenue of $9.5 billion was up 17% year-on-year and IB fees of $1.8 billion were up 37%, partly due to a weak first quarter last year, but also given strong absolute performance this year.

In banking, IB revenue was up 34%, driven by higher overall issuance, especially in ECM including a strong IPO market. Remember, the first quarter of 2016 was particularly strong in M&A and weak in DCM for us. And this quarter, they are normalized. Overall, we gained share and ranked number one in global IB fees and number one in North America and EMEA. Looking forward sentiment is positive, market remains broadly constructive; and across products, we expect decent deal flow and the pipeline healthy.

Treasury services revenue of $981 million was up 11% year-on-year, driven by higher rates and operating deposit growth. Lending revenue of $389 million was up 29% year-on-year on higher gains on securities received from restructurings.

Moving onto markets and investor services. Markets revenue of $5.8 billion, was up 13%. At the Investor Day, the market was characterized by low volatility and subdued client activity, leading us to be somewhat cautious. March ended up being stronger than expected, reflecting some recovery in volatility, but also clients responding more to market themes including European elections and to a lesser degree stronger U.S. rates outlook.

Fixed income revenue was up 17% with credit and securitized products as key drivers on stronger client activity and significant spread tightening broadly. Rates was also solidly up as the market reacted to central bank actions and we saw a pick-up of flows in EMEA. We had a decent quarter in equity with revenue up 2% year-on-year in somewhat quiet market broadly with corporate derivatives and prime being brighter spots. Securities services revenue was $916 million, in line with guidance. And finally, expense of $5.1 billion was up 7%, driven by higher performance based compensation, and the comps to revenue ratio for the quarter was 29%.

Moving on to page six, and commercial banking. Another excellent quarter in commercial banking, with the 15% ROE, revenue grew 12% year-on-year due to higher deposit, NII and continued loan growth, as well as a strong IB revenue up 34%, making this the third consecutive quarter of IB revenues of over $600 million. Expense of $825 million was impacted by a $29 million impairment on leased assets. Excluding this, we saw expense increase slightly of our guidance as we made great progress on the pace of investment which will continue to drive strong top-line growth. Looking forward, we expect our underlying expense trends be relatively flat.

Loan balances of $191 billion were up 12% over the prior year. Consistent with the industry broadly, we have seen a slowdown in C&I growth with our loan balances remaining relatively flat sequentially, although up 8% year-on-year. There are a number of factors likely contributing including potential noise in the data from large acquisitions in prior periods and a resurgence in capital markets activity, particularly in DCM including high yield. So, not to dismiss the importance of the trends, we do need to weigh all the facts and against that other macro indicators remain supportive of the economy broadly including CapEx, data and surveys, as well as very high levels of business optimism, all of which should be supportive of solid demand for credit over time.

In commercial real estate, we saw sequential growth of 3%, slightly ahead of the industry but below the pace of prior quarters, impacted both by higher rate, as well as a prudent approach to new originations given where we are in the cycle and maintaining discipline on risk adjusted returns. Credit performance remains strong with a net recovery of 2 basis points reflecting continued stability in both our C&I and CRE portfolios, and overall, a net release loan of loss reserves driven by energy.

Leaving the commercial bank and moving on to asset and wealth management on page seven. Asset and wealth management reported net income of $385 million with pretax margin and ROE each of 16%. Revenue of $3.1 billion was up $3.1 billion was up 4% year-on-year driven primarily by higher market levels and strong banking results on higher deposit NII. Recall that last year's first quarter included a one-time $150 million gain on the sale of an asset. Expense of $2.6 billion was up 24% year-on-year, predominantly driven by higher legal expense. I want to emphasize that the underlying core business results remain very strong, in fact in line with the strongest performance of the business ever. This quarter we saw net long-term inflows of $8 billion with strength in fixed income and multi-assets being partially offset by outflows in equity.

Assets under management of $1.8 trillion and overall client assets of $2.5 trillion were both up 10% year-on-year, reflecting higher market levels and net inflows into both liquidity and long-term products. Finally, banking balances continue to be strong with loan and deposit up 7% and 5% respectively.

Moving onto page eight and corporate. Corporate generated $35 million of net income for the quarter. Treasury and CIO's results improved in part reflecting the benefit of high rates. And other corporate benefitted from the release of certain legal reserves.

