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 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, Jennifer Piepszak. Ms. Piepszak, please go ahead.

Jennifer Piepszak

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.

Jamie Dimon

Yes, I just want to add my thanks too. I think Marianne, as we all know, did a great job - smart, honest, thoughtful, helped make the company a better company, so all our thanks goes to Marianne. We also all know that Jennifer is going to do a great job, too.

Jennifer Piepszak

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 outstanding; number one in global IBCs 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. It's important to note here that these variances include the impact of loan sales in 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. Non-interest revenue was up approximately $300 million year-on-year, largely driven by the absence of the card rewards liability adjustment we took 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 and business banking, offset by lower markets revenue and IBCs 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 remained favorable with a 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 a CET-1 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 and 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, up 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. 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 credit journey 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, revenues 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.

In cards, 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 purchase credit impaired portfolio of $400 million, reflecting improvements in delinquencies and home prices, which was partially offset by a reserve build in cards 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 and 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 was particularly strong last year, which featured record or near-record revenues in overall IBCs 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 15%, 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 investment in bankers.

In advisory, we grew share in announced deal volumes and announced more deals than any other bank. In debt underwriting, we also rank number one, benefiting from our strong lead [indiscernible] position in leveraged finance, and in equity underwriting we have seen significant pick-up 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 lease financing opportunities in debt underwriting. Dialog with clients remains active and we expect strong deal flow to continue.

Moving to 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 Tradewind. Excluding this gain, markets revenue would have been down 6% year-on-year against strong second quarter performance last year.

Fixed income markets were 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. [Indiscernible] client activity and a tough compare contributed to a year-on-year decline in equity derivatives; that said, cash in prime remained stable with client balances in prime reaching an all-time high. Treasury services and security 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 security 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. The comps revenue ratio for the quarter was 28%.

Now moving onto 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 were down 1% year-on-year and importantly up 1% sequentially as balances have largely stabilized in total, although we continue to see migration to 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 at 1% with C&I loans being 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 in 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 onto 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 leverage 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 on both wholesale and mortgage lending.

Now onto 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. 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. As a reminder, this compares to a rate scenario that assumed zero cuts at the time of first quarter earnings.

To wrap up, the U.S. consumer remains healthy, overall credit is in great shape, and the earnings power of the company is evident. We delivered strong returns this quarter and 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.

With that, Operator, please open the line for Q&A.

Question-and-Answer Session

Operator

[Operator instructions]

Our first question comes from Jim Mitchell of Buckingham Research.

Jim Mitchell

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

Jennifer Piepszak

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 off us. 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 the 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.

Jim Mitchell

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

Jennifer Piepszak

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 good quarter on the back of the rally but it doesn't change the overall structural challenges.

Jim Mitchell

Okay, thanks.

Operator

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

Erika Najarian

Hi, good morning. I just wanted to go back to what you were saying earlier in that your guide--or your guide lower is including 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 assumption for that $500 million swing, particularly on deposit pricing?

Jennifer Piepszak

Okay, sure. 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 you can think about -- if it's one cut, $57.5 billion-plus, and if it's more, $57.5 billion-minus. Then based on current advice, you can think about the third quarter as 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.

Then in terms of betas, largely speaking you can think of betas as being symmetric, and so on the consumer side we saw little re-price 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 treasury services and security services, we are largely at full re-price there, so there should be opportunity there. 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 re-price tick up there. But importantly, I would say we're not going to lose any valuable customer relationships over a few ticks of beta, and so we'll see how it goes.

Jamie Dimon

And it's all embedded in your assumptions.

Jennifer Piepszak

And it's all embedded in the [indiscernible].

Erika Najarian

Got it. Just going back to Jim's question, I noticed that investment securities balances continued 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?

Jennifer Piepszak

Sure, so on the RWA side, yes, that is precisely why we're doing it, and so when you see the loan sales in home lending, yes, they are offset in securities purchases which are more efficient from a capital perspective, as well as a liquidity perspective, 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.

