Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's second quarter 2016 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

Thank you and good morning, everyone. I am going to take you through the earnings presentation, which is available on our website. Please refer to the disclaimer regarding forward-looking statements at the back of the presentation.

Starting on page one, the firm reported net income of $6.2 billion, EPS of $1.55 and a return on tangible common equity of 13% on $25.2 billion of revenue, a strong result this quarter, particularly given the backdrop. And while there were no significant items shown here on the page, our underlying performance was even stronger if you exclude the impact of other notable items, primarily credit, legal and tax, all of which you will hear about as I go through the presentation. And that strength was driven by increased client trading activity across markets and an improvement in IB fees compared to the first quarter, as well as strong core loan growth of 16% reflecting good demand across both consumer and wholesale and record consumer deposit growth, up $54 billion.

Before I go through the results, let me spend a moment on two topics that are top of mind. First an update on wholesale credit. You will see that the total wholesale credit costs this quarter were approximately $200 million. Within this, charge-offs of $150 million were principally driven by oil and gas and metals and mining and those charge-offs were very substantially offset by reserve releases, so they were previously reserved which means underlying the net $50 million reserve build we saw incremental reserve actions this quarter of about $200 million principally one energy name downgraded in the CIB.

Although the oil and gas sector remains stressed and reserves will continue to be idiosyncratic, overall trends have been somewhat positive with oil prices continuing to stabilize and firming sentiment in the sector improving access to capital markets. In addition, outside of energy, we still have not seen contagion or deterioration in our wholesale or consumer credit portfolios.

Second on Brexit, uncertainty running up to the referendum led to a risk off environment and following the decision, the markets were quite volatile as expected and volumes were materially higher in the immediate aftermath. The market functioned quite well absorbing the volatility and despite significant increases in volumes our systems were stable and we continue to support client activity with decent trading performance. With respect to next steps, as you know, the ultimate relationship between the U.K. and the European Union broadly and access to the single market and possible things specifically will likely unfold slowly and over an extended period, depending on when Article 50 is invoked.

We continue to work on plans for the full range of outcomes, but we will be appropriately patient. The most important point is that we remain committed to fully supporting our European and U.K. clients across businesses and we will be fully able to do this. And while executing against certain of these options would be complex, ultimately we will protect the franchise and minimize any friction cost so that they will be manageable for the company.

Moving on to page two. Revenue of $25.2 billion was up $700 million year-on-year on higher net interest income. For the full year, expect NII to be up more than the $2 billion we guided at Investor Day despite headwinds from a flatter yield curve, given our sensitivity is significantly skewed to the front end of the curve and as industry deposit re-price to-date has remained low coupled with continued strong loan and deposit growth. Noninterest revenue was flat year-on-year with the increase in markets revenue being offset by declines in IB fees as well as asset management. Adjusted expense of $14.1 billion was down $140 million reflecting continued progress against our commitments. We still expect the full year expense $56 billion, plus or minus, as the second half of the year includes our expectation of an increase in the FDIC surcharge in the third and fourth quarters.

Moving on to capital on page three. The firm's advanced fully phased-in CET1 ratio was 11.9%, which standardized at 12.1%, both up about 15 basis points from the prior quarter. The improvement in both ratios was driven by net capital generation with RWA remaining relatively flat. Firm SLR remained flat to the prior quarter at 6.6% as capital generation was offset by balance sheet growth. This quarter, we returned $4.4 billion of net capital to shareholders including $2.6 billion of net repurchases and common dividends of $0.48 a share. Finally, we are pleased we did not receive an objection to our capital plan and the Board authorized gross repurchases of up to $10.6 billion.

Moving on to page four and consumer and community banking. Consumer and community banking generated $2.7 billion of net income with an ROE of 20%, reflecting continued strength in business drivers.

We had record deposit growth again this quarter, up 10% year-on-year. Average loans were up 11% with core loans up 23%, driven by mortgage and auto but with continued strength across all products. And we had record business banking loan originations of $2.2 billion, up 14% year-on-year and with a strong pipeline up 17%. We added nearly two million households year-on-year with an increase of 700,000 since last quarter reflecting strong acquisition trends including the launch of Freedom Unlimited.

And finally, our active mobile customer base remains the largest among U.S. banks up 18%. Revenue of $11.5 billion included some non-core items, which contributed a little under $200 million, principally a one-time gain on Visa Europe and negative mark-to-market on Square. Adjusted for this, revenue was up 2%. Consumer and business banking revenue was up 3%, reflecting strong deposit and account growth. Mortgage revenue was up 5%, with rates remaining low, supporting production margins and on growth in NII of the added $14 billion of high-quality loans to our portfolio this quarter, partially offset by lower servicing revenue.

Card, commerce solutions and auto revenue was up, but flat if you exclude the non-core items I mentioned, with growth in card and auto offsetting the impact of card renegotiations. Expense was down to 3%, driven by lower legal expense and continued progress against our efficiency commitments allowing us to fund the incremental marketing and auto lease growth that we talked about at Investor Day. Finally, credit trends across the consumer businesses continued to be favorable with charge-offs in card trending up slightly.

Over the last two, three years we have responsibly expanded our credit box in card, in the prime and near-prime space. As this vintages season, we would naturally expect a higher loss rate and performance is in line with our expectations. These loans are coming on at ROEs higher than the portfolio average. So as the mix of our portfolio increasingly reflects these newer vintages, we do expect loss rates to continue to trend up but to do so slowly and as such, we built $250 million of reserve this quarter.

