Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2014 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please standby.

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

Jamie Dimon

Yes, so this is Jamie and I'm going to start if you don't mind. I know some of you may have questions about my recent cancer diagnosis. So I'd like to make a few comments on that, so we can then hopefully focus on the reason for our call which is our quarterly earnings and the results of the company. First I want to thank everybody for their calls, their notes, their good wishes, it does mean a lot to me and my family. To start with I feel great. I think I've some of the best doctors in the world. I'll be receiving the best treatment. I'm very fortunate that this is curable.

To recap we've already talked about and what my doctor's told me about, we caught it early. It's confined to the original site and the adjacent lymph node in the right side of my neck. It's isolated in that specific area. The cancer has not spread. Importantly with all the tests they have done there is no evidence of cancer anywhere else in my body and it's curable with radiation and chemotherapy which I'll put down as fairly standard for this kind of cancer and the prognosis is excellent.

The Board will be fully briefed on my condition and if they and I feel that it's necessary to make additional disclosures we will do that, but I really do think the next disclosure I'm going to make will in be about seven or eight weeks saying the therapy is over. I am feeling better and the prognosis is excellent. My doctors have finalized their treatment plans with me over the last several days though I do plan as we go through the treatment to be actively involved in managing our business. I've also been told that after the seven week treatment period I've been advised to take rest. That does not mean I won't work. They just simply say to rest and recuperation should come before other things, which by the way is the exact same advise I give my friends, my family and any one from JPMorgan or anyone of you who came down to something like this. So I do plan to work, I do plan to read, I will be accessible.

Succession planning that's why it's here, is exactly as it was before. There is no change whatsoever. The Board has plans in place and I talk about all the time from various scenarios and we are fortunate enough to have an exceptional group of executives. You know them all, I hope you take the time to tell some of the reports, their quality, I always tell there is a book in everybody and the book on the larger management team here is brains, ethics, work ethic, partnering, knowledge, experience, high quality people and I actually think that many of them can run a major financial company and my Board feels in the same way. And importantly the Board has been fully engaged with the senior leaders the whole time they have been at this company.

I also want to point out. We have a standing protocol in place before this, during this, and after this. We think it's simply good governance that if I am unreachable for any reason, remember I took a three week trip to Asia so, it's for a minute, an hour, a day or a week that they are to contact our lead director, who will get them the consent the advice and the help that they need so the company continues to go on as usual.

So I will stop there and hand it off to Marianne, who will take you through the earnings of the company.

Marianne Lake

Okay, thanks Jamie. 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 now on page one. The firm delivered strong performance this quarter with net income of $6 billion on revenue of over $25 billion, EPS of a $1.46 and a return on tangible common equity of over 14%. The reported results as you can see on the page, include approximately $670 million of firm-wide legal expenses. In addition to that item there were a number of other smaller items, some positive, some negative in the result; most notably $350 million of consumer reserve releases. And we estimate our core performance for the quarter was also $6 billion plus or minus which is among the best we have ever had, which is a very good result especially given the challenging environment the market and mortgage which persisted during the second quarter and interest rates remaining low and the cost of control high.

Importantly in the firm's performance this quarter we are really seeing the benefit of our diversified earnings profile as well as the focus on investing and growing the underlying performance drivers in each of our businesses. They have translated into net income, growth and operating leverage in a number of businesses most notably CBB, Commercial Banking and Asset Management.

We also continue to make significant progress against our capital target with a CET 1 ratio of 9.8% firm wide and bank supplementary leverage ratios of 5.4% and 5.6% respectively and remaining compliant with liquidity requirements, all while returning $3 billion of capital to shareholder this quarter with both share repurchases of $1.5 billion. Core loan growth was strong for the quarter at 4% and 8% up year-on-year with encouraging signs across our businesses and NII was up slightly this quarter on a relatively flat core NIM.

Turning to page two, before getting into each of businesses, a couple of comments here. You can see circled the adjusted expense for the quarter was $14.8 billion for an adjusted overhead ratio of 58%. This number does obviously exclude legal expenses but of note it includes a little less than $300 million of expenses related to business simplification which we consider to be non-core, including lower incentive compensation on lower CIB revenues for the first half, we have updated our adjusted full expense guidance to be $58 billion plus or minus, with a caveat that obviously the final number will depend on the performance related compensation for the full year.

We continue to be focused and diligent on managing expenses and operating as efficiently as possible across our businesses. You can also see on the page the returns generated this quarter by each of our businesses which is driving the strong performance of the firm overall.

Moving on to page three, as I said the firm reported a CET 1 ratio of 9.8%, up from 9.6% last quarter as we increased our common equity Tier I capital base by over $4 billion principally through net retained earnings. Risk-weighted assets were broadly flat in the quarter with higher operating risk RWA and some growth largely offset by lower market and credit risk RWA reflecting increased model usage and portfolio runoff. We're are still on track to reach 10% plus CET 1 ratio by the end of the year as previously guided.

The lower of our two transitional measures, and you will recall we exited Basel III parallel at the beginning of the quarter, so the lower of our two transitional measures which is technically the measure effected this quarter under the common floor is the Basel III advanced transitional ratio which is also at 9.8%. And what is on the page with full year information, the fully phased in standardized ratio is 10.1%.

We continue to make good progress on our leverage ratio this quarter, both the firm and the bank SLR increased quarter-over-quarter by about 30 basis points. So we're obviously within sight of our 5.5% target for the firm and a 5.6% for the bank we do have a clear path to our 6% plus target. Finally on this page we continue to have a very strong liquidity position remaining compliant with LCR.

Now moving on to the businesses starting on page four, Consumer and Community Banking. The combined consumer businesses generated $2.4 billion of net income for the quarter and $11.4 billion of revenue and an ROE of 19%. We continue to see excellent growth in the underlying business drivers with average deposit up 9% in CBB, our active mobile customers up 23%, credit card sales volume up 12%, client investment assets up 19% and crossing the $200 billion and according to J D Power we continue to be ranked number one in overall customer satisfaction as-well-as the mortgage originations among large banks, And number one in three of four regions with more business banking customer satisfaction. Finally across CCB we expect to exceed our headcount reductions outlined at Investor Day.

Turning to page five, Consumer and Business Banking. CBB generated net income of $894 million, up a significant 28% year-on-year on net revenue of $4.6 billion with an ROE of 33%. While we do continue to see some pressure on deposit margins this continues to be more than offset by strong growth in deposit balances, the 9% I just mentioned among the highest in the industry. This deposit growth is driven by strong household growth and record customer retention. We added 800,000 net households since last year as our new branches continue to mature.

On the non-interest revenue side we continue to see strong year-over-year growth in both debit and investment revenues as we deepen relationships with customers and as we see our global wealth management strategy play out with more affluent customers. In business banking the momentum that we saw in the first quarter continued. We have record originations up 46% year-on-year and 27% over last quarter back to levels that we last saw in 2012. We believe that this reflects a combination of improving industry trends driven by business optimism generally continuing to trend higher and improving banker performance especially in our expansion market where we've been investing and as our positive strategies mature.

Our pipeline continued to strengthen, 2Q'14 was the highest level since 2012 and we do expect this positive momentum and strong growth year-over-year to continue in the second half of the year. Expenses flat year-on-year with efficiency gains in the branches being offset by higher cost of controls that we've spoken about but it was down quarter-over-quarter as cost of investments and controls are moderating.

Turning to page six and Mortgage Banking, overall mortgage banking net income was $700 million for the quarter with an ROE of 16%. As expected the production environment remained challenging and mortgage production pretax income excluding repurchase was a negative $74 million for the quarter a little better than our guidance reflecting higher revenue margin on a mix shift towards retail loans and higher pipeline as well as good progress made in the quarter to reduce our fixed expenses. At this point, market dependent we expect the third quarter results to be broadly similar to the second quarter as more negative.

Originations of $17 billion were flat quarter-on-quarter and down 66% year-on-year which is in a market that we estimate was seasonally up 25% quarter-on-quarter which shows that we continue to lose some share. Key drivers behind the share loss were the continuation of our strategy to reduce our participation in lower FICO and high LTD government loans as well as the burn out of HART.