Finally, turn to page nine and the outlook. With the addition of the March rate hike, we've updated our NII scenarios as follows: Rate flat from here for the full year NII will be up around $4 billion. Based on the implied, NII will be up by around $4.5 billion. And of course the Fed dots would imply the possibility of three rate hikes this year, which is not fully phased in. So, expect second quarter NII to be up sequentially, approximately $400 million, consistent with what we saw this quarter.

To wrap up, these results reflect strength broadly across our businesses. We remain well positioned to benefit from client flows and a healthy economy as we serve our clients and communities, and we look forward to continuing to grow our business.

With that, operator, you can open up the lines for Q&A. Operator?

Question-and-Answer Session

Operator

Our first question comes from John McDonald with Bernstein.

John McDonald

Hi. Good morning, Marianne. I just had a question about any early signs of deposit data and elasticity. I guess on the consumer side, in your retail banking area, are you seeing customers increasingly ask for higher rate in their deposit accounts or any activity where they are moving from kind of checking to savings and kind of early signs of pressure on deposit pricing?

Marianne Lake

In the retail space, the answer is no, not really. And to be completely honest, we've been pretty consistent that we would not really have expected there to be much in terms of deposit re-price at absolute levels of rate that are still quite low. And so, with IOER at 100 basis points, we're still in that sort of realm of the atmosphere. And so, we would expect that to start happening -- a couple of rate hikes from here maybe; we'll have to wait and see. We've obviously never really been through exactly this before. On the other side of the equation, in the wholesale space, we are in the process of seeing reprice happen.

John McDonald

Got it. Okay. And in terms of customers, they're not really asking yet or behaving in a way that they're looking price sensitive; you're not seeing any early sign of it yet?

Marianne Lake

No.

John McDonald

Okay. Thank you.

Operator

Your next question comes from Glenn Schorr with Evercore ISI.

Glenn Schorr

I wanted to maybe get out in front of what could be some bruise issues in retail lands. And the perspective I'm looking for is you have plenty gross exposure to retail and retail related. However, there seems to be plenty of collateral, and you're typically at the top of the capital structure too. So, can you talk about both direct exposure in some of the problem retail areas and related exposure in like commercial real estate on the mall side?

Marianne Lake

Yes. So, I don't have all those numbers in front of me. I know that in the commercial bank, our exposure to mortgage is really pretty modest; it's around about total of $3 billion in the commercial real estate base. And I would tell you that while there obviously is a lot of discussion around retail and with some merit, it's very, case-by-case, location-by-location, specific and I kind of liken the discussion a lot to discussions we have around bricks and mortar banking businesses, which is consumer -- the way consumers engage with retailers is changing, it doesn't mean that will stop engaging with retailers. And so, it will be very specific with respect to location and tenants, and it doesn't necessary mean that retail is going to be in as much potential trouble as I think people are talking about. So, we remain cautiously -- watching it but we're very cautiously optimistic that it's not -- that it's a bit overblown.

Jamie Dimon

And you should assume that we've looked at not just direct retail or retail related real estate, all the vendors through any potentially sort of retailers. When you put it all together, it's a little bit like there will be something there but it's nothing [indiscernible].

Glenn Schorr

Is the main reason you're positioned and the in the stack meaning -- I notice you have a lot of collateral against your exposure and like I said, you tend to be at the top of the stack; is that the main issue? I remember doing this with you guys two years ago in oil while oil was dropping and it turned you barley came out with a few cuts and bruises; this seems to be more collateral here, but…

Jamie Dimon

Are you talking about real estate related retail or are you talking about retail or are you talking about retailers?

Glenn Schorr

I'm talking both, because you do have hundreds of billions of direct retail exposure plus commercial real estate exposed to it. I'm just making…

Jamie Dimon

You are way out of line. I mean direct retail exposure, we're very careful; retail business has always been violent and volatile. You can look back to our history and half of them are gone after 10 years that is a normal course. So, we are usually senior; we're very careful of our debt. And when you go to real estate, most of the real estate has nothing to do with retail. So, we do have some shopping centers, malls and buildings and stuff like that. But those are generally items that well secured, not relying on single retailers et cetera.

Glenn Schorr

Okay. I was just looking at taking a temperature.

Jamie Dimon

It will be like oil and gas process; it won't be a big deal.

Operator

Your next question comes from Gerard Cassidy with RBC.