Moving to auto credit. Competitive pressures have caused some lenders to take more layered risk. We have maintained our underwriting discipline with average FICO scores and LTVs better than the industry and with a very sharp focus on avoiding mislayering. Our credit performance is in line with expectations and we have built $50 million in reserve this quarter, largely reflecting volume growth. Against this reserve build, we saw releases of $125 million principally driven by mortgage.

Turning to page five and the corporate and investment bank. CIB reported net income of $2.5 billion on revenue of $9.2 billion and an ROE of 15%. In banking, IB revenue was $1.5 billion, down 15% in a market down 18%, largely driven by lower equity underwriting fees. We maintained share and ranked number one in global IB fees, ranking number one in North America and EMEA. Advisory fees were flat versus a wallet that declined 15%. This quarter that we ranked number two globally and grew share by 50 basis points. In equity underwriting, global issuance improved after a weak first quarter, but was down from a strong quarter last year with fees down 37% in a market down 42%. We continued to rank number one globally growing share by 30 basis points and we ranked number one in every product category for the first half of this year. Debt underwriting fees were down 2% from a strong prior year, largely in line with the market which was down 4% and we ranked number two globally.

Moving on the outlook for fees. Given the decline in M&A volumes, lower wallet is expected in the second half of 2016. We expect to see positive momentum in ECM as the new issuance market continues to improve and we expect DCM to be broadly in line with the first half, reflecting robust high-grade bond issuance offset by lower acquisition finance. Lending revenue of $277 million was down 8% reflecting mark-to-market losses on hedges of accrual loans. Markets revenue of $5.6 billion was up 23% year-on-year.

As I mentioned at the beginning, the Brexit vote triggered a spike in volatility and volumes across asset classes. We were able to meet our client's needs, execute their transactions and provide liquidity. Fixed-income revenue of $4 billion was up 35%, versus a weak second quarter last year. The positive momentum that we saw in March continued into the second quarter with strong performance in rates and currencies in emerging markets on higher client flows and performance also improved in credit and securitized products as client risk appetite recovered in a more stable environment, driving increased primary and secondary market activity.

Equities revenue was $1.6 billion, up 2% compared to a strong second quarter last year. With respect to the third quarter, client activity is returning to more normal levels and trading performance so far has been fine. Credit costs of $235 million were driven by reserve build for oil and gas. And finally, expense of $5.1 billion was down 1% year-on-year with a comp to revenue ratio for the quarter of 30%.

Moving on to page six and commercial banking. Overall, a solid quarter for commercial banking, with net income of nearly $700 million on revenue of $1.8 billion and an ROE of 16%. IB revenue rebounded from the first quarter. It was up 23% sequentially and flat year-on-year. And we continued to see strong momentum in loan growth with average loan balances up 13% year on year. Commercial real estate loans grew 18% reflecting continued outperformance in both commercial term lending and real estate banking and C&I loans were up 9% on increased origination activity in both corporate client banking and middle market.

Revenue was up 4% year-on-year, driven by higher deposit NII and loan growth and expense of $731 million was up 4% reflecting continued investments in bankers and technology. Finally, credit performance continues to be in line with our expectations, with net charge-offs of 14 basis points, driven by oil and gas but almost fully reserved and outside of energy, credit performance continued to be strong.

Moving on to page seven and asset management. Asset management reported net income of $521 million with a 29% pretax margin and an ROE of 22%. Revenue of $2.9 billion was down 7% year-on-year as we continue to fill the impact of weaker markets, lower performance fees and lower brokerage activity. Expense of $2.1 billion was down 13% year-on-year, largely driven by lower legal expense and recall that the prior year included a non-core loss. AUM of $1.7 trillion and client assets of $2.3 trillion were both up 1% sequentially and down 5% and 3% year-on-year, respectively.

We had positive long-term flows of $3 billion as we continue to see strong net inflows in to our fixed income products with equity market weakness and volatility causing clients to derisk resulting in outflows in equity and multi-asset. Our long-term investment performance remained good with 81% of mutual fund AUM ranked in the first or second quartiles over five years. Lastly, we had record loan balances of $112 billion, up 4% year-on-year, driven by mortgage up 20%.

Turning to page eight and corporate. Corporate reported a net loss of $166 million which included two notable items. There was a net legal benefit reflecting some favorable developments in the quarter, offset by a number of tax items, including addition to tax reserves for developments relating to open order periods. As a result of the tax items, our managed tax rate for the quarter was 39%, adjusted it would have been closer to 36%.

Now turning to page nine and moving on to the outlook. To reiterate, our firmwide guidance for the full year on each of revenues, expenses and charge-offs at this point is largely unchanged, obviously market dependent. So to wrap-up, a strong quarter reflecting our leadership positions and the benefits our diversified franchise with the consumer businesses firing on all cylinders and with robust loan growth across all businesses. We had a good result in markets continuing to demonstrate our ability to support clients no matter the environment.

And just before I open up the Q&A, just for those of you on the phone, Jamie is here. He has a very hoarse voice. So we will try and use despairingly. But if you hear him coarsely, that's why. Operator, open up the line please.

Question-and-Answer Session

Operator

[AUDIO GAP]

Comes from the line of Brian Foran with Autonomous.

Brian Foran

Good morning.

Marianne Lake

Good morning, Brian.

Brian Foran

I know it's very early and it is probably limited in what you say, because you mentioned, it depends on the timeline of Brexit and how passporting works, but is there any kind of qualitative thoughts you can give us around the operational and/or legal issues we should be watching as this develops, legal entity, restructuring, net impacts of moving people versus lower cost geography, some things like that?