In addition we did lose some share in other conventional resulting from price competition as we maintained discipline regarding pricing to required returns. Mortgage production benefited in the quarter from a repurchase reserve release of positive $137 million driven primarily by refinement in expectations regarding certain residual risks following the settlement in the fourth quarter of 2013.

On to servicing, net servicing related revenue of $693 million is down slightly quarter-on-quarter but is higher than guidance due primarily to higher gains on acquired securities and Ginnie Mae loan sales, while we do expect to continue to benefit from both during the second half of the year to a lesser extent than the first and these gains can be lumpy. So we expect servicing revenue to decline in the third quarter to $600 million plus or minus and servicing expenses are moderately down quarter-on-quarter.

MSR risk management was a net gain this quarter of $338 million, driven by a $220 million positive model update on slower prepayment fees which remember we would have earned otherwise overtime through [model miss] and which reflects the impact of the burn out of HART [inaudible] momentum. On real estate portfolios compensation on credit we see net charge off for the quarter of $111 million and reserve releases of $300 million in the purchase credit impaired portfolio reflecting actual and expected appreciation in home prices. There were no reserve releases in the quarter for the non-credit impaired portfolio although [inaudible] trends do continue. We do expect to see reserve releases in NCI over the next couple of years in total between $500 million and $1 billion as the credit quality of the portfolio continues to improve and lastly on real estate portfolios in the quarter we added $5 billion of loans to the portfolio.

Finally mortgage headcount was down approximately $5,000 year-to-date and we expect to exceed our investor day target of approximately $6,000 for the full year of 2014.

Turning to page seven, Card Merchant Services and Auto, net income of $840 million, down 33% year-on-year or down 11% excluding reserve releases delivering an ROE of 18%. While down on declining reserve releases, the results do reflect strong underlying metrics. Sales growth of 12% led the industry for the 25th consecutive quarter primarily due to strong sales engagement of new customers. Our new acquisitions vintages are performing exceptionally well.

In Merchant Services we have seen strong volume and transaction growth year-over-year with our client sales volume gaining momentum reflecting several large account wins in the quarter. Strong revenue of $4.6 billion was up slightly quarter-on-quarter but down 3% year-on-year and when you think about the year-on-year decline we've reached the point where spread compression and strong fee growth are flat. So the net decline is driven by high amortization of customer acquisition cost and the absence of fees related to discontinued products in 2013.

Expense was up 8% quarter-on-quarter and $0.07 year-on-year driven by control, the timing of marketing investments and this quarter includes $125 million of the legal expense I talked about.

Moving on to credit, losses continue to improve albeit at a slower pace and the card net charge-off rate has remained very low at 288 basis points and we released $50 million of student lending reserves in the quarter. Card outstanding momentum has shifted. End of period outstanding grew by $1.8 billion or 1.5% year-over-year with growth coming across our product set fueled by the strong sales performance I highlighted. Core growth is now outpacing one-offs and we acquired over 2 million new accounts in the quarter, up 40% year-on-year.

Before we move on, a few words on Auto, new vehicle sales continue to grow year-on-year and the June start results reached the highest levels since 2006. We've seen the 11th straight quarter of loan and lease growth as our partners continue to outpace the general market which remains competitive. The auto pipeline remain healthy consistent with the recovery in the auto market.

Moving onto slide eight, and the Corporate and Investment Bank. CIB reported net income of $2 billion on revenue of $9 billion and an ROE of 13%. In banking total revenue was $3.1 billion, down 3% year-on-year. IB fees at $1.8 billion, up 3%. We maintained our number one ranking in global IB fees per Dealogic and widened the gap to number two.

Revenue growth was driven by higher advisory and equity underwriting fees and loans and underwriting fees were up we had strong and relative performance for the quarter. The IB pipeline remains solid with an environment supportive of M&A and a large diversified IPO backlog. Treasury services revenue of a $1 billion was in line with our guidance, down 4% year-on-year driven by lower trade finance revenue and the impact of business simplification. And lending revenue was down $80 million year-on-year driven by low NII that was up 5% quarter-over-quarter.

Moving on to Markets and Investor Services, reported markets revenue was down 14% year-on-year versus our guidance of 20% plus or minus with fixed down 15% and equities revenue down 10%. Included in these results are gains of over $100 million on the sale of market partner shares post IPO. Excluding this our results would have been down 15% year-on-year.

In fixed the decline was driven broadly across macro products and in commodities with volatility remaining very low and with the exception of a few more active weeks in June volumes also low. In equities, the decline was driven by derivatives where client volumes are highly correlated to volatility levels.

In terms of outlook for the coming quarter and the second half, June was a better month somewhat broadly but that momentum has not continued into July so far and volatility remains very low across products. As such it is our [central case] that the third quarter will face a similar environment through the first half of 2014 and we expect normal seasonal trends.

Security Services revenue of $1.1 billion was up 5% year-on-year, primarily driven by higher NII on higher deposit and higher asset-based fees on higher assets under custody. AUC reached a record $21.7 trillion up 14% year-on-year. Quarter-on-quarter revenue was up on seasonality in the depository receipt and agent lending businesses.

Moving on to expense, total expenses was up 6% year-on-year. Compensation expense was down 8% with a comp-to-revenue ratio for the quarter of 31%. And we expect the full year comp-to-revenue ratio to likely end between 30% and 35% rather than at the low end of the range. Non-compensation expense was up year-on-year by 20% with the quarter including over $300 million of legal expense and a little less than $300 million of non-core expenses associated with business simplification I mentioned earlier.

Moving on to Page nine, on the Commercial Bank, we have very good earnings from the Commercial Bank this quarter with net income up 6% from last year and an ROE of 19%. We saw strong performance on key underlying business drivers, driving revenue of $1.7 billion up 3% sequentially, with gross ID fees up 25% year-on-year driving the first half of the year to a record and on a higher NII driven by higher loan volume and day counts.

We added $3.3 billion of loans in the quarter with growth across the board in all of our businesses. Our consistent growth in real estate continued with loans up 2% in the quarter and 14% in the year and after a flat start to year we are happy to see C&I growth of 3% in the quarter in line with the industry. Revolver utilization picked up three percentage points versus the end of last year. Pipelines are up which should be supportive of trend in the second half of the year. The environment remains competitive but stable driving some continuous spread compression and we continue to see some pricing pressure to varying degrees in the businesses.

Expense was relatively flat quarter-on-quarter but higher than last year reflecting our commitment to the regulatory and control agenda. Expect expenses for the businesses of approximately $700 million in the third quarter. And our credit performance remains exceptional with net recoveries in the quarter.

Moving on to page 10 and Asset Management, an excellent quarter in asset management with net income of $552 million up 10% year-on-year and 25% quarter-on-quarter, with a 25% ROE and 30% pretax margin hitting our three [inaudible] target. For the full year these ratios will be slightly lower as the business continuous to invest in both infrastructure and control as well as select tranches of hiring, but we're on track to deliver at our target for the full year of 2015.

Revenue was $3 billion was up 8% year-on-year, reflecting an increase in management fees driven by record long term net inflows of $34 billion for the quarter, including the benefit of a large institutional fixed income mandate. This marks the 23rd consecutive quarter of long term inflows driving AUM of $1.7 trillion up 16% year-on-year, and we continue to expect strong flows going forward.

Looking at the mix of flows by product, we saw continued strength in our multi-asset and alternative flows, inline with our best quarter. In fixed income we had our strongest quarter flows ever and our best quarter in over a year excluding the large mandate I mentioned. And lastly despite solid equity performance in the quarter flows did not follow as investors showed hesitance to add to their positions at these levels.

Expense of $3.1 billion with up 9% from a year ago, primarily driven by higher cost of controls and investment in growth.

Lastly in banking we reported solid performance in both lending and deposits. Record loan balances surpassed the $100 billion mark up 17% year-on-year and 4% quarter-on-quarter with growth coming from both our U.S. and our international markets. We continue to see a solid pipeline for loan demand for the remainder of the year. And the average deposits were also up year-on-year by 8% but seasonally down 1% sequentially.

Moving on to page 11 and Corporate Private Equity, private equity overall had a flattish result, driven by net gain on dispositions partly offset by unrealized losses. And our private equity portfolio declined by approximately $1 billion. Treasury and CIO reported a net loss of $46 million, NII was a negative 10. That's up by $80 million by quarter-on-quarter driven by high investment security balances and the continued benefit of higher reinvestment yield. In the quarter we deployed $27 billion in gross new investment.

