JPM AT THE GOLDMAN SACHS U.S. FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

All right. Okay. So we're delighted to introduce our next presenter, who's Marianne Lake, Co-CEO of the Consumer & Community Banking businesses at JPMorgan Chase. She's also a member of JPMorgan's Operating Committee. She's been with the firm for 25 years, and she's had a variety of roles at the firm, including CFO. Marianne was also here last year. We are delighted to have you back, so we can talk about some of the things we talked about last year and see how things have progressed. Thank you so much for joining us.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

Thank you for having me.

QUESTION AND ANSWER SECTION

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So, let's start off with the question we're starting off with everybody, which is just about your view of the macroeconomic environment. It does feel relative to last year that the range of outcomes has narrowed. So I'm curious how you're thinking about the current state of the economy, what you're seeing in terms of customer behavior? Has anything changed over the course of the last few months? But specifically, as you think ahead into next year, how are you thinking about the path for interest rates, the path for inflation? And I am curious how your thought process around recession risk has changed relative to where we were at this point last year?

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. So, thank you for having me and nice to see you all again, what a difference a year makes. I think, this time last year, our sort of house central case baseline scenario was for a recession in 2023, albeit for a mild one, and that didn't play out. In large part because the extraordinary fiscal response to the pandemic took longer to play through to the economy and come off of consumer balance sheets. So, if I take a look at what we're seeing in our customer base right now, so consumers and small businesses both continue to look relatively healthy. So you asked, have there been any notable changes over the last several months? And the truth is not really, but things continue to progress. So on the consumer front, if I start with spend – and we like to look at spend both absolute growth, which takes into account that we're acquiring new customers as well as a stable cohort of customers and what were they spending last year and what are they spending now.

And so spend is still solid, has returned to be in line with pre-pandemic or historical norms. A stable cohort of customer spend is relatively flat year-on-year, but that again is relatively consistent with pre-pandemic. And then obviously, when you take into consideration that we're constantly adding new customers to our books, we're seeing spend growth continue to be robust and we had a good holiday season. So, I think spend continues to hold up nicely. Cash balances, we were here last year saying they're normalizing – that has continued. We're getting pretty close, it feels like, to the end. There is still more cash buffers than there were pre-pandemic, but we're talking about days, particularly for the lowest income customer. So, whereas pre-pandemic, the lowest income customer had on hand, say, 12 days of cash to meet outgoings, now it's say 15. So it hasn't fully normalized, but we're kind of splitting atoms at this point. We're getting there. You can pick your moment sometime early into next year. And so we're still on that journey, but getting closer to the end.

And then, credit has normalized, but normalized to where we expected and not yet deteriorated. Although there are some nuances that I'm sure we'll discuss on that. So no big changes, but a continuation of what we've been seeing. The consumer is still in relatively good shape, but the music still hasn't quite stopped, if that make sense. Small businesses still also healthy, similar story on cash, less borrowed, so loan utilization is down, although credit applications are still normalizing. The only thing to see, if we look at our customers, is that margins are a little compressed relative to pre-pandemic levels, but still strongly positive across the whole. Obviously, there are exceptions to all of these things, but as a sort of general matter. And so, no big changes as we look forward. We don't have a crystal ball. You know what we are like, we plan for all scenarios, a range of outcomes. At the moment, we've moved from thinking that we were facing a mild recession with a probability of a soft landing to the reverse of that. So soft landing with the odds of a recession still being relatively high. But again, if that were the case still with a good chance that it would be quite mild, so a little bit of six in one and half a dozen of the other.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

The outlook for rates has rates staying at this level through the back part of the first half of next year and then whether it's the market or us or anyone else, some easing over the course of the period thereafter and ending in the 4s at the end of 2024 and in the 3s at the end of 2025, but we know we'll be wrong, right. So again, we don't have a crystal ball, inflation, feels like it is on a path. But I think by anyone's expectations, the path to the 2% target will be hard, slow, possibly bumpy. And so, I think the Fed is in a good place to pause where we are and see multiple quarters of data to sort of see how that plays out.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So, you mentioned credit quality, so let's expand a little bit on that.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yes.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

I mean, is there anything that you're monitoring more closely than, say, six months ago? Are there areas that you're still tightening underwriting standards? And do you think the market is appropriately pricing credit risk across your key consumer portfolios and when you think about the risks heading into next year?

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So if I don't answer all of them, please remind me.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Sure. Yeah.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So I think as I look at credit metrics, as I said, they have also basically played out in the last year. That is an area which played out as we expected. So, if you look at Card, just because it's such a beast in the context of our overall portfolio and losses, we said that we thought that the delinquencies would normalize by the middle of this year and they did by the end of the second quarter. And that as a consequence of that, you would see loss rates normalize to pre-pandemic levels at the end of this year into the first quarter of next year, that is what we're expecting. Our loss rate is, as we guided you to both for this year and next, so nothing has really changed in the Card space. In Home Lending, the credit metrics are like really great, but that's because all of the vintages that have been originated since 2010 have delinquency rates in like measured in basis points. And the percentage of the portfolio that was originated pre-2010 is running off and is a smaller percentage. So, I think we have a long runway of like pretty good performance in Home Lending.

And then in Auto, that's an area where delinquencies have more than normalized, but it's a pretty nuanced story. So, if we look at our portfolio, I think there are two things: one that may be somewhat but not entirely unique to us and one that I think is generically true. For us, the portfolio mix has changed a lot. So, for reasons that I think are described by both the secular and cyclical environment. There's less dealer commercial services lending, which has typically been lower delinquency, more retail, that's higher and within retail, more used because of supply chain issues. So we're getting paid properly for all of that. So there’s not a concern around it, but it does mean that the metrics themselves just look a little different. What is, I think more generally true is, and we'll come back to tightening in a second, is that there's been an element of negative selection about people who have been financing cars, particularly used cars at the elevated levels of valuation, at elevated rates. So that's an area where there's a bit of negative selection in the financing balance sheet, let's say.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

We are tightening. We have been tightening. I will say we always do. You know that we underwrite incorporating stress and so we don't have to slam the brakes on and we're not doing that. I wouldn't call what we're doing broad based tightening or breaking in any meaningful way. But we're are always looking at opportunities to, within our risk appetite, tighten and expand, but obviously, I'd say net tightening at the moment. In Card, it started with new to credit, thinner credit files, borrowers who had no other relationship with us, therefore we didn't have as much insight into their capacity to repay, tightening at the margin there. And as moved more recently, we look for shadows on the wall. So if you zone in and in and in to the lowest income borrowers that have the highest levels of unsecured debt, they are showing some signs of stress that's above levels we saw pre-pandemic. Very, very, very small part of our portfolio, but we are tightening there.

So I'd call it sort of surgical, marginal, rational, and then the same is true in Auto. We started tightening high LTV used cars in 2022. More recently high LTV new cars, even for high FICO borrowers, are an area of concern. Back to the point of negative selection, anyone who is taking a 120% loan-to-value on cars at the values they're at right now with rates where they