Marianne Lake

Brian, I know that everybody is keenly interested to hear what we have to say but the truth of the matter is, it's very, very early days as the new government is just forming as we speak. Negotiations need to be given some time to unfold and take shape. And so it's really too early to hypothesize. But we would hope that we can continue to operate where we are right now. But we will just continue to evaluate the landscape, as I am sure you will, over the coming weeks, months and quarters and plan accordingly. The most important thing is that we intend to continue to support our European franchising clients throughout.

Brian Foran

I appreciate that. And maybe switching gears, you mentioned the consumer business was firing on all cylinders. Clearly there is some nervousness in the market that the credit cycle is turning. So I wonder if you can tough on two things which are, maybe a little bit more detail on the seasoning impact you saw? You mentioned, in card, is it just seasoning or is there any like-for-like deterioration? And then in auto, you mentioned risk layering. What particular factors are you seeing layered in to underwriting box that make you concerned right now?

Marianne Lake

Yes. So on the card space, as you know we have loans running off or replacing them all the time over the course of the last couple years. Since the end of 2013, we have made some changes to our credit box and our credit risk policies very, very thoughtfully and we have been monitoring it very closely. And what we are seeing in terms of the loss rates and the seasoning of them is fully in line with our expectations. And these loans are coming on at higher risk adjusted margins. So the ROEs are at or above the portfolio ROEs. so nothing that would speak to anything other than our full expectations for our credit risk appetite. And with respect to auto, not to speak for others, but obviously, when you look at lower FICO scores and higher LTVs and longer terms on top of each other in an environment where you have already seen used car prices soften some and they are likely to continue to do so, it's something to watch. And so we have been very, very thoughtful about that, not just today but as we been going through the cycle and not only on an absolute basis do we compare favorably in terms of LTVs and FICO scores and even terms to the industry but we have been very, very careful and low percentage of subprime originations very, very careful about looking at those layered risks. So nothing in our -- and remember for this year, I think the charge-off rate is going to be 40-ish basis points compared to a long run average of more like 60. So we are reverting to a more normal level, if nothing else. And used car prices will ultimately come down and we are being thoughtful about that.

Operator

Your next question is from the line of Jim Mitchell with Buckingham Research.

Jim Mitchell

Hi. Good morning.

Marianne Lake

Good morning, Jim.

Jim Mitchell

Maybe just talk a little bit about the net interest margin and the outlook there. It was down five basis points. It looked like it was mostly in the funding cost. I just wanted to get a sense of what was driving? I think long-term was up. Trading, liability cost were up. Can you just give us a sense of what's going on there and how to think about that going forward?

Marianne Lake

Yes. So at the risk of not getting overly complicated, the long-term debt expense to our NII was flat with loan growth and NII loan growth being offset by long-term debt expense which was largely to do with the hedging of non-dollar debt and just relative quarter-over-quarter small move in currency levels and currency basis. So I would honestly characterize it, not to underplay it, as quarter-over-quarter noise. Looking forward -- and so when you look at our NIM, you have NII flat, you have the balance sheet growing as we expected both on loans and trading assets. So NIM just naturally is down a few basis points. But we would be looking for our NII to be up slightly in the third and fourth quarter and so our NIM to be relatively stable.

Jim Mitchell

Okay. That's helpful. And maybe just one follow-up on the prior question on credit. How should we think about the provisioning going forward in consumer? Is that going to be a consistent build? Or is that a catchup that we saw this quarter?

Marianne Lake

So I would say, there is going to be two things. First of all, obviously, when you talk about consumer, it dwarfed by cards. So let's start with cards. We are growing the portfolio. We added 4% core loans year-over-year in card and so naturally as the portfolio grows over time, you would expect to add to reserves. So there will be some of that, but I would characterize it as modest. And then as these vintages continue to season, we have been experiencing very, very low loss rates, circa 2.5%. They will trend up slightly. And so there will be a little bit of rates impact too but again, as I say, with very accretive ROEs. So I would look forward and expect there to be some reserve adds over the course of the next several quarters on a combination of those factors, but for all the right reasons. And similarly volume wise in auto, we should see some adds but again, in comparison to card, modest.

Operator

Your next question is from the line of Erika Najarian with Bank of America.

Erika Najarian

Hi. Good morning. So my first question is, given how well JPMorgan did on the fee car relative to last year's results and it seems like RWA and SLR exposure have stabilized over the past few quarters, how comfortable are you perhaps allocating more balance sheet to the investment bank, given that you seem to be very well positioned to continue to gain market share, especially end markets?

Marianne Lake

So as you know, Erika, everything that we do, we do with a view to, first of all, the client franchise and making sure that we are supporting our clients and then secondarily with a view to all of our binding constraints. So we will provide capital and access to the CIB, but also taking into consideration our overall objective is making sure that we stay in the 3.5% bucket. So we will continue to try and find capacity to be able to recycle it and grow high ROE business.

Erika Najarian

Great. And was there anything to call out on the equities, the $1.6 billion equities number that could be a little bit more one-time in nature for the quarter?

Marianne Lake

Not anything significant, no. I think you have got to compare it to the prior year, which was stronger, particularly this time last year in Asia and that's less true today, stronger in Europe, less strong in Asia. It's more of a regional story than any particularly significant items.

Operator

Your next question is from the line of Betsy Graseck with Morgan Stanley.

Betsy Graseck

Hi. Good morning.