Finally on this page other corporate net income was over $400 million. Included in the results are tax related benefit of over $200 million and as I mentioned earlier we reported firm wise legal expense pretax of $670 million for the quarter of which $227 million is here on corporate.

Moving on to outlook on page 12, we did receive positive feedback from our most recent guidance disclosure in the 10-Q so we replicated it and updated it here.

A few final comments, it is too early for us to give specific guidance for market revenues but we do expect the current environment to persist into the third quarter and to the second half and also experience no more seasonal trends. For the third quarter we generally expect mortgage production to be similar to this quarter, a small negative.

We expect firm wide adjusted expenses for the full year of $58 billion plus or minus and expect credit trends to continue to be very strong across the board with consumer reserve releases that will be more periodic and modest.

So to wrap up a very, very strong result for the quarter notwithstanding headwinds, reflecting the strength of each of our businesses and the benefit of our operating model. With that operator we would like to open up the lines for questions.

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Gerard Cassidy with RBC.

Gerard Cassidy – RBC

…that you have shared in the past if you have a parallel shift of a 100 basis points, what that will do to your net interest revenue?

Marianne Lake

So Gerald you got cut off at the beginning but you are asking for earning -- the risk on the 100 basis points shift.

Gerard Cassidy – RBC

That's correct.

Marianne Lake

It was in the first quarter and we haven't disclosed it yet for the second quarter but it wouldn't be meaningfully different in the first quarter, it was $2.5 billion.

Gerard Cassidy – RBC

Do you see, going forward that changing in the way you are approaching your interest sensitivity, as the likelihood of rising interest rates increases in 2015 or should it remain pretty much constant?

Marianne Lake

So I mean the risk is a representation, it's an instantaneous parallel shift. If you look actually at our disclosures you can also see what a steepening looks like. So the way I would characterize the way to think about the impact of asset sensitivity and interest rates rising is the way we described it both at our Investor Day and at the Morgan Stanley Conference which is when rates rise, whenever that starts which maybe in the second half of 2015 at the short end and the long end continued, that overtime that would deliver $8 billion to $10 billion of NII for the firm but clearly the path to get there would be rate dependent and timing.

Gerard Cassidy – RBC

Tying into the higher interest rates you have been vocal about your funding side of the equation and you what you expect there. Can you give us an update or more color of how you are positioned for the funding side of the balance sheet should rates rise and how much you expect to potentially maybe move off your balance sheet as it gets re-priced into different types of products?

Jamie Dimon

This is Jamie. I think on the funding side and we said we've met pretty much LCR and SFS and we think it will be the [GLAC] or at least we are very close to it. That's all embedded in interest rate exposure which Marianne gave you and that's our base case. Obviously if the world changes we may change how we go about and do that. But that I think it's a very good base case to look at. We don't have any need to change it dramatically. You all have to be prepared for the reason that rates raise will obviously will change why people act in a certain way.

Gerard Cassidy – RBC

And my final question is there has been some talk about the regulators, the Federal Reserve maybe increasing the capital ratios for the largest banks to even higher levels than what you are mandated today to carry. Do you guys have any thoughts on whether that may actually ever get through that they may even raise the current Tier I common ratio numbers?

Jamie Dimon

I think we would have to wait and see. Remember the United States has already gone beyond most other countries and they may just be referring to that, that they intend to keep that or how they modify that.

Marianne Lake

And I think the way that we think about -- obviously we don't know how things may change in the future but between the recent surcharge, the buffers that we and other institutions are going to run above that with LCR and SFR already entitled in the framework with capital stress comp testing under [SICAR] under extremely severe conditions, it feels like we have a box around it and so we're planning to run the firm based on what we know today with an eye on obviously listening to all other things you hear.

Gerard Cassidy – RBC

Great, and Jamie good luck on your treatment and I hope for a speedy recovery. Thank you.

Jamie Dimon

Thank you very much.

Operator

Your next question is from the line of Guy Moszkowski with Autonomous.

Guy Moszkowski - Autonomous

Good morning. Jamie first of all let me say it's nice to hear you on the call and that you are sounding good and that the prognosis sounds great and I wish you all the best.

Jamie Dimon

Thank you.

Guy Moszkowski - Autonomous

Just a follow-up on the interest rate point for a second, I know you guys have been very focused on the potential for a deposit drain as things are handled somewhat differently by the Fed given the current circumstances when they eventually do raise rates. Is there any change in that thinking of the potential for a trillion-ish deposit drain and maybe a $100 million for yourselves on the basis of the fed minutes from last week which maybe were a little contradictory in terms of the mechanics to that Peterson Institute article which has been I think front of mind in everyone's thinking?

Jamie Dimon

So keep in mind, the Fed whether they use repo or just sell securities that will reduce deposits. It's a factor with an absolute formula. The question is who’s deposits, what kind of deposits and when they might do something like that, I assume they will be very careful. I think what we're simply were saying that some of the deposits will come out of non-operating wholesale deposits already have [HQA], some won’t, some will come out of retail and just people will need to be prepared for it. I wouldn't from the category just when these be prepared and be very thoughtful about how we go about that.

Guy Moszkowski - Autonomous

And given where you are on LCR, do you feel like JPMorgan is completely positioned as it will want to be at that time or is that still just a bill that's going to take place in liquidity between now and year from now or so?

Jamie Dimon

I think we're very comfortable where we are.

Marianne Lake

Yeah and remember that we are running LCR is an important measure, it's a regulatory measure, you know we are measuring it, we are posting it but we run the firm based upon our own internal liquidity tests and we are comfortable with that.

Guy Moszkowski - Autonomous

Great. The other thing that I'd like on touch on is the expense guidance. Obviously it's ticked down somewhat again and that's probably partly because of the revenue outlook that we're looking at for this year. But is there anything implicit in that in terms of what we should expect for expenses beyond 2014 and then maybe you can elaborate a little bit on how you are thinking about core expense reductions given a consistently pretty sticky revenue environment?

Marianne Lake

So I mean really what I would point you to is that the discussions that we had, largely at our Investor Day which was to say that we continue to expect the mortgage expense story to play out over the course of the next few years which will be obviously a tailwind for us on expenses both in servicing but more particularly in production. So that is obviously a focus in 2015 and beyond. We also are expecting to start on a journey to delivering and we saw that CBB expenses, our cost of controlled investment are moderating and Gordon outlined at Investor Day that the CBB business '14 through '16 as a relative marker would deliver approximately a $1 billion of expense efficiency but the profile of that we haven't been through.

And then Daniel is working through, as are all of the other CEOs the expense story in the CIB and being as diligent as you would expect him to be given the environment but one of our positions has always been that we are running this business for the longer term and we are going to be smart about the actions we take on expenses in order to make sure that we protect the franchise but that doesn't mean that we can't and won't be more efficient across the businesses. So we haven't actually given specific guidance at the firm wide level but that's the backdrop.

Jamie Dimon

And I just want to reiterate that we always have waste cutting like real estate people straight through processing, vendors, things we think got a little sloppy, where we were located but we will never ever, ever stop investing in straight through processing better bankers, better training, chase that marketing, EBK is another new stop from branches so don't confuse the two. We are lumping them together for you, internally no one goes to a budget meeting says I get expenses down by cutting expenses on the really important things that we need for the future, no one. We are not going to run the company that way, we'd rather earn less money.

Guy Moszkowski - Autonomous

Okay. That's, that's helpful. And then a final one…

Jamie Dimon

Including that is paying our people fairly.

Guy Moszkowski - Autonomous

Okay. That's obviously important. One last one from me, there have been quite a few areas where you pulled back in order to ensure the ability to monitor and being compliance, third party mortgage origination was one, trade finance and in particular correspondent banking internationally another one, Is all of the foreseeable pull back in areas of business for control reasons pretty much known now or there other things that we should expect that you might be looking at?

Marianne Lake

Well so I would say that we are, it's a matter of good housekeeping that we would constantly be looking at making sure that we are simplifying our businesses where it make sense to do it but as a large matter, that macro matter we are working through the things that we talked about, some of the things that you mentioned and there were no significant changes.

Guy Moszkowski - Autonomous

Okay. That's great. Thanks so much.