Gerard Cassidy

Thank you. Good morning, Marianne. Can you give us some color on the credit card area? In terms of -- I know you upped your credit card losses early in the year in investor day in the fall of last year. What's your guys' outlook for the credit losses and the credit card portfolio? Where would you tolerate it to and at what point do you really change the underwriting standards, if you need to?

Marianne Lake

Yes. So, one of the things that we want to remind everybody before we talk about the trend is that the credit card losses are still at absolutely very, very low levels. And not withstanding whatever we would have done or have done or continue to do with our credit books, we would ultimately have expected them to normalize to higher rates regardless.

Gerard Cassidy

Agreed.

Marianne Lake

And then, obviously, the first quarter hasn't been...

Jamie Dimon

Through the cycle...

Marianne Lake

Yes, exactly. And obviously first quarter has some seasonality. So, I would just start by saying that the charge-off rates we're seeing are completely in line with our expectations and guidance that we gave you at Investor Day, both in terms of 2017 being below 3% and over the medium-term between 3 and 3.25. So, all the reasons that we articulated, a combination of positive credit expansion that took place over the last couple of years and performance of those newer vintages is in line with our expectations and with high risk adjusted margins. So, it's not really about tolerating the charge-offs, as long as we're getting paid properly for the risk, which is the case. And obviously as we see the charge-off rates normalize and reflect those newer vintages, they will go up modestly over time. And we expanded our credit in the targeted way, but it wasn't a significant expansion. And we will respond in our credit and risk appetite to whatever we're seeing in the environment, but it won't necessarily be predicated by charge-off rates.

Gerard Cassidy

And as a follow-up, obviously you have very strong investment banking on the FICC trading side, very strong capital market numbers. Are you guys seeing further evidence of taking more market share from your competitors in any of the product lines, whether it's investment banking or FICC trading or equity trading et cetera?

Marianne Lake

So, I would say, if you look back over 2016 and even 2015 and 2016, it's true and clear that we gained share, not just in fixed income, reasonable share, not just in fixed income but also in equity. And our business performed well last year. And I would suggest to you that we will defend that share, but the competition is back and healthy and you can't expect us to continue to gain share at those kinds of levels, we want to defend it, but it's a healthy competitive market right now. So I would say not really.

Operator

And our next question comes from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Couple of questions, one on card. How large are you willing to be in card? I think on various metrics, you're between 15% and 22% depending on if you're looking at things like merchant acquiring or at the balances and card in general as a percentage of total outstandings in the country?

Jamie Dimon

We have a ways to go before we' concerned.

Betsy Graseck

[Multiple speakers] last cycle, you were nimble and do you still feel that you can be nimble at this market share?

Jamie Dimon

For merchant processing, there is a lot share you can gain and that's not even close, because the products and services and change n technology. I think we're way away in credit card when you say well that's too big for JPMorgan Chase. There is a point where it's going to be a good question, but it's not even remotely close to this one.

Marianne Lake

And I would also say that card continues to be a pretty competitive space. So, we will continue to try and provide our customers with significant value and have deep engaged relationships. But I don't think we're going to see material shift in share in the short-term.

Jamie Dimon

And we also look strategically at credit card, debit card, online bill pay, P-to-P is all one big thing to do a great job for clients.

Betsy Graseck

And then, when you're thinking about the credit box, I know a while back you mentioned, okay we've widened the box to 680, is there any interest is widening it further?

Marianne Lake

Not specifically at this point. I think we're very happy with the performance of the portfolio with the growth rate we are getting and our core card loans were up 9% year-over-year and was getting a lot of NII benefit from that. So I think we're still pretty well positioned at this point.

Betsy Graseck

So, loan growth should probably stay in line with where it is or slow down, is that how we should we be thinking about?

Marianne Lake

Yes, I would say, loan growth should be in the mid to high single digits.

Operator

Your next question is from Jim Mitchell from Buckingham Research.

Jim Mitchell

Hey, good morning. I am going to follow up on the NII question. I think your implied guidance of 4.5 billion higher than 2016 is now at the 500 million from where you were at the Investor Day. Is that lower deposit beta experienced, what's driving I guess the modest increase? And then, just as a follow-up on that in terms of if we do -- the implied curve I think has about one more rate hike in June, if we were to get another one, realize the dot plot too and another one in September, would that be immaterial increase in that expectation or just incremental or just how do we think about that?