Marianne Lake

Good morning, Betsy.

Betsy Graseck

Okay, two questions. One, on the outlook page, I see on the printed page, it's the same as what you had last quarter for the company overall, obviously, but I heard the emphasis on NII was on the plus side, right, $2 billion year-on-year plus. Is that the rate nuance that you are trying to communicate?

Marianne Lake

Yes. Two pieces to the story. So yes, the guidance is $2 billion plus year-on-year. You recall, when we came in to Investor Day, we said we would expect $2 billion rate flat. It looks like rates will be flat at least in the front end at this point, at least for the majority of the year, if not the whole year. But you have seen already in the first two quarters that year-over-year we are up $1.4 billion, so we were doing better now on a combination of lower deposit bases, re-prices and also on strong loan growth. But if you annualize that, that would be too high. We are going to have some impact in NII of the lower tenure. It's not significant but it will offset that to a degree. So we would expect our NII to be between $2 billion to $2.5 billion, up year-on-year, largely strong loan growth, lower re-price.

Betsy Graseck

And then on the loan growth side, you have been funding this in part from just a mix shift, right, where your loan to deposit ratio has moved up very nicely. It's still very low at 66%, but up two percentage points Q-on-Q and up from 61% year-on-year. And I am just wondering how far do you think you can take that before you might want to look to fund loan growth with deposit growth more ratably?

Marianne Lake

Okay. So obviously we have been doing a combination. We have been growing our deposits more strongly than the industry. So we continue to be net net attracting more deposits than the industry and also as you say, a mix shift out of securities and into loans. Our outlook for loan growth for the range of this year is to be at the higher end of our range. We said 10% to 15% core loan growth and at this point, demand still seems robust. So we would expect to be at the higher end of that range and we certainly have been this quarter. So at this point, I would say that it's a combination of factors. And remember, the way we think about investment, security portfolio also takes into consideration how we think about positioning the firm's duration of equity. So all of those factors will contribute.

Operator

Your next question is from the line of Glenn Schorr with Evercore ISI.

Marianne Lake

Good morning, Glenn.

Glenn Schorr

Good morning. Just one more rate question. As you mentioned, you are supersensitive on the front end of the curve and you just alluded to, the curve is flatter. I am curious about that great chart that you rolled out on Investor Day that talks about, we make $3 billion more through 2018 if rates stay flat and $6 billion more if the curve goes down the implied path. The implied path is now lower. I am just curious how much those numbers change if the current curve holds?

Marianne Lake

Okay. Glenn, I apologize, but I think it was actually, we make $3.5 billion on the rates implied and $6 billion on normalized rates. But in any case, let me just talk about rates flat versus implied right now just because things can change so quickly, I will just focus on 2017. Rates flat from here, so with the tenure of about 1.5 and IOER at 50 basis points, because of the loan growth notwithstanding any long end pressure, we would still expect year-over-year our NII next year to be up between $1 and $1.5 billion. Implied, which is actually not that much different from that, so it does have about 20 basis points better long end rates by the end of 2017, but otherwise relatively flat through the end of 2017 would be about $0.5 billion more than that.

Glenn Schorr

That is perfect. Thank you. Other question was, there are some regulars chirping a little bit about concerns in commercial real estate. Some of the other banks have mentioned that you are growing like a weed and your credit is great. So can we just talk a little bit about what you think you are doing differently to both, get that growth and then what you doing to avoid mistakes of the past, that will be good?

Marianne Lake

Growing like a sunflower, not like a weed.

Glenn Schorr

Fair.

Marianne Lake

So look, I will say a couple of things. So first is, a lot of that growth is commercial term lending and it is the case that we have the technology and the process that has speed and certainty of execution and competitive funding cost. So it is the case that if the value proposition that we are able to bring to clients that differentiates us, we are able to close in times that are a fraction of what the industry is. And secondarily, we are really concentrated on simplified supply constrained markets, low rent-stabilized. So these are not the same properties that had problems in the past. Since the previous cycle, we have looked carefully at the our underwriting and there are some things and some regions and some products that we either don't do or do significantly less of. So we are very, very careful but we are looking at some really good credit quality in our commercial real estate portfolio right now.

Operator

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

Marianne Lake

Hi Matt.

Matt Burnell

Hi Marianne. Thanks for taking my question. I wanted to ask a question on the cost side of things where the overhead ratios, both in the CIB and the consumer bank dropped really materially quarter-over-quarter. I guess I am just looking for some guidance here in terms of how much of the expense initiatives that you have already been talking about, both in the CIB and the CCB, how much progress did you make in this quarter on that? And was that an outsized contributor to the improvement in the overhead ratios?

Marianne Lake

So I would say, in the CIB there is also a revenue story. So you need to consider both factors.

Matt Burnell

Sure.

Marianne Lake

Yes. So let me talk about where we are on the expense commitments and you will recall that whether you remember, a $4.8 billion number or $5.5 billion number in total, we about 70% of the way through delivering against that across the CIB and the CCB at the end of the second quarter. We continue to make progress. In the CCB, obviously, it is generally more progressive. And the CIB, it is a bit more about technology and operations and it takes some time to deliver that. But fundamentally we continue to chalk through that and we will get there over the course of the next several quarters. So I would say in line with our expectations and it is a contributing factor.

Matt Burnell

Okay. And then just in the CIB specifically you mentioned the comp ratio there was 30%. That's sort of at the low end of the range that you typically talk about, 30% to 35%. I am presuming that's largely driven by the better-than-expected revenues. Was there anything else going on there? Or was that just pretty much a result of a benign revenue, a relatively benign revenue environment?