Jamie Dimon

But we have got a 1,000 correspondent banks we sold CWK, it made very well, we sold RPS there are a bunch of product lines we've either closed down or eliminated and a lot of that's in the works. We put a light -- enhanced monitoring our other businesses so we are well along the way but if something comes up that we think we should look at again we'll look at it again.

Guy Moszkowski - Autonomous

Okay. So actually let me just follow up on it to make sure that we don't over model revenues. Are there still meaningful incremental revenue declines that we should expect from all of those areas that have been discontinued?

Marianne Lake

The most significant revenue effect that's not yet in our run-rate because the transaction is not yet closed is the exit of the physical commodity business and so obviously when that closes which maybe in the early part of the fourth quarter that would have an impact in revenues both in the quarter and then in our run-rate in 2015.

Jamie Dimon

And we gave you a number at Investor Day, I wish I got that number.

Marianne Lake

Well I could give you the numbers now, so at Investor Day we said that the impact in 2014 on revenues would be a decline of $1.6 billion, just given the timing of the physical commodities deal, the impact in '14 is going to be closer to $1.3 billion of which about $500 million is in our run-rate already.

Jamie Dimon

Is that [inaudible].

Marianne Lake

Yeah. And then you annualized the things that will be complete by the end of the year that 85% of everything is also going to get done. So once we close this year, the impact this year will be $1.3 billion. The annualized impact that we gave was $2.8 billion and that's still our best estimate.

Jamie Dimon

And the important thing is for the franchises as the management, commercial banks, CIB, CCB are all doing really, really well and this doesn't affect their ability to serve their clients at all.

Marianne Lake

And remember also just for the purpose of completeness I'd be remiss if I not state the expenses are also coming out as we take those revenues out and that remember these are in large part businesses that were not at this time accretive to the overall firm’s return, so important to remember that.

Guy Moszkowski - Autonomous

Great. Thanks for the completeness of the answer.

Operator

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

Glenn Schorr – ISI

Hey there.

Marianne Lake

Hey, Glenn.

Glenn Schorr - ISI

Hello there. So we've seen a greater number of sales in the Repo market and it seems to me of just an issue of available collateral but I am curious to get your take, how much we're supposed to carry and whether or not some of the actions by treasury can and the reverse repo market can take care of that?

Jamie Dimon

Look I think because the treasury, the government is still buying a big portion of net treasury issuance and because they are doing it going in the repo market and taking cash out of the system I think that number has maybe gone from $100 billion to $200 billion overtime. Remember I believe that, that Repo can't be re-hypothecated. So I do think some of the things will cause some issues in the repo market but my guess is that will sort through overtime. We do believe we'll see dealers reducing their books in Repo and you have heard a lot of statements about repo and collateral and capital against it, so I think that will sort out over time.

Glenn Schorr - ISI

Okay. Good. It sounds like you are not losing too much sleep over it.

Jamie Dimon

Not yet.

Glenn Schorr - ISI

Marianne you mentioned a comment on when you talked about C&I loan growth I just wanted to get a clarification. Last quarter if I remember correctly it was about flattish on year-on-year basis and you spoke about price competition and some discipline on JPMorgan's part. This quarter you have a little bit more year-on-year growth, still mention the comment about discipline but I just wanted to get a clarifying statement, is this growth a little bit better, is the backdrop a little bit better and you expect to participate in that a little bit more.

Marianne Lake

Yeah, so I would say that there hasn't been a step shift in sentiment but the sentiment is better. It feels like year-over-year it's better quarter-over-quarter and it has allowed up to -- it's delivered right in line with the industry. And we do however maintain, absolutely maintain credit risk discipline as it relates to the commercial side. So it is competitive. It hasn't been the case that we've historically been losing on price, it has been more on [inaudible] and on simplification and listing but…

Jamie Dimon

I think Marianne mentioned that in almost every category of C&I and on the commercial bank utilization was up by 1% last quarter and maybe 1%...

Marianne Lake

Utilization in commercial was up 3% at the end of the year.

Jamie Dimon

Since the end of the year. Utilization is usually a pretty good measure of companies starting to expand and early on it's receivables and inventory. You haven't really seen in capital expenditures yet and if you look at the U.S. capital expenditures in total including big businesses they are kind of flat to down, that will ultimately be the driver of real growth. So if you start to see that you are going to hopefully see a stronger economy but utilization is I think is the first sign.

Glenn Schorr - ISI

I appreciate that. The last one is I just couldn't help notice the balance sheet is now at $2.5 trillion. In your discussions -- I know we can't purchase our way through without jumping a lot of hurdles but do you feel constrained on just sheer balance sheet size, I mean you are and the reason I ask I look across most of your franchisees they are growing and they are growing nice and they are growing organically to the investments you have made. I just wanted to know if anybody is bringing up the issue of just absolute size?

Jamie Dimon

No, but I just give you a number that, like I think year-over-year that balances up mostly to the money we have at the fed, even quarter-over-quarter you got this -- we have $350 billion or almost $400 billion at central banks around the world. We have an investment portfolio of $350 billion, we've a loan portfolio of $700 billion. We already told you when they start to reverse QE III some of those will automatically come down. So our balance sheet is kind of high because of all this huge liquidity and securities in the balance sheet and eventually hopefully there will be more loans which are more productive and less just holding excess cash.

Glenn Schorr - ISI

Eventually maybe a little capital return too?

Marianne Lake

Yeah, just to illustrate the point if you look at, if you are looking at the slides you are looking end of period assets that grew by $40 billion or so. If you look at the average it was only $18 billion. We got a lot of volatility around the cash move at quarter end. So Jamie is right, there has been a significant amount of our -- has been deposit and ultimately funds like on deposit with the central bank.

Glenn Schorr - ISI

Great, I appreciate the answer.

Marianne Lake

I would say again having said that of course we are, there is a natural healthy tension now with leverage roles that we are clearly strategically optimizing the way we use our balance sheet and that would have a natural tension to keep the balance sheet growth if there is growth to be more modest.

Jamie Dimon

And we are also seeing -- we are talking about G50, the big Chinese banks, the big Japanese banks and some other banks around the world growing really rapidly. Hopefully that will reduce our G50 growth a little bit too.

Marianne Lake

And if we are right about the liquidity drain in QE you will see a bunch of deposits flow out essentially in the second half of next year and you see some of that will reverse.

Glenn Schorr - ISI

All right. Okay. Thanks.

Operator

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

Betsy Graseck - Morgan Stanley

Hi. Good morning.

Marianne Lake

Good morning.

Betsy Graseck - Morgan Stanley

A couple of questions, one FICC, one in expenses and one on RWAs. Just on the FICC line you mentioned that it was a little bit better in the last part of June and then you went on to say that the outlook is for current environment to persist. So I just wanted to ask a little bit about which environment, you are talking about just the overall quarter, because the quarter ends up being a little bit better than expected right in the mid part of the quarter. Are you suggesting that you know the end of June activity is, is likely to keep a positive tone to what's you are expecting in third quarter.

Marianne Lake

Thank you for the question. Because I want to make sure I am very clear. So in June we did see an uptick in activity in terms of client activity but volatility stayed very, very low and there was no specific catalyst for it, no catalyst that would lead up to believe that was necessary to continue and as we have moved into July it so far has being our experience that has not continued at that level. So it is more -- our guidance for second half is that 15% to 20%, the 20% plus or minus decrease that we have seen in the past for that kind of environment is the one that we're facing over the second half.

Now we are not guiding to a number because as you very well know it -- have many -- days into the quarter and things can change that. So you are going to have to pick your level but we can't predict it any better than that.

Jamie Dimon

In forecast, it's our operating assumption it going to stay at low levels for a while. We know we are going to be wrong in that but you will have to pick whatever you think.

Betsy Graseck - Morgan Stanley

Sure. Okay.

Jamie Dimon

We run the company planning for low and hoping for better.

Betsy Graseck - Morgan Stanley

Okay. And that's 15% year-on-year?

Jamie Dimon

Yeah.

Betsy Graseck - Morgan Stanley

That's 15% plus or minus down year-on-year?

Marianne Lake

We are not giving a specific guidance, it was 20% in the first quarter, 15% in the second, that kind of environment.