Marianne Lake

So, I would -- obviously when we give you guidance, we give you sort of reasonably rounded numbers. So, actually the impact of [indiscernible] is a bit more than $500 million, more than was at the Investor Day, and a lot of big numbers that are pretty reasonable. Yes, there is an element of course as we talk about in the wholesale space where we are seeing reprice happen and it does reflect our estimates as to what we expect to see over the course of the year in cumulative deposit basis. And with respect to if there was a note that implies -- one and half more hike. So, it's probably March is earlier, so longer -- a little bit more rate benefit but it's sort of in line with our expectations. And if we had another rate hike, it would likely be later in the year and ultimately have relatively modest impact on this year but obviously be important going forward.

Jim Mitchell

Okay, so anything in September would be sort of incremental?

Marianne Lake

You should be able to extrapolate those numbers on your own.

Jim Mitchell

Yes, okay. Thank you.

Operator

Your next question is from Ken Usdin from Jefferies.

Ken Usdin

Hi. Good morning. Marianne, you noted the obvious slowdown we've seen in C&I, and Jamie, in the press release, you talk about the consumers and businesses being healthy in the pro-group initiatives. Since the analyst day, we obviously had Obamacare not go through and then there has been some doubt on tax reforms. So, just wondering can you help us understand just where you're seeing that slowdown in C&I and how would -- where are we in terms of that confidence turning into real results and how much is just the wait and see versus where the economy actually is?

Marianne Lake

I think it's important to put that in context. I mean, we did have 8% growth year-on-year in C&I, we're just saying sequentially things are a bit quieter and there are whole bunch of reasons that could be driving that. And importantly, you mentioned it, when we are in dialogue with our clients, they are optimistic and they are thinking about growing their businesses and hiring and all of those things are true. And so putting aside those and we have access to capital market for a variety of reasons in newer bank loans. And it's completely understandable that optimism would lead actions. And so, what that implies, we'll wait and see but fundamentally a pro-growth series of policies will be constructive to the economy, to our clients and ultimately will end up. And them hiring, spending and they already are, and we'll see that translate into loan growth. Whether that's in the second half of this year, we'll see.

Jamie Dimon

I wouldn't overreact to the short term in our loan growth with so many that affect it. When you go to the episodic part, when you look at CIB, I don't look at loan growth at all because companies have a choice of loans and deals or bonds and like that. Credit card looks okay, mortgage is obviously affected by interest rates, auto is obviously affected by auto sales, and middle market was okay, it was slow but it was okay. So, I wouldn't react to that. The second thing is, you all should expect as a given that when you have a new president and he gets going that nine months, after the 100 days it's going to be sausage making period. There will be ups and downs, wins and loss stuff like that. And what you see is a pro-growth agenda, tax infrastructure, regulatory reform and that is a good thing all things being equal. And we think that it should be helpful for Americans. To expect it to be smooth sailing, that would be silly.

Ken Usdin

Yes, fair point, fair point. And just one quick follow-up just on the deal making side, M&A slowed a little bit, but I'm assuming it's the same point, Jamie just in terms of pipelines and expectations that corporates have about transacting. Does that fit into that same vein or is there anything different in terms of just companies getting strategic, getting more aggressive in terms of acquiring and adding to their businesses?

Jamie Dimon

It looks fine but of course it's episodic.

Marianne Lake

And I would also say that while of course people's dialogues include a degree of discussion around regulatory reform and tax reform and the like, it isn't stopping the strategic dialogue and it isn't stopping from -- or boards from considering strategic deals partly because of what you said, partly because there is a recognition that we think will take some to ultimately get finalized and really won't put their strategic agenda on hold. So, in some ways, you get both sides of the equation; people aren't going to wait indefinitely to get certainty on issues when there are good strategic deals that can be done and that's part of the dialogue, do not say has not impact but it's still quite healthy.

Operator

Your next question is from Marty Mosby with Vining Sparks.

Marty Mosby

Thanks for taking my question. I want to focus on deposit pricing in a sense that before the Fed starts moving up deposit rates and the Fed funds rates were right on top of each other around 15 basis points. Now the effective Fed funds rates around 90 basis points and deposit costs are only 20. So that's 70 basis points on your $1 trillion of deposits basically gives you about $7 billion worth of incremental revenue. This needed to cover the cost of branches and other things for those deposit franchise. At what point do you hit a targeted kind of spread and where is that where you begin to at least break even on those costs versus revenues?