Marianne Lake

So I would say, the comp revenue ratio is an outcome, just for what it's worth. Obviously we try to give the range to give people an idea, but we pay competitively and we pay for risk adjusted performance. But there is nothing notable going on. We have been actually at the lower end of our range for a little while now.

Operator

Your next question is from the line of Mike Mayo with CLSA.

Marianne Lake

Good morning Mike.

Mike Mayo

Hi. How is CIB doing in Europe and against European bank competitors in terms of revenue growth, share, the degree of competition? Some competitors are pulling back and you guys have stayed the course. Are you seeing the benefit from that?

Marianne Lake

So it's always a little tricky. The share thing is going to become clearer with the rearview mirror than it is necessary a moment in time. It does feel like we are doing fairly well competitively not just against European bank, but just generally and not just in Europe, but generally because we, as you say, have continued to be there for clients across products across the globe. So I would say that we feel like we are doing fairly well. We will know whether that is share gains when we are able to actually look at that in the rearview mirror. But there is still plenty of competition out there. And so we are just focused on serving our clients the right way. But it does feel a little bit like we are doing well.

Mike Mayo

And I know you were asked already about Brexit. Maybe if we can hear from you, Jamie, about the implications of Brexit? Marianne, you said, "minimize friction cost", if you can just give us some sense of what that means? You have given us lot of guidance about the recent quarter and the year ahead, but you have what could be a monumental event and you haven't really talked to investors about that since Brexit's occurred. So how do you think about currency risk, the cost, the revenues and are you delaying any investments, given the increased uncertainty?

Jamie Dimon

Yes. I am going to try to tell you as best as I can, if you can hear me. So number one, we do think it will reduce the GDP of the U.K. and the EU a little bit. Obviously, that's not going to affect our business plans. That will affect the economies a little bit. Number two, we know that it is going to create uncertainty for an extended time period. So we don't think we can answer or make certain all these things you want to know, because there a lot of parties involved. We are hoping that political leaders are very sensible. It makes sense for both the EU and for Britain to think through the process to make it sensible whatever changes they make in order to give businesses time, I am talking about years, time to adjust to the new reality which we don't know what it is. I think the most important thing is that we will continue in every single country to serve our clients, day in and day out and if it costs a little bit extra, so be it. I am not really worried about it. I wish it would be nice if it doesn't create a huge turmoil. So I am hoping the EU is sensible. But we are going to be prepared. As Marianne mentioned, there is a range of outcomes and anyone in our shoes will try to be prepared for each one of them, but we are not going to pull back on serving people in Italy, Germany, France, U.K. or Spain, because it might lead to higher cost. I would accept the higher cost as opposed to disrupt our clients.

Marianne Lake

And I would also want to point out, Mike, that competitively we are not in this situation alone and so we are going to take our time to work out what the right course of action is. And obviously we will update you as and when that becomes clearer. But we are not going to at a competitive disadvantage, if anything, as we talked about earlier. We feel like we are in a position of strength.

Operator

Your next question is from the line of Brennan Hawken with UBS.

Brennan Hawken

Good morning. Thanks for taking the question. I just, first off, had a follow-up on Brexit. Post this development, have you seen any impact on your banking pipelines? Has this had any impact on appetite for M&A, particularly if there is a component that involves either the continent or the U.K.?

Marianne Lake

So the truth of the matter is, it's a very early phase and I hate to continue to repeat that, but I will tell you that generally speaking uncertainty is not particularly conducive or constructive for M&A. But in this case I think there are some offsets. So I would start with, in terms of the actual strategic dialogue with CEOs and at the Board, cross border, it is as good as it's ever been. And if you think about just the other factors that would be supportive of M&A, so like cheap financing globally, low organic growth, good multiples, solid economy in the U.S. and globally notwithstanding a bit of the steam taken out in Europe or the U.K., all of that should continue to be supportive for strategic M&A. Yes. So at the end of the day and currency could be supportive at cross-border activity. So there are puts and takes, uncertain that there will be some people who think carefully through the right timing and what to do. But at the end of day, the strategic proposition should ultimately win out in most cases and similarly volatility generally speaking, is not particularly conducive in terms of ECM but investor appetite is still there and there have been deals price prospects. So it's a little early, the selectivity. Volatility is reasonably subdued at this point and I think because there are no event calendars out there right now, there is still quite a lot of opportunity in the, sorry, obviously DCM low rates would be a tailwind notwithstanding the M&A in ECM landscape.

Brennan Hawken

Great. Thanks for that. And then one more on credit here. So it seems that we have 30-day delinquency rate actually go quarter-over-quarter. So it seems like maybe in the card business, so it seems like maybe a secure rate issue. Is that the right assumption? And then could you give maybe a little color on how much the non-prime growth has driven in recent in recent vintages versus prior?

Marianne Lake

So let me start with the second part of the question. So we are still very much contemplated in the prime and near-prime space, but we have a higher percentage of our originations in the near-prime space, reasonably meaningfully higher over the course of last couple of years. So where we may have previously been, I think 40% above, 760 now, that's less than that and there's more like 20% or 30% below 700, but at the end of the day, still pristine credit relatively speaking. With respect to the delinquencies, is it accrual rate issues, not specifically, no.

Operator

Your next question is from the line of John McDonald with Sanford Bernstein.