Jamie Dimon

The third quarter’s generally lower and it could be lower than that…

Betsy Graseck - Morgan Stanley

Okay. And then on the expenses you have outlined a couple of different areas that you are working on to get the expenses down. The question is on -- why in the IB you've got the repositioning cost called out specifically. Because I'm just kind of thinking aloud that those -- you've got to investigate expense saves in a broad, broad sort of areas of the business. So why call it out in the IB, does it suggest that we'll see more repo cost coming through in other areas over the next several quarters as people roll out their expense plans?

Marianne Lake

So we called out the $300 million if that's what you are referring in the CIB because it in our view anyway is a modestly sized and non-recurring item. We are not expecting to have similar items like that, we may have some but we are certainly not forecasting that we are going to have that kind of level recurring.

Betsy Graseck - Morgan Stanley

Okay. And the other…

Marianne Lake

So really I'll just give you a sense that in the quarter we've built that number and -- what you were to do with it in terms of your models but we don't consider that to be called.

Betsy Graseck - Morgan Stanley

Okay but in the other areas where you are also working on expense programs you don't expect that that you are going to have any of those kind of one time repo items, repositioning items.

Marianne Lake

No at this time, not significant.

Betsy Graseck - Morgan Stanley

Okay, all right and then on the RWAs you indicated that RWAs were up a little bit on op risk down on marketing credit risk and then you went on to say that it was model related, is that all your internal models, is that based on consultation with regulators, I am just wondering why the op rates could have gone up for you given that you had your big settlement a couple of quarters ago?

Marianne Lake

Yeah, so first of all these are all the moving parts, none of them are materially significant. So operating risk went up a little bit, growth in op a little bit and offset against that we continue to always on board positions on to our proved models continued to develop our models and get approvals for our models, so that we can have the most efficient RWA that we can have and so we saw some of that and also portfolio run-off. So we were just giving you some color that flat RWA is actually the continuation of the work that we articulated at Investor Day that will ultimately drive it down to be closer to $1.5 trillion over the next 18 months.

Jamie Dimon

Well a little inconsistent up-fronting all the negatives fully phased in we are not up-fronting model approvals we expect to get.

Marianne Lake

Our model onboarding.

Jamie Dimon

A model onboarding or stuff like that there were some of that coming and obviously those need to be approved by regulators.

Betsy Graseck - Morgan Stanley

Got it, okay and then Steve said the other day including again CDOs, you had some CDOs back in the day, does that impact how you are thinking about the op risk charges?

Jamie Dimon

Not material.

Betsy Graseck - Morgan Stanley

Okay.

Jamie Dimon

We are doing run off all the time for RWA and everything else is not material and they could be restructured, I think those are 2017 now and…

Betsy Graseck - Morgan Stanley

All right, hey thanks a lot.

Marianne Lake

Thanks, Betsy.

Operator

And your next question is from the line of John McDonald with Stanford Bernstein.

John McDonald - Stanford Bernstein

Hi Marianne following up on loan growth commentary, net interest income dollars seemed a little better than you expected at $11 billion are you still looking for that to be flattish kind of top of the house NII for this year or is the outlook a little better given the loan growth trends.

Marianne Lake

So we said relatively flat. It came up slightly in the quarter and obviously we are pleased with that and we told you that we expected core growth for the year to be 5% plus or minus and at this point that would still be our best assessment. If loan growth does continue to improve and improve to the point where our core loan growth is above 5% then yes we would hope to enjoy that NII benefit. But as we look forward based upon current rates broadly flat with a little bit above the bias is our outlook until rates start to rise.

John McDonald - Stanford Bernstein

Okay In terms of share buy back…

Marianne Lake

Because you do continue to have, albeit that everything is a little bit less than it was but you do continue to have offset against that in terms of spread compression.

John McDonald - Stanford Bernstein

Okay so with the 5% core loan growth you expect NII to be relatively flat this year and flat to up a little bit next year.

Marianne Lake

Yes, it's market and slide curve is in fact how things play out.

John McDonald - Stanford Bernstein

And then on share buyback could you give us some thoughts about how you are thinking about using your buyback approval for this year, did you accelerate some of the buyback activity on price weakness in this quarter and do you expect to do more in second half because the RWA reductions are starting to happen?

Marianne Lake

So first of all obviously what we can do is guided and limited by what we have approval to do. But yes we did articulate that we were going likely back end our share repurchases as we build to [RT ET1] ratio. You can obviously see we have built towards that nicely at 9.8% and then yes obviously particularly in the first half of the quarter our price was favorable and we did share repurchases reflecting all of those things.

When we look at the second half without giving specifics because we don't give guidance on repurchase we have the capacity to do $5 billion more growth over the next three quarters and we have a target to hit about 10% and we will juggle those two things together but that gives us the capacity to continue to do some repurchases.

John McDonald - Stanford Bernstein

Okay, that's helpful thanks. And on the mortgage servicing revenues the outlook that you gave for $600 million roughly does that include any MSR risk management gains or do you assume none in that, can you just clarify that?

Marianne Lake

We assume none in that. Think about the MSR risk management as we generally speaking expect our results to be close to home say plus or minus zero outside of any model updates because of our hedging strategy.

John McDonald - Stanford Bernstein

Okay, and last question on legal cost this quarter they are mostly in the IB and in corporate, any commentary on what type of issues you're currently accruing for and also could you clarify whether you have any remaining outstanding material mortgage litigation or is that mostly settled from the mortgage area?

Marianne Lake

So as much as I know you want to hear it and we're not going to talk about the specifics that what we are aiming for and we told you -- we said before that we had very little in the first quarter, we have $700 million now. It's going to be this way for a while we're going to have elevated and lumpy litigation cost as work through the issues that you're aware of and with respect to mortgage we have battled with a large proportion of our NBS risks with the government account policy so we do still have some other civil claims. We would characterize there is more behind us than in front of us and we're working through it.

John McDonald - Stanford Bernstein

Okay, thank you.

Operator

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

Mike Mayo - CLSA

Hi. First, why did trading do better than the guidance earlier in the quarter and did that relate to the 8% increase in trading bar which was a little surprising since volatility is still low?

Marianne Lake

Okay so just on the absolute performance, so first of all few things primarily contributed to the better performance. We said 20% plus or minus remember that, really could have been plus or minus when you go back three weeks before quarter end. There was a better activity in June. So June was a stronger month, every day on average produced a strong result than the prior few months in that and we didn't have line of sight to that when we gave our guidance and when we affirmed our guidance and the second I called out the market partners, shared the IPO and we --- post the IPO and generated gains of over $100 million which is a couple of points.

Jamie Dimon

And as far as, it's very hard to predict FICC really reluctant to do it, because somehow you think you actually know it's going to be -- I am couple of weeks. And the bar jumps around but some of that something around is nearly think of underlying positions [CMDS] and warehouse positions and stuff like that, which come and go.

Mike Mayo - CLSA

Okay no, I always prefer more guidance than less. And then I have two very simple questions with complicated answer I guess but you talked about loan growth, is this the inflection point for loan growth and on the one hand you said while there is some inventory build that's helping and on other hand you're not seeing CapEx yet and two quarters ago you said second half of the year loan growth should really accelerate, do you still believe this should accelerate from this level, is this the acceleration or you're revising back some of those expectations?

Marianne Lake

So what we said Mike is that what we have seen in the second quarter gives us reasons to be optimistic that we're going to continue to see growth around those levels in the second half of the year. Like I said it's not that we've seen a step change but that we have seen generally better sentiment, generally better utilization rates, generally higher pipelines and the phones are ringing, it's cross geographies. So it feels like the environment is conducive for us to continue to be able to add. We've been very successful in the business banking space and yes in cards, so it's our belief that we'll have strong year-over-year in the second half but we are still in the early stages of seeing that happen.

Mike Mayo - CLSA

And if interest rates increase at some point that could hurt the ability of commercial and commercial real estate borrowers to service their debt. How much cushion is there before you think that would become an issue or that's just not a factor?

Jamie Dimon

I just want to add it's not really a fact of people who are already income producing locked in rates and things like that and they really won't be effective for people who want to build new things. But not only on the commercial side but we did look at on the residential side, there have been occasion we have rising rates and improving housing. So depending why rates are going may be the more determinant factor than just the fact that rates are going up. Rates are going up to able to help the economy and maybe more important than just the fact the rates going up, right. We have not done the same thing in commercial, we probably should.