Jamie Dimon

I would just add, our standardized capital ratio is 12.2, advance is 13. Advance is obviously a far more important relevant economic number. It simply does not make sense to own all mortgages when you can frame by standardizing and you can't securitize.

Erika Najarian

Got it, thank you.

Operator

Our next question comes from Mike Mayo of Wells Fargo.

Mike Mayo

Hi. 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 you'd accelerate it for a couple years and then maybe we'd see more of the results in 2020, 2021.

Jamie Dimon

Could I just take that one? It's about $11.5 billion today, I think it was a little bit lower last year. If we had to say what it is today for next year, it'd be something like $11.5 billion, and I think it's always becoming more efficient, but what you really have in tech is some things are becoming cheaper all the time and then you'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, like My Rewards programs and Chase My Loan and the credit journey because there's a recession or something like that. Daniel Gordon will tell you right now that they think they get more efficient spend, and we shouldn't [indiscernible] whatever you want, but we will be happy to spend to win in this business, and we're very efficient, [indiscernible] how we spend in technology. We're going to do it regardless of the environment, and we'll probably get more efficient in tech spend too.

Jennifer Piepszak

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's 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.

Jamie Dimon

It's amazing - our [indiscernible] costs with all the things going on in the world today are down because effectively of AI and [indiscernible] and stuff like that, and so it's hard to [indiscernible]. You mentioned You Invest, you look at our client investment assets grew 16%, a portion of that was You Invest, and obviously You Invest cost hundreds of millions of dollars to build, so you've got to put all those things in perspective about how you start making decisions going forward.

Mike Mayo

Then a follow-up, Jamie, you mentioned the environment, all the things taking place in the world. How is the environment now? I mean, on the one hand you have a trade war, you have lower interest rates, you have capital markets which are down to the big banks, you have a lot of pessimism; on the other hand, you highlighted your results. When you take the temperature of the environment, what's the temperature?

Jamie Dimon

It's not that bad. You know, uncertainty is a constant. The one thing in life is you know it's going to be uncertain going forward, and geopolitical tension is kind of a constant. Those things may be a little bit higher now than normal, but what I think we see is global growth is north of 3%, you kind of expect the 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 the trade war. You travel around the world, you know, Japan is growing and Europe is growing a little bit, and Brazil has gone from negative-4 to zero. A lot of countries have opportunity to expand. They don't have to be great but they should be doing better [indiscernible], so I wouldn't get too pessimistic yet.

Obviously the Fed will react to the data they see, and I would say it's more important what's going on that just what the Fed does. If the Fed's cutting rates and we're going to recession, that's not a good rate cut. IF the Fed actually raises rates one day and we're booming, that's not so bad.

Mike Mayo

All right, thank you.

Operator

Our next question comes from Glenn Schorr of Evercore ISI.

Glenn Schorr

Hi, thanks. I'm not sure if I missed it, but I think 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?

Jennifer Piepszak

Yes, there's a few things going on in loan growth, as you say, Glenn. 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. 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 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.

Glenn Schorr

Okay, appreciate that. 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's franchise or are you doing anything actively to manage that lack of mix shift?

Jennifer Piepszak

As I said, we are seeing balances stabilize in the commercial bank and AUM. 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. 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.

Glenn Schorr

Okay. Maybe last one. 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 curve environment persists into next year after the two or three cuts this year, are we looking at a billion or is it way too complex to over-simplify like that?

Jennifer Piepszak

Yes, it's probably more complicated, Glenn. Just given the range of outcomes are as broad as they are, and importantly if we're looking at cuts that are 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.

Glenn Schorr

Okay, thank you, appreciate it.

Operator

Our next question is from Gerard Cassidy of RBC.

Gerard Cassidy

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, that double digit rate of growth?

Jamie Dimon

Thanks for noticing.

Jennifer Piepszak

I would say that is firing on all cylinders, so it's brand, it's people, it's product. It does certainly help to have the backdrop of a healthy U.S. consumer as well, and in fact retail sales this morning look strong, so we can expect that to continue.

Gerard Cassidy

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

Jennifer Piepszak

Yes, we have taken share, a little bit of share in card. As you know, we're 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.