John McDonald

Hi Marianne. I am not sure if this is to early, but when you think about expenses longer term beyond this year, if you think about 2017, if we find ourselves in a similar revenue environment next year, when you wrap in your cost save objectives and where you want to be on investment spend, do you think you will be shooting for expenses to be in the same range of that $56 million next year, if things don't change on the revenue front?

Marianne Lake

So look, we are not really doing much in the way of 2017 guidance right now. It will ultimately honestly depend on the opportunities we see in front of us to continue to invest and to add customers and I think we are at a very good run rate of investments. We have increased reasonably significantly in terms of marketing dollars in auto lease growth and that will drive probability in the medium to longer term. So it's possible if we see opportunity to continue to do that we would do it. But we have no specific guidance yet.

John McDonald

Okay.

Marianne Lake

The revenue environment can change reasonably quickly, particularly as you know with rates and to a lesser degree, market. So we are not going to overreact to short term.

John McDonald

Sure. Just more near-term. You talked at a recent conference about the tax rate going forward. Just with the issues you had this quarter with the tax rate looking at 39%, you said it would be 36%. What should we think about going forward? Is it in that 36%?

Marianne Lake

Yes. Taxes, most likely, generally speaking, the reserve changes are somewhat episodic. Outside of those yes, 36% is a good central case for our managed tax rate.

Operator

Your next question is from the line of Steven Chubak with Nomura.

Steven Chubak

Hi. Good morning.

Marianne Lake

Good morning.

Steven Chubak

Marianne, I had a question on the outlook. You reaffirmed the fee income from guidance of $50 billion plus or minus for the full year. And I am trying to gauge, just given the tough start to the year in trading in 1Q, the subdued second half M&A commentary and second half trading seasonality that we would typically expect, the $50 billion target does appear somewhat ambitious. And I don't know if you felt like that was a fair assessment or just given what you are seeing across the businesses that the $50 billion is still relatively achievable?

Marianne Lake

So starting with the qualification that obviously as you suggested, it's going to the market dependent, but also remembering that we knew when we gave guidance that we would expect the second half to be seasonally lower. So here is what I would say, first half market was challenged, second half the market was better. Net net -- sorry, first quarter market was challenged, second quarter better. Net net, first half relatively flat year-over-year. So call it with the acknowledgment that we knew we would expect seasonal declines in the second half of the year, mortgage better. So you may recall that we said we would expect mortgage revenues to be down year-on-year actually by a reasonably significant amount given obviously where the rate environment is as well as some positive MSR results in the first half of the year, we would expect mortgage revenues to be more like flat. And against that, to your point lower IB fees and lower asset management revenues, given the environment. So the way I would characterize it is, there are puts and takes, but net net it's still at reasonable central case. So we are not changing it. But it's market dependent.

Steven Chubak

Thanks Marianne. And just one more for me on CCAR. Just given that you have had some time to digest the latest set of results, the improvement in PPNR was probably the most impressive aspect of the release, at least based on our findings. But from what you could gather based on your own internal assessment, what were the primary drivers of the increase where maybe we have some limited visibility such as areas like op-risk? And does a favorable CCAR outcome inform your view in terms of which constraint is currently most binding and maybe how you might change your deployment across the different businesses?

Marianne Lake

Okay. So look, I would say, if you look at the last three years of PPNR, notwithstanding that there have been obviously differences in the scenarios, 2015 CCAR results, so not this year's but last year's were low, not to say that that means that these results are more normal. But I would say, if you look at the three years and look at the PPNR results now, it's more consistent with the portfolio risks the revenue generation we would expect and you can see that because it's much more consistent with our results. So I don't have insights that I can share with you specifically to try and reconcile the Fed's results year-on-year nor do we really try to do that. You are right, operational risk is likely a piece of it and that was disclosed in that information. So I would just say, there can be volatility, but I feel like this is not an unreasonable place to think that the PPNR would start and it's consistent. as you can see relatively speaking with what we calculated. In respect to what that means for what's most binding, what it does means is if you look at the analysis that we have done a couple of years in the a row now where we have said using that the CCAR results from the Fed, what would that imply, our CET1 ratio would need to be to pass. It had previously being a little less than 11%. With the improved PPNR and therefore the improved results at this point it would be a little less than 10%. So in that context as we look forward sometime in the near future maybe in the third quarter to getting 2017 CCAR changes in proposed form hopefully it will alleviate to a degree, a little bit of that pressure. But I still would suggest you, as we said in Investor Day, that CCAR may, depending on how the G-SIB surcharge is included in the minimum, may become binding. It's not likely, it will become binding and so we will continue to take that into consideration as we go forward and we are already taking into consideration as we think about optimizing against the most binding constraints we have.

Operator

Your next question comes from the line of Brian Kleinhanzl with KBW.

Brian Kleinhanzl

Hi. Yes, thanks. So a quick question on the mortgage originations. The correspondent channel didn't change all that much quarter-on-quarter, although it was with seasonality and a pickup in refis that would have increased in the second quarter. Can you talk about how you are thinking about correspondent mortgage origination? And given that refi volume looks strong at the start of the third quarter, should we expect a pickup in the correspondent in the third quarter?

Marianne Lake

So we think about using all of our channels based upon obviously, the demand and our capacity and our appetite as we want to continue to close strongly for our customers and we have obviously also been focused in the anticipation of it becoming a more purchase oriented market very much on building out the retail channel and the retail distribution channel and that's been very successful. So there is less correspondent contribution this quarter. It is a lever we will likely use going forward.