Mike Mayo - CLSA

I guess the more general question is what areas in credit are you watching the most, I think Marianne you said auto was the best since 2006 and that's been an area mentioned by regulators, is that the point of greatest concern or are there other areas you are watching more closely?

Marianne Lake

Well, what we are doing is being consistent on our credit discipline. And so we are still facing partly in the first half of the year about -- are not participating in some of the growth that others do because we have maintained a line as it relates to particularly structured credit, label, credit structures and addresses structures rather pricing. And so we are consistently doing that. We are not changing that and our credit books across our auto, mortgage, commercial remains consistent, we are not changing that either. So for us we're just maintaining our credit discipline, but yes, I mean, it is a very competitive place out there right now across the product and so we are seeing a little bit of that aggressiveness. We saw it in the quarters coming up we still see now although it's not worth.

Mike Mayo - CLSA

All right, thank you.

Operator

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

Erika Najarian - Bank of America/Merrill Lynch

Good morning. My questions have all been asked and answered. Thank you.

Marianne Lake

Thanks Erika.

Operator

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

Matthew O'Connor - Deutsche Bank

Good morning.

Marianne Lake

Good morning, Matt.

Jamie Dimon

Good morning.

Matthew O'Connor - Deutsche Bank

Can you remind us the timing of the private equity sale and how much capital against that. It was profitably a breakeven business, I think you know about 6 billion of outstanding and what does that mean in terms of freeing your capital in the Basel III and SLR?

Jamie Dimon

I don't think we've disclosed that. It hasn't been a breakeven business over a long period of time. Obviously hasn't earned much money in the last few quarters and we are still -- if we go and change something it could be soon. It won't be all of what we take, it will be a part of it. And then the part of the number you see, I think the $6 billion of total buyback are all heritage investments were made by JPMorgan Chase and et cetera before the Bank One merger.

Marianne Lake

That will continue.

Jamie Dimon

So, they are all eventually that $6 billion will be zero. And that frees up about $3 billion of equity capital respectively.

Matthew O'Connor - Deutsche Bank

Okay, $3 billion that's helpful. And then other commodities business you gave us the $2.8 billion of annual revenue give-up and said that was ROE dilutive but care to give expenses and capital against that?

Marianne Lake

Yeah, so, just to be clear the $3.8 billion if you go back and look at Investor Day was all of our business simplification agenda not the physical commodities. I just pulled out physical commodities as being A, a big piece of it; and B, us staying in the piece the biggest piece left to happen in 2014, so just to be clear on that. And then yes the $3.8 billion came with expenses of $3.2 billion again it, we didn't disclose the capital but when you take that into consideration it was at or below our cost of capital not additive to return.

Matthew O'Connor - Deutsche Bank

Okay. And then lastly this is probably an obvious question but the $100 million gain related to IPO would have been booked in the equity trading business when you are talking about the impact to the markets revenues?

Marianne Lake

Actually it didn't effect.

Matthew O'Connor - Deutsche Bank

Okay. Alright, thank you.

Operator

Your next question is from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch - Credit Suisse

Okay, thanks. Most of my questions have been asked and answered. But could you talk just a little bit about how much of the mortgage business cost are fixed and how much you would be willing to let the volume decline?

Marianne Lake

Yeah, so we haven't actually broken out specifically in that way but I can characterize it for you. So obviously in mortgage production; the first you know chunk of expenses it's really variable meaning it's paying for production on a variable basis to the sales force and then you have a bunch of what we call semi-fixed cost which are effectively the operated, the people you know the sort of FTEs and then you do have pre-fixed cost which is the management, the real estate, the technology when you have a very, very slow market which I think you would agree at $1.1 trillion or lower market its very slow then it is hard with the fixed cost structure to make a lot of money in the mortgage business particularly if you are taking a hard line which we are on the types of mortgage product that we want to participate in but over time it doesn't stop the fact that this is going to be healthy company functioning mortgage market everyone to be [inaudible].

So it's tricky in this kind of very, very small market to but we are focused on fixing our fix cost base and trying to get out as much efficiency as possible.

Jamie Dimon

And we have being spending a lot of time of that doing deep dives and trying to figure out and unfortunately this one won't be at the end of the year. I think it is hopefully by the end of 2015 we give you clear sight about how we would be making normal profitability there,

Marianne Lake

Right.

Jamie Dimon

Which may take until 2016.

Marianne Lake

Yeah. And it would be in a technical volatile business and we had very, very strong performance over the quarter of 11 in '12, and into the first 2013 and we are now at that cyclical point, that cyclical node and we need a lot of things to happen but hopefully when I tell you that the fixed cost space is our number one process or among our number one processes and we are working very hard at it.

Moshe Orenbuch - Credit Suisse

Great. Thanks. So just of a small point, you mentioned a reserve release on the private student lending business. That was a business that you had kind of talked about potentially exiting I guess back in late last year. Is that still on the agenda or?

Jamie Dimon

We are not exiting, just no longer doing it, and it's in run-off mode.

Marianne Lake

Right. So we we stopped originating new loans but we do have a portfolio of loans that we are managing and as they run off we will experience usual charge off reserve releases they are not exiting.

Moshe Orenbuch - Credit Suisse

Got it. Thank you very much.

Operator

Your next question comes from the line of Derek De Vries with UBS.

Derek De Vries - UBS

Thanks. I have two questions. One is kind of a detailed question but I just want to make sure I understood correctly. You are talking about equity trading revenues and I think you sort of said the decline was attributable to the equity derivatives business. So can I imply that the year-on-year for cash and prime brokerage businesses were flat and all the decline came from equity derivatives is that what you said?

Marianne Lake

We said it was driven by derivatives, cash and prime brokerage, the better prime did the better than cash.

Derek De Vries - UBS

Okay. That's clear. And then just sort of a more conceptual question I look at your core loan growth of 4% obviously it was accommodated that’s was very strong and I guess about two times the industry level and kind of reconciling that with the comments you made about C&I loan growth is kind of in-line when you are kind of ceding some market share in resi mortgage for all the reasons you have explained to us. So I was just wondering if you can give some color on those areas where you are clearly taking share and just some outlook on how sustainable that is or is it just kind of a good quarter?

Marianne Lake

So just on the mortgage thing we are giving up share but remember that we distribute a significant amount of mortgages that we produce. In this quarter we actually portfolioed $5 billion of mortgages. So we are not losing share in those.

Derek De Vries - UBS

Yeah I understand.

Marianne Lake

So we are adding to the portfolio for mortgage it's slightly different dynamic. We are outperforming on sales prices in cards, so ultimately that would fuel outstanding growth that hopefully would be better than the industry but clearly it's modest at this point. I think we are inline if now potentially gaining a little share but we continue to outperform in real estate particularly in most real estate and asset management.

Derek De Vries - UBS

Okay. And so I mean all those areas are areas you are targeting so they should feel pretty sustainable?

Marianne Lake

Yes.

Derek De Vries - UBS

Understood. Thank you very much.

Operator

Your next question comes from the line of Eric Wasserstrom with SunTrust Robinson.

Eric Wasserstrom - SunTrust Robinson

Thanks very much. I just wanted to just step back for a moment and think about you know what's occurred in the context of the key themes from investor day last February. And it sounds like there is a couple of areas where things maybe are progressing bit more slowly than you thought. Mortgage it sounds maybe one of them but I wonder if in the context of the goals that you laid out how you feel broadly you are moving against them and whether there has been any real departures from your expectation sort of at the halfway point of the year?

Marianne Lake

So I think you called -- I think you called it well on mortgage. Obviously the mortgage market and housing conditions outside of [inaudible] are challenging and that looks like it’s set to be a slower journey but if you step back and look at across all of our businesses when I talked about the underlying core performance drivers growing strongly that reflects our strategy. So we continue to build and grow our businesses demonstrated by those performance drivers as well as simplify and address the control agenda and we're making appropriate progress in both of those. And it showing in our results. I mean a quarter where obviously there are some challenges to print over 14 [inaudible] tangible common equity is evidence of the strategy workout.

And if you were to read through the comments I made in asset management we're investing in the sales force. We are seeing deliver growth. We have record inflows we are seeing international delivered loan growth, it's very consistent.