Jamie Dimon

Can I just answer that? Marianne has given you guys some very specific guidance on interest rates. When interest rates got to zero, remember that when it floored, no one expected 25 to 50 basis points to necessarily be paid out. This was a cost. Marianne also gave you at Investor Day, a very forward looking view of that where it kind of normalizes. And it's different for every different type of deposit. The wholesale deposits, commercial credit deposits, company deposits, treasury deposits, they're all different. So, it's hard to summarize it all. But at one point, you're going to back to kind of a normalized spread. In terms of just retail, I would say that's like 3%, maybe a little less.

Marianne Lake

Maybe a little less. And I would also just say, I am glad that you brought up one point because, it's something that I like -- a point that I'd like to make, which is when people think about the benefit we get from NII and rising rates, there is an element of people making it sound very passive. Yes, you're correct, we did build those loans, we acquired those customers, we built in the products, we invested in the customer service and so to be able to enjoy the industry-leading deposit rates that we're having. But I would also make -- and so as margins improved and we will obviously enjoy the benefit of that, and to your point, we invested to be able to. But I will say that if we look at the performance of our branches, every single week, month, individually together by market and the very, very, very vast majority of them, meaning there are only a handful are profitable in their own rights today at these spreads on a margin basis. So, the branches are doing very well.

Jamie Dimon

Another number that we gave you, you should look at, we gave you what we expect normalized margins and normalized returns to be in consumer, card only businesses. There was numbers include normalized credit card charge-offs, like the credit card, the number we now use for the quarter, something like that. And in retail going back to normal spreads, that's what those numbers include. And of course, they all bounce around. We kind of look at the business, we price for normalized results, we don't price for, which is overearning or underearning and you have too much credit, too little, and that's kind of how we run the business.

Marty Mosby

Follow-up to that is really what I'm getting at is last year, everybody was assuming through the cycle kind of betas and we were saying that there will be much lower early on. We do think once you get to a certain target, usually about 100 basis points of spread, you start to see a little bit more pricing pressure starting to kick-in, just like you were saying Jamie different products…

Jamie Dimon

We've built that in every number we've given you. We've always told the beta and gamma.

Marianne Lake

I can point you to our presentation in May of 2014 where we showed exactly what we expected deposit reprice to look like based upon historical moves. And so, what we have actually we're seeing today looks incredibly similar in terms of realized reprice. You're actually right. I will tell you thought that history may not be a precise predicator of the future, because we've never really been in that exact position before, and other things play into the equation including the fact that the industry but us specifically have significantly invested in other customer service products, items like digital and the like, which will change the dynamic one way or another on reprice. So, you're right, historically 100, 150 basis points, if there's movement, we'll see.

Marty Mosby

And the last component of this is, the balances continue to grow. So, as long as we're seeing double-digit kind of sequential annualized and year-over-year growth in deposits, that provides a little bit cover and the sense of what you're talking as well. We may see a little bit more lag, just because we're still kind of continuing to get deposit growth?

Jamie Dimon

Yes. We feel great about deposit growth and the account growth. So, we have new accounts, we're growing and existing accounts are growing. Remember, you have to be very careful because if rates were higher, people do different things with their money, like CDs and then how they view the stock market, that money -- some of that is actually in this. So, we're always conscious of the fact that those flows ebb and flow and history is only a somewhat of a guide to that.

Operator

Your next question comes from Erika Najarian with Bank of America Merrill Lynch.

Erika Najarian

Hi. Good morning. I had a few questions on the regulation. Jamie, in your shareholder letter, you've dedicated a lot of time on mortgage and have it opening that up for banks to originate more of the percentage of mortgage in the United States. As we look forward, do we need legislative change for the banks to gain more market share from non-banks in mortgage like clarity in QM or the CSPB or would changes in supervisory attitudes be enough for that to shift on the mortgage side?