Jamie Dimon

And we expect to take more share in the future.

Gerard Cassidy

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

Jamie Dimon

Yes, so to put it in perspective, Gerry, we've been talking about Blockchain for seven years and very little has happened, and you're going to be talking about Libra three years from now. I wouldn't spend too much time on it. We don't mind competition and the request is always going to be the same - the governments are going--you 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, a, [indiscernible] terrorism or criminal activities, and that's going to be true for everybody involved in this, and that'd be banks even doing [indiscernible] for a long period of time, and those [indiscernible] I think will just become for everybody at one point, and they should.

Gerard Cassidy

Thank you.

Operator

Our next question is from John McDonald of Autonomous.

John McDonald

Hi. I wanted to ask about the CCAR, and you got a big authorization this year. How did you approach the CCAR plan this year in relation to your long-term CET-1 target, the 11 and 12 that you've talked about?

Jennifer Piepszak

Sure. 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. 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.

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%.

John McDonald

Okay, thanks Jen. Any updated thoughts on FISO, or could you remind us what your thoughts on initial impact there? Thanks.

Jennifer Piepszak

Sure, so haven't changed from investor day. Our range continues to be $4 billion to $6 billion, and we're prepared for the January 1 implementation.

Jamie Dimon

Just to [indiscernible], so CCAR is one test a year on stress. We do 120 a week, 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'd [indiscernible] that capital. Remember, things like opening branches, for every branch we'll eventually use $10 million of capital, so four new branches will eventually be $4 million of capital, so restraints on growth also restrains on capital usage and the ability to finance the U.S. 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, so.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Betsy Graseck

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. 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?

Jamie Dimon

We think the Blockchain is real, and the reason it takes so long is people have to agree to the protocols, you have to write a lot of code to get into it. The one you're referring to, IAN, is think of an information network for banks, so right now banks transfer live information among each other - think of trade finance and correspondent banking and stuff like that, so I think we have 120 banks signed up, we're going to have 400. 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. 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 was true, and now we do effectively sell from P to P, and we do effectively [indiscernible] real-time payments 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, etc. 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.

Betsy Graseck

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, a 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?

Jamie Dimon

[Indiscernible] there is real-time P2P free save and secure [indiscernible], 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, [indiscernible] built in real-time payments is actually already in use. To me, the issue there is going to be fraud - you know, to make sure with these real-time payments, you also put it through effectively real-time floor checks and stuff like that.

You know, in the United States, credit cards, debit cards, people love these cards. The beneficiary is the consumer. 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 I used my debit card.

Betsy Graseck

Yes, when you get rewards, it's great. Okay, thanks.

Jamie Dimon

And at JPMorgan, they'll 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, but local investing, very cheap, very clear. So we're going to take and give our clients more and better and faster and cheaper all the time, and now we package that with [indiscernible] banking and [indiscernible] card, or discounts on mortgages. That all remains to be seen, but the future is very bright. If we can do more for our customers, that's a very good thing.

Jennifer Piepszak

And don't forget on credit cards, you get chargeback rights and you get the flows.

Jamie Dimon

Right, and you get--you go online, 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 [indiscernible] how they can improve their FICO score. You get offers like this Chase [indiscernible] - I mean, we don't really market it, but it's really taken off.

Jennifer Piepszak

Sure, so the Chase [indiscernible], 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. So as I said in the presentation, we've had over 60 million Chase offers activated, so this is really powerful and benefits not just our consumers but our large merchant clients, and at zero cost to us.

Betsy Graseck

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

Jamie Dimon

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

Betsy Graseck

Yes, I guess the final question here is just on the under-banked. Is there something, or is than an offer than you have for them? Are you considering that, because I'm just thinking about where fintech's is trying to exploit you, and I know it's a catchphrase - under-banked, that is being used by [indiscernible], 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.

Jamie Dimon

We have [indiscernible]. I think 25% of our branches are [indiscernible] 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 it's get people into the branch to educate them about saving, FICO scores, what you can do to get a mortgage to buy a house and stuff like that. 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 for the under-banked. I think that's going now 25% or--and we've kind of pushed that a little bit more, so we're always trying [indiscernible].