Eric Wasserstrom - SunTrust Robinson

Yeah and I guess the…

Jamie Dimon

We have given you a roadmap on how we are going to get from 7% return on tangible common equity to 14. We are already at 14.

Eric Wasserstrom - SunTrust Robinson

Right. So I guess the I mean the real heart of my question is we look at these financial results which are clearly better than expectations against the backdrop which maybe is certainly not better, maybe worse than, than what we thought at the beginning of the year. And I wonder if that then suggests that in fact things are accelerating ahead of the timeline or in greater magnitude than the discussion in February.

Jamie Dimon

No, I can't overemphasize this, we do not run the company for quarterly profits. We make long-term decisions on people, systems technology, products services, stuff like that and lot of things drive short term profits, but the profit you have in any one quarter relate to decision you made for the last five years and so we feel great about these companies. The big weak spot which we'll acknowledge is mortgage and we're going to put, we got great people there, we're going to put elbow to the metal there, we're going to invest some more money in their systems. We got some catch up to do, we got caught in the middle of as you know WaMu origination platforms and we usually look at each of these businesses they are all doing fine and we're looking at how we can grow them over the next five to ten years. And that's what we're going to do.

I honestly I mean I don't care whether the FICC was up 10% or 15% or down 10% the next quarter. I actually think it's complete waste of time.

Eric Wasserstrom - SunTrust Robinson

Okay and then maybe just lastly one of the themes from for this year has been the narrowing a little bit of the client base, based on risk of profitability profile. I'm just wondering how that's progressing particularly with respect maybe to the commercial bank?

Jamie Dimon

I think most of that's been done. So you've seen, not all of it, but the full effect of that in terms of which segments we're gaining on, and which ones we're going to focus on, which ones we are putting hands to monitoring and it's sort of same thing in the CIB with our correspondent banking. There may be more, we are always going to do good housekeeping. There are some clients we've had conversations with they are still on the books but they will be leaving down the road, but none of those things would be material to the future of this company. That may affect revenues a little bit in the fourth quarter or first quarter next year that's not why we're doing it. We're doing to protect ourselves, run the business properly meet our regulatory and control objectives.

Eric Wasserstrom - SunTrust Robinson

And so this is the last thing from me, but does that suggests that maybe we're getting closer to the point where the reported numbers in terms of the balance sheet, the loan expansion and the core numbers will get closer to converging?

Marianne Lake

Think about the core number advantage, reported number being primarily driven by the legacy mortgage and credit card portfolio. So the client activity that we've been talking about is immaterial in the context of that run-off portfolio, that what's driving the difference.

Eric Wasserstrom - SunTrust Robinson

Thanks very much.

Marianne Lake

We will continue to see that portfolio run off and as it runs off and gets smaller we will have less of an impact but it's been fairly consistent story.

Eric Wasserstrom - SunTrust Robinson

Great, thank you very much.

Operator

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

Kenneth Usdin - Jefferies & Company

Thanks good morning. On the consumer business just one last question about the payment side and we've seen really good volume growth metrics and that's turned in the origination volumes, can you talk just about what you're seeing in the underlying customer as opposed to what you guys are benefiting from activation and on new car growth, just your general sense of the customer and spending?

Marianne Lake

Yes so we have a lot of market stats that while we maybe outperforming the market what we see is generally a fairly good picture of what's happening and what I can tell you is if you see compared to our growth you have still strong high single-digit growth in non-discretionary spend categories driven principally in growth in the space which is not all enterprising but I it's actually about consumer spending and inflation. And then if you look at the discretionary growth which is growing even more strongly though in the double-digit territory it's across the board, it's travel, it's restaurants, it's retail, it's across the board so consumers are spending very strongly in both categories.

Jamie Dimon

And merchant processing we are growing like 12% a year and we're investing more money to do a better job for merchants there and so all of these things and $35 million people bank online I think it was 15 million who used mobile banking, it was 12 million to 15 million who used mobile banking. So you are going to see us extend products and services all of which hopefully will be merchant friendly and consumer friendly.

Kenneth Usdin - Jefferies & Company

And on that merchant piece just can you just explain the disconnect between the volume side, continuing to look better and then the transaction growth rates slowing a little bit recently, is it a larger ticket size or is there some different underlying things in the metrics?

Jamie Dimon

It's mostly merchants aggregating their transactions.

Kenneth Usdin - Jefferies & Company

So it's flows through to you guys.

Marianne Lake

Correct.

Kenneth Usdin - Jefferies & Company

Okay great and then a little question, tax rate was a little low this quarter to your outlook generally speaking on the tax rate going forward?

Marianne Lake

Yes so I mean, our general longer term outlook is on our tax rate is 30% plus or minus, just given obviously the pretax prices of the 2014 market it will be slightly lower than that, more inline with the quarter.

Jamie Dimon

I don't know if you mentioned this in other the private equity which was close to zero and bounces around is treasury and CIO which was close to zero, kind of will stay there, and there's other corporate, a normal rate would be around 200. This quarter is around 400 because of some of the tax benefits. Think of that as going back to 200 give or take next quarter for your models.

Kenneth Usdin - Jefferies & Company

Perfect. Thank you.

Operator

Your next question is from the line of Paul Miller with FBR Capital Markets.

Paul Miller - FBR

Yes. Thank you very much. I know a lot of questions have been asked, but I want to go back to mortgages a little bit the $16 billion, the market was up depending on who you listen to probably in the $260 billion to $300 billion range but you guys stayed relatively flat. And it looks like really you guys gave up market share with MBS issuance stuff that you sell to Fannie and Freddie and maybe you picked up more market share in the general market. Of the $5 billion that you portfolio, as you talked about was that all jumbos and you could talk a little bit about maybe stepping away from Fannie and Freddie?

Marianne Lake

So of the $5 billion, $3.6 million was jumbo, about $400 million was [inaudible] and then about a $1 billion of conventional. But that's high -- mostly jumbo, yes and we're holding share in jumbo. And with respect to the market share loss it was principally two things, it was principally a strategy that we've talked about to do less in the high priced, high LTV, low FICO space and we priced to the risk adjusted return that we see in that business given the cost of service the loans that default and that's what the impact has been on our market share and then also the HARP burn out we were very successful in helping our loans over the course of last couple of years, our borrowers who are technically eligible are no longer responding. So we're seeing that burn out.

The bit that's really truly the conventional loss which there was some, is really on price competition and we absolutely intend to compete on price.

Jamie Dimon

So our FHA volume was way down and we studied FHA and based upon the lawsuits and the premiums and stuff like that we've lost a tremendous sum of money in FHA. We are trying to [inaudible] do better going forward. Just to give you three numbers, we collected $600 million of insurance, they disputed $200 million, the government called that a fraud. We reimbursed $600 million to get out of the lawsuit because it was a threatening lawsuit, even like in my opinion it was a commercial dispute between FHA and ourselves about that and the whole time FHA collected another $1.8 billion in premium. So the real question to me should we be in the FHA business at all and we're still struggling with that.

We want to help the consumers there but we can't do it at great risk to JPMorgan. So until they come up with some kind of Safe Harbors or something we're going to be very, very cautious in that line of business.

Paul Miller - FBR

And Jamie a follow on question on your utilization comments, I thought was very good. But a lot of bankers have talked about as long as deposit is growing it's hard for their utilization rate to go up and we did see strong deposit growth and we're still seeing utilization rate. Should that deposit growth should start to go down if we are seeing an uptick in utilization rates?

Jamie Dimon

I think it slowed down a little bit.

Marianne Lake

Yeah, it went down slightly in commercial.

Jamie Dimon

And last remember there are so many different borrowers in industry so there might be some people are still accumulating deposits or some start to borrow money but in general you're right.

Marianne Lake

Yeah so if you look at commercial just as an illustration of your point what we've got going on is the utilization rate in the last two quarters have picked up by 33% still much, much lower than you would expect them to be overtime which would be probably about 40% but you do see deposits flattening out in fact there's a little bit of decline. It's not absolutely the case at this point that we can say people are starting to spend their deposits and utilize their lines and I think -- is still not really out there but that is what you'd expect in this business we didn't see strong growth in deposits.

Paul Miller - FBR

Okay, thank you very much guys.