Jamie Dimon

I think that category out precisely because it didn't take legislation and it was very important. And my point isn't about banks versus non-banks. My point is about the United States of America and what these things did to the availability of credit to certain class of people. I was very specific, we actually published a research report in mortgage land, which you can go get by Mr. Joseph that really breaks it out. But because of the cost of servicing delinquent accounts, $2,000 a year, because of the additional cost of origination, because of the potential litigation, because of the not clarity around the QM, because of the forward claims that the consumers both pay more and the credit box is wider. And then, we actually believe that credit box is hurting first time buyers, younger, self employed, prior defaults. So, when defaults happen, they deserve a second change. So, the policy has restricted that. And the shocking thing to me is the absolute size of that which we think could be 3 to $500 billion a year. That one thing alone could edit -- if you think about second stagnations, could have been 0.3 or 0.4% a year growth, changed five years ago, you're talking about a lot of growth, a lot of jobs, a lot new homes, a lot of young families into homes and very positive, not taking a lot of extra risk, not -- it was about America, while we are executing less of the banks to non-banks. That's my point about that's how it's hurting growth of America and hurting that class of citizens. And I really think somebody should be right about that, that's how important it is. That was one example.

Erika Najarian

That's clear. Thank you. And the follow-up to that is a couple of week ago or so, there was a lot of talk from Washington about the current administration potentially supporting Glass-Steagall and of course a lot of your investors called in concerned. And Jamie and Marianne, two part question; I am wondering if that's a real worry for JPMorgan shareholders? And second Marianne, maybe in Investor Day two years ago, you mentioned that the capital and the cost that a breakup would save, was not that much. And I am wondering if you could also -- if you remember, refresh us on that analysis?

Marianne Lake

Okay. So, I will just start by saying we've been consistent that our operating model including the diversification of our businesses has been and was a source of strength, not just for us but also for the financial market during the crisis, and there is strength in the way the company operates that can't be discounted. I would also say that the commentary feels unnecessary given where the industry stands on capital liquidity and regulatory reform broadly. And I know at this point, as I'm sure you al read too, most recently Governor Tarullo making comment about but historically other thought leaders in the financial stability space I'm talking about, and I would to say that it doesn't feel, for reasons that you've articulated in terms of structural reform or structural change in model and things. So that would be consistent with a level playing field and pro-growth agenda in the U.S. So, that's kind of how we feel about it. I can't give you specific reasons to not continue to monitor the situation, but it doesn't consistent with the rest of the objective of the administration.

And with respect to Investor Day couple of years ago, lots of things have fundamental changed since then, but the ultimate conclusion hasn't, which is that we believe that there is significantly more value for our shareholders and as I said before, for the economy with this Company the way it is today than in some other forms.

Operator

Thank you. Your next question comes from Matt O'Connor with Deutsche Bank.

Matt O'Connor

We've obviously seen quite a bit of flattening of the yield curve and it could reverse pretty quickly if there is progress made on the pro-growth agenda, but just talk about at what point does the flatter yield curve start to impact NIM? And I guess I'm thinking specifically if we get a couple more hikes on the short end but the long end either doesn't move, the long end comes down more. How do we think about the breakpoint in terms of NIM benefit with short end being offset by the flatter yield curve?

Marianne Lake

First of all, we don't over think change of the curve or part of normalization in any one period, we think about the reason for the actions and ultimately as long as the economy is growing, you'll see both of the front end and long end of rate ultimately go up. And even though I know that is lower when we broken down, broken below a little bit of a low bound, seeing in the kind of 230, 260 range for a while. So, we're still within -- largely speaking within the range. And I anticipate that we are going to see the 10-year higher by the end of the year. And if you look our earnings disclosures, we're much more sensitive to -- as a pure NII NIM matter to the front end rate. And so not to say we would not have an impact, but it would take a while for that to have an impact that would meaningfully offset any of the benefit of higher short-end rate.

Matt O'Connor

Okay. And then separately, as we think about central banks winding down some of the QE and the Fed actually shrinking their holdings, how do you think about that impacting your businesses? Obviously there might be a rate impact; I think you talked about expectations quite a bit. But just how do you think it impact say from markets business with potentially more assets kind of out there to be purchased and sold?

Marianne Lake

I mean ultimately any actions by central banks, anything, in the shape of the yield, anything that is presenting an opportunity for client to transact and trade, there is an opportunity for all businesses. So, as long as it happens in a reasonably rational fashion, and there are no significant events, it just creates an opportunity for clients and then opportunity therefore for us.

Jamie Dimon

It always keep in mind that why they do something probably is more important than what they do. So, if they're doing it because the American economy is getting stronger, that is more important to be a direct effect of adding -- letting securities mature et cetera.