Brian Kleinhanzl

Okay. And I know you can't really discuss too much on the legal side, but is it the right way to think about legal expenses going forward, like an ordinary cost of doing business for a bank of your size? Is it 1% of revenues is kind of an ongoing run rate for expected legal expenses going forward? Or is that not the right way to think about it and it's just episodic?

Marianne Lake

Well, at this point, we would still say, it will be episodic. And while we are hopeful that the overall structural cost will start coming down or it has come down and that's a good thing, there will still be potentially some puts and takes in the legal space. There is no real way, obviously, of forecasting the run rate. I would just do what many of you have done, I think and go back and look at what the legal expense look like in the years preceding the crisis and make your own determination whether it's going to be structurally a little higher, but it probably wouldn't be multiples of that.

Operator

Your next question is from the line of Ken Usdin with Jefferies.

Marianne Lake

Hi Ken.

Ken Usdin

Thanks. Good morning. Marianne, I was wondering just if you could, I know it's a little backward looking now and you have made your points already about what normal trading seasonality could be, but can you help us understand the products that drove the really strong fixed trading? And what happened in June? Was it volumes? Was it spreads widening? And then I would actually ask what you typically consider what normal JPMorgan seasonality is, as you mentioned?

Marianne Lake

Okay. So it was particularly strong rates but nevertheless also a very strong year-over-year in currencies, emerging markets, credit trading SPG. So I mean it was pretty broad based, but remember you also have to think about it relative to the equivalent quarter last year and we didn't have a particularly strong second quarter last year. So on a relative basis that is an important factor but it was pretty broad based. More volume than anything. And then seasonality, I am sorry. Look, it's anyone's guess and I think you can go back and look over time, but last year we had a weak second quarter, as I said and we didn't see as much seasonality. But if you look at the last quarter's run rate, I don't know if that would be a bad place to start. Last year's third quarter run rate would not be a bad place to start.

Ken Usdin

Understood. Okay. And the second question just is, on the wholesale reserve, you mentioned, it's been nice to see the energy prices start to stabilize and it seems like you are able to stabilize the amount of reserve build outstanding aside from that one credit. What needs to happen for you to get even more comfortable or you could see some of that reserve start to come out, underneath the context of that you are also growing the wholesale business extremely fast as well. So?

Marianne Lake

So I am going to start off with a couple of general comments which is, we talked about the fact that the charge-offs that we have experienced in the quarter were credits that we had previously reserved for. So we are at the point now where at least as a basic matter, as we are experiencing charge-offs, we feel like we are in a reasonably good reserve our position notwithstanding that idiosyncratic there may be additional adds. What we would need to see is continued firming of sentiment in the sector, continued access to capital markets to allow companies to prepare their balance sheet and continued stabilization, if not improvement in oil and gas prices. And so, everything is constructive on that path, but it needs to continue along the same path. And yes, we are growing our portfolio and so even if it were not for energy, we would, all other things equal, be adding to reserves. But there are also time to pay down lots of other puts and takes too.

Operator

Your next question comes from the line of Gerard Cassidy with RBC.

Marianne Lake

Hi Gerard.

Gerard Cassidy

Hi Marianne. Thank you. Marianne, can you give us some color. Obviously your consumer loan growth has picked up quite nicely. You pointed to, it's going to be at the higher end of the range for the year. What are your guys seeing on consumer behavior? Has it improved and they feel stronger about their own job prospects which is enabling them to borrow more? Are there any metrics that you guys are looking at from that end?

Marianne Lake

So I mean, just to say, we obviously have own spend data to look at and it continues, the card spend is up 8% year-on-year, energy continues to be a tailwind for consumers, the labor market continues to be solid and improving and sentiment is still good, housing still improving. So I mean, really just looking at the same things you are looking at and we obviously have a slightly different lens to it, but all other things equal, consumers are in very good shape and demand is there for the products. And we have been investing outside of consumer in new products -- inside consumers, sorry in the Freedom Unlimited space and also in marketing. So we are growing not only because the demand is there but also through investing.

Gerard Cassidy

I see. And then coming back to credit, obviously your first quarter results had the results of the targeted Shared National Credit exam for oil. Traditionally obviously we have the Shared National Credit exam every year and second quarter results normally reflect that exam. Do your second quarter results reflect the Shared National Credit exam?

Marianne Lake

Our second quarter result reflects everything that we have and we know of at the end of the quarter and we are not going to make any specific comments on regulatory events.

Gerard Cassidy

Okay. Thank you.

Operator

Your next question comes from the line of Eric Wasserstrom with Guggenheim Securities.

Eric Wasserstrom

Great. Thanks. Marianne, just a couple of quick follow-ups on the auto lending business. The originations came down a bit and you talked about the dynamics around that previously in the quarter and at the Investor Day. But when I polled auto lender or auto dealers, they say that where they had primarily seen you retreat was from very high FICO, super prime new lending and leasing but their experience with Chase remained very consistent in the mid-FICO range. I just wanted to see if that was consistent with your view internally?

Marianne Lake

More specifically, I am not sure. I haven't polled the dealers myself, but we continue to have very high FICO scores and no, I am not aware of that. But I can't comment.

Eric Wasserstrom

Okay. And then just one follow-up on one auto credit. Obviously the Manheim issue points to perhaps some rising severity given default. But at this stage, is there anything that suggest to you that we should see a higher frequency of default?

Marianne Lake

In our portfolio at this point, no.

Operator

Okay. And your next question will come from the line of Paul Miller with FBR.