Operator

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

Steven Chubak - Nomura

Hi good morning. So Marianne I actually had a question about the presentation that you'd given last month at the Morgan Stanley conference. You alluded to a targeted loan to deposit ratio of roughly 70% through the cycle and I supposed I was wondering when crunching some of the numbers given the proper treatment for loans versus high quality securities under the LCR, whether there is a peak level of loan to deposit ratio or growth that we should think about given the constraints, which exist under the new liquidity regime.

Marianne Lake

So first of all just to make a competitive point with it, we didn't have a target to loan to deposit we were just trying to make the point that obviously as we think forward to the impact of interest rates on our performance overtime we would expect both a mix shift in deposits back towards interest earning MCDs but also expect to see the economy growing and loan growing and that needed to be taken into consideration. So it wasn't really a target, it was just a simulation to start with that. It was basically on levels that we have seen at least in parts of the cycle that we were referring to. And then you are right, there is a dynamic where because of LTR we will always have because of our liquidity requirements internal as well we will have liquid assets that will be structurally higher than they would have previously been. And therefore from a mix effect that would have an impact but at this point given where loans to deposits are I think that would be a high class problem to be talking about.

Jamie Dimon

And remember there are some unused lines, there is no loans in the balance sheet they still need a 100% LCR. So what's really going to happen is, it's going to be on decline level, capital LCR, commitments et cetera, we just have to manage it, at the capital level, the desk level et cetera.

Steven Chubak - Nomura

Thanks, actually that's a great transition for my next question, which relates to pricing in some of the multiple binding constraints on capital that exists today. And some of the discussions that we had with your competitors have suggested that some believe that it's still a little bit too early to fully bake in the cost of managing to all the different capital real stats that exist today, whether it's risk based leverage based or even CCAR and it appears that you have been managing more actively through all the different constraints out there and in light of that I was wondering whether you have seen any impact for more aggressive pricing by peers in terms of your relative market share in certain product areas, particularly within the CIB?

Jamie Dimon

We see a little bit of this trade finance costs have gone up, a little bit in municipal businesses and there you have seen a little more restructuring of the type of business people do. Remember some of the repricing may not take place in the product. It may take place in the relationship because all products have lost leaders et cetera but we haven't seen a huge amount of repricing taking place yet.

Marianne Lake

And I think if you think about…

Jamie Dimon

I have heard some complaints by the way that some of the revolvers are smaller and shorter, not the price as much of it is the sizing and then you've heard some commentary in the market that inventories bonds are lower and being gapped out, spreads are gapped out, so you're trying to see some of it but eventually I have never seen a business where the costs of goods sold doesn't eventually get priced in the business. It doesn't happen to be priced into the egg or the milk, it just has to be priced in the transaction the whole bag, the person walks out to the supermarket would.

Marianne Lake

And I think one way to look at it is to say well we are absolutely managing through this complex environment Basel III Tier I comments still is our binding constraint at the moment and that's how we allocate capital in the businesses and that's the sort of primary lend that we are using to price and what you are going to see as Jamie talked about is that the leverage and LTR and other constraints including stressed capital are going to play out at the client level as we just all are becoming more efficient about how we deploy our balance sheet, rather than necessarily a re-pricing strategy.

Jamie Dimon

And CCAR we will push the CCARs down to the extent we can we will push the CCAR down -- those things which create CCARness.

Steven Chubak - Nomura

Thanks and I suppose could you give potentially any context as to what event may prompt that repricing, whether even if the leverage rules are finalized and officially implemented this year do you expect that's when you will begin to see a lot of your peers begin to reprice some of these effects into their inventory or into their trading securities or is it -- are they likely going to delay at least the repricing until the rules are fully implemented which is, going to be a 2018 event?

Jamie Dimon

I wouldn't hold your breath, I mean some people leaving businesses, some optimize the decline levels, some are having strategic changes and it will happen overtime and we are quite patient about it. We are in no rush. We are not going to try to lead it or anything like that, it will happen overtime. As I said you have seen it in trade finance, you've seen in municipal businesses, you have seen it in - I know the rules aren't final, when the rules become final then people may react differently.

Steven Chubak - Nomura

All right, great. That's extremely helpful. Thank you for taking my questions.

Jamie Dimon

You're welcome.

Marianne Lake

Thank you.

Operator

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

James Mitchell - Buckingham Research

Hi, good morning. I just wanted to follow-up on the SLR. It seems like the improvement you had sequentially was I think mostly driven by capital in the preferred issuance. Can you give us sort of where we are in terms of compression trades and the impact is it still more a lot more to come or is that mostly in there and then I guess any thoughts or updates on [exactly] what impact can be and if you expect that to be adopted by the fed?

Marianne Lake

Okay. So, just on the -- yes, the improvement at the bank and the holding company was retained earnings, plus capital attribution but we continue to work through all of the other initiatives we have to optimize leverage including compression trades and pay-offs and the like. That is actually happening a little bit more slowly than we have thought just broadly in the industry it still presents an opportunity if not the most sizeable opportunity but we are diligently getting after it.

And then with respect to SCAR we estimate it in clearly it's the complex calculation so we will be slightly wrong in our estimate. We estimated it to have a benefit to the firm of 35 points and for the bank of 45 points. Yes we would expect that at some point it will be ultimately adopted by the U.S. regulators but that doesn't look likely to be helping our numbers this year or next.

James Mitchell - Buckingham Research

Okay, got you. And then maybe just I don't know if it's not related or not but if I looked at your derivatives receivable on the balance sheet it's been declining pretty steadily down 20% year-on-year. Is that reflective of just demand or given low volatility and low activity levels or is there something structural there, are you guys actively managing your receivables down or just trying to get a sense you know how much the cyclical versus structural argument?

Marianne Lake

It's substantially cyclical.

James Mitchell - Buckingham Research

Okay.

Marianne Lake

I mean I wish we could be -- I wish we could actively manage it down because it's part of our part of our (inaudible) calculation but the truth of the matter is a factor of activity level.

James Mitchell - Buckingham Research

Okay, it's primary activity levels. Okay. And one last one on the CDO question, I think earlier I think we saw Citigroup settle with DOJ regarding in the included CDOs I don't your settlement included that. Is that something that you think all remains out there or just something unique to them, I know you have you did settle one, one complaint with the SEC a few years ago just want to get a sense of how you think about that any remaining litigation risk around CDOs? Thanks.

Marianne Lake

We don't think it's significant.

James Mitchell - Buckingham Research

Okay, thank you.

Operator

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

Betsy Graseck - Morgan Stanley

Hi, thanks. Just a follow-up Jamie on the FAJ commentary you had. I'm just wondering about the implications for how you hit the CRA requirements. Is there any interplay there?

Jamie Dimon

Yes, the CRA number is a combination of lower and middle income mortgages. So we will obviously try to meet to those commitments, it include how many branches you have in lower-middle income so we'll continue to build that. It's a function of CDFI like lending to small business or community development funds which we will continue to do. So it runs a whole gamut and we will meet our CRA commitment. Yes if you don't do any FHA that hurts you a little bit but to do FHA and lose billions of dollars that's a whole different level of shareholder responsibility and so we have got to be very careful how we handle that.

I'm hoping FHA comes forth and comes up with some real bright lines and harbors that make it easy for us to try to do what the government wants us to do, but we can't get penalized severely for some of the things that happen.

Betsy Graseck - Morgan Stanley

Doing in the FHA you have got the Ginnie's to their 4-year RWAs were lower, doing -- getting the same credit for CRA and loans is obviously a little bit more capital consumptive so that's part of the challenge?

Jamie Dimon

It's all of that.

Betsy Graseck - Morgan Stanley

Yes, okay.

Jamie Dimon

We are going to meet CRA. We report CRA results every month and like I said it cuts across a wide variety of things that we do for people. We just did this great thing at Detroit that lots of CRA credits. We can do mortgages ourselves that we can put on balance sheet that we think are less risky than FHA, insurance so we will figure it out. This is just a category we just thoroughly, thoroughly confused about how we got treated, how we got to do it going forward and what kind of -- and we've spoken to government for some kind of guidance going forward.

Betsy Graseck - Morgan Stanley

Great. So this is on the reps and warranties on the FHA?

Jamie Dimon

Yes.

Marianne Lake

Well it's still…

Jamie Dimon

It's the reps and warrants that there should be a commercial resolution dispute we don't have [triple damages] if something goes wrong.