Then we also have special, I call it venture banking, [indiscernible] fund. We're making loans [indiscernible] non-traditional bank loans that help grow your businesses, so we're finding a lot of ways to do it and [indiscernible] understand it. I would say we're at the forefront of that. Fintech, of course is 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. When Jen was at cards, she rolled out last year [indiscernible] 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. We're all-in trying to do a better job for the American consumer, and we think we do a great job for them, and if there are legitimate complaints, we'll fix it.

Jennifer Piepszak

That's right, and you mentioned the 25% in LMI [indiscernible] in our expansion markets, that's 30%.

Betsy Graseck

Thanks.

Operator

Our next question is from Ken Usdin of Jefferies.

Ken Usdin

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.

Jennifer Piepszak

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 the 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, 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.

Ken Usdin

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

Jamie Dimon

[Indiscernible] 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.

Jennifer Piepszak

That's right, the securities growth, I should have mentioned was [indiscernible] due to the home sales and home lending.

Ken Usdin

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?

Jennifer Piepszak

We haven't disclosed the amounts 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.

Jamie Dimon

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

Jennifer Piepszak

Yes.

Ken Usdin

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

Jennifer Piepszak

Sure. 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 IBCs 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 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. 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.

Matt O'Connor

Good morning. I realize 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? 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?

Jennifer Piepszak

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 by 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. 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.

Jamie Dimon

Remember in a real recession, there are always opportunities for [indiscernible] 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--you say okay, we have this great opportunity but we're not going to take it, and so I think you've got to be very careful. The other thing is, marketing money is usually better spent in a downturn, the returns on it usually double.

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'll use it all, or is that still to be determined based on balance sheet growth, stock price, and the environment?

Jennifer Piepszak

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. As you know, it's over four quarters and so we have time to think about it, but obviously pleased to have the flexibility.

Matt O'Connor

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

Jamie Dimon

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

Operator

Our next question is from Saul Martinez of UBS.

Saul Martinez

Hey, good morning. A couple of questions. First on the NII outlook beyond this year, I fully appreciate you're 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 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 upon how the economy responds, deposit pricing? If you can just kind of outline what you think some of those moving parts are.

Jennifer Piepszak

Sure, so the guidance we gave at investor day, steady state 58 to 60, 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. 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, so that obviously continues to be true, 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.

Saul Martinez

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.

Jennifer Piepszak

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. I think we always need to be testing and learning and doing things like this, and not afraid to shut them down when we've learned what we needed to learn and can serve our customers through the primary Chase mobile app.

Jamie Dimon

We learned a lot, like how to do digital account openings only digital. When you do it out of a retail bank, you tend to rely on what you already have, so there were a lot of lessons there. We're always going to be learning from kind of skunkworks and learning from things like that, 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 smarter and better, and so I hope we made some really good mistakes that can teach us at 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. You can open an account [indiscernible] it takes minutes to open an account, so we got much better at digital only [indiscernible] separated from the physical branch system.

Jennifer Piepszak

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

Jamie Dimon

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

Saul Martinez

Got it, okay. Thanks very much.

Operator

Our next question is from Eric Compton of Morningstar.

Eric Compton

Good morning, thanks for taking my questions. This question kind of ties into some of the items already mentioned - longer term tech focus, and also related to Finn. 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 huge problems for banks or not really a big deal. 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 re-do 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.

Jamie Dimon

The hype has been around now for the better part of a decade, right, and we seem to be doing fine. But there is truth--and some of these legacy platforms are also the reason why you have 50 million customers, but it is true that over time, these platforms need to 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. The way I'd look at it a little bit is we run 6,000 or 7,000 applications. Over time, those will be marginalized and being re-factored to be cloud eligible [indiscernible] the cloud, very public cloud, and yes, they 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 [indiscernible] 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 with the whole legacy system, 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 [indiscernible] AI, they’re all in those numbers.