Paul Miller

Yes. Thank you very much. One of the things about what we saw was mortgage rates, the tenure dropping down to record levels and mortgage rates probably following right behind it. Can you give us a little outlook? Are you seeing an uptick in refis? We are seeing the refi nexus go up very high and any outlook on where you think the mortgage market is going to be in the next quarter or two?

Marianne Lake

Yes. So we are expecting refi to be stronger in the coming quarters and the mortgage market as best we can tell will be at around $1.7 trillion to$1.8 trillion this year.

Paul Miller

And the other follow-up question is, there are some news articles out there about JPMorgan securitizing conforming loans. This hasn't really been done a lot by anybody. I don't know if you can address that, the economics behind that or what's the thought behind that instead of getting Fannie and Freddie wraps to securitizing yourself?

Marianne Lake

Yes. So we have done one and we are looking at more securitizations in the mortgage space and we are keeping a vertical stride where retaining the loans on our balance sheet or the securities on our balance sheet, I should say and in doing that we have been able to that private capital to take majority of the lower credit risk and get better capital treatment for ourselves. Yes, so in terms of the RWA that it attracts.

Operator

Your next question is from the line of Matt O'Connor with Deutsche Bank.

Matt O'Connor

Thank you. Most of my questions have actually been answered, but just a quick follow-up on the credit card originations in terms of dipping down to the lower prime or below. You said something like 20% to 30% had FICO scores below 700 and I didn't know if that was for new originations or for the portfolio overall that you were referring to?

Marianne Lake

New originations.

Matt O'Connor

Okay. All right. That's it for me. Thank you.

Operator

Your next question comes from the line of Marty Mosby with Vining Sparks.

Marty Mosby

Thanks. I wanted to ask you a little bit about the focus everybody has on the flattening of the treasury curve. But yet earlier you were able to say that going into the next year, you would see 2016 NII growth of $2 billion to $2.5 billion, only really fall to $1.5 billion to $2 billion, which means that that flattening of the yield curve is very manageable. Just talk about asset yields as your earning asset yield actually went up one basis point, what you have been able to see in the market versus what's happening in the treasury curve?

Marianne Lake

So I will just start by sort of orientating you on why that would be the impact for us and if you look at our balance sheet and you look at we have in fixed rate loans versus what we have in either IOER or in LIBOR loans, it's about $650 billion and so we are much more sensitive to the front end of the rate curve. And if you look at our earnings at risk disclosures, 100 basis point parallel shift would be around $800 million. And so, obviously we haven't seen and won't hopefully see anything of that order of magnitude. So that kind of gives you an ability to size up notwithstanding compounding why you have only seen our NII relative to prior expectations come down by that much.

Marty Mosby

In this particular quarter, your funding cost went up, is that a lag effect from the rate hike in December still just now coming through or was there something else maybe more unusual about funding cost that we saw that drove the margin down this particular quarter?

Marianne Lake

Yes. So I think earlier on the call, somebody else asked the question and I made the comment that it's really more related to the results from our hedges of non-dollar debt, long-term debt. And so in the first quarter, dollar weakened and in the second quarter it strengthened and we had some currency basis in the first quarter that we didn't see in the second quarter. It really is, not to dismiss it, but it really is accounting nothing really else than that.

Operator

And your next question is from the line of Betsy Graseck with Morgan Stanley.

Marianne Lake

Hi there, Betsy.

Betsy Graseck

Hi again. Just a follow up on the card new originations. I know one of the key things that you have done for many years is to focus on relationship, lending relationship offerings. And so when I hear the 20% of the new originations are below FICO 700, is that a shift from the relationship strategy that you have? Or does it reflect the fact that you do have significant relationships on deposits, et cetera with folks in that FICO band?

Marianne Lake

Yes. No shift from our desire to want to be in with engaged customers and our rewards programs. Our products are all geared towards that. So it's really just a credit decision. And yes, we do have relationships with many, many customers in that still near-prime space.

Betsy Graseck

Thanks.

Operator

And your next question is from the line of Gerard Cassidy with RBC.

Marianne Lake

Hi.

Gerard Cassidy

Hi. Thank you. As a follow-up, Marianne, your consumer business obviously has been very, very strong. Can you share with us the update on clearXchange expected to be rolled out to be later this year and what that might do to even grow the mobile business even more than it’s growing now?

Marianne Lake

Yes. So look, obviously B2B real-time payments is very important to our customers. So therefore, it is important to us. It is also important for us as an in the industry that it's done in a safe and secure way. And so early warning, the fraud protection that they are able to provide as well as bank levels cyber security and the absence of the need to provide your bank credentials, we think is very strongly positive for our customers and we expect to see volumes grow across that. As you know we have QuickPay already and we saw reasonably significantly volumes, $21 billion on QuickPay last year and growing So, I would expect to see more and more P2P payments and it's good for our customers, it's good for us.

Jamie Dimon

So if you look at the whole payment space, Chase Paymentech has gained share, ChaseNet is doing very well, Chase Pay, we have signed up lots of different people and one piece of that is P2P. So today right now, if you use Chase QuickPay, it is very easy within Chase to Chase, it is just now as easy to open Chase to a bunch of other banks. I won't name now, but we just started rolling out and soon it will be rolled out to 60% of American banking accounts and then we are going to make it available to all banks. So you will be able to go P2P real-time through Chase QuickPay. There will be a special app for Chase QuickPay, but it will also be branded on other names which we haven't rolled out yet, which I think will be rolled out shortly. So I think it's a great success that the banks can get together and do this and it would be a great service which I think shows you the bank is making progress and you would have called prior fintech.