Matt O'Connor

Yes. I guess just two thoughts on, there's the impact of QE on the economy and the impact of QE on some of the markets businesses that maybe there has been a crowding out from all the QE, so as they unwind that it could actually boosts activity levels?

Jamie Dimon

It could, I just wouldn't put that in your models.

Operator

Our next question is from Eric Wasserstrom with Guggenheim.

Eric Wasserstrom

Thank you for taking my question. Just a couple of questions on consumer. We've talked a lot about card losses. But one thing that seems to be a little bit unusual is that a lot of the commentary across many of the card issuers is for the expectations of losses to be higher in the first half than second half. And I just want to get your perspective on the likelihood of that trajectory.

Marianne Lake

So, well, I mean -- so, in terms of rates, obviously, the loan balances are seasonally low in the first quarter and charge-off rates are higher in the first quarter. But, overall, we're not expecting to see abnormal patterns in our charge-offs.

Eric Wasserstrom

Got it. Thank you. And then just a follow-up on auto. Your lease a little bit to the impact of declining residual values, which has been of course a focus for the past couple of years. Was there anything unusual in your view about the pace of decline in residual values in this first quarter?

Jamie Dimon

Because it happens every 5 or 10 years, so why would anyone be surprised? And we've always been very conscious of this and very careful about how we do leases, we do it conservatively….

Marianne Lake

And we only do…

Jamie Dimon

[Multiple speakers] manufactures and we properly account for it, and we have loss mitigation. That's pretty important. So, no, we're not surprised it's going to happen every now and then.

Eric Wasserstrom

But in terms of pace of residual values from here, similar or different in your view?

Jamie Dimon

I have no idea.

Operator

Your next question comes from Matt Burnell with Wells Fargo Securities.

Matt Burnell

Good morning. Thanks for taking my question. Marianne, let me start with the question on the net revenue rate in the card services business. That's been relatively steady, little over 10% for the last couple of quarters. I presume given your outlook that that would stay pretty close to the 10.1% level that you reported for the last couple of quarters or are you thinking about a change there as you slightly change your marketing strategy?

Marianne Lake

So, it's actually got somewhat less to do with our marketing strategy than it has to do with the fantastic success we've had with new products, Sapphire Reserve in the fourth quarter and in the first quarter of this year. So, but fundamentally, if you go back, I think to a conference that Kevin Waters spoke at last year sometime in I think September, he said look, we're going to see the revenue rate be lower, about 10 and some for the couple of quarters, while we acquire all of these accounts. Once we've hit a pace, we should see middle out and 10.5 the full year of 2017. So the first quarter lower and subsequent quarters continuing to now start rising back up towards the 11.25% which was ultimate run rate target and that's still fundamentally what we're expecting to see, which is, we're at -- assuming, there are expectations of what we're going to see an account growth over the future period continues to hold, we would expect to see an increase from here in the second quarter, the overall year to be sort of finish in the mid-10s and end year 11-ish and then goes back to 11.25 over the course of next couple of years.

Matt Burnell

Okay. Thank you. Jamie, maybe a question [multiple speakers]. Fair enough. Jamie, a question for you, just another one on the regulatory landscape. There are number of open positions inside the Beltway at a number of the primary bank regulators. And I am just curious in terms -- pardon me?

Jamie Dimon

I said I'm not interested. I'm kidding.

Matt Burnell

Well somebody should fill those spots, if it's not you. I am just curious what you're thinking is of the timing of those appointments and how quickly those could get filled and what benefit that might provide to the banking industry.

Jamie Dimon

I've been clear, I think Gary Cohn and Steve Mnuchin are doing the right thing; they want to find the right people for jobs. They are talking about our data, they are talking about lots of people, but even after they announced it, remember they need to be vetted and confirmed that could take 90 days. So, the sooner, the better, but I think getting the right people is equally important.

Operator

And we have no other questions in queue at this time.

Marianne Lake

Okay. So, just Glenn, I think you're still on; I've got a couple of numbers for you in terms of retail exposure. Our direct retail exposure in the hotel space is about $20 billion, more than 70% investment grade and more than 15% secured. And in terms of commercial real estate, about $11 billion, largely ABL, pick the right name, structural protection, all the things you talked about. So, not that it's nothing but it's in the context of our overall total lending portfolio. It's not as concentrated I think as you were implying. So, if you want to call Investor Relations and that is not what you were looking at, we can try and reconcile those numbers for you. Okay. Thank you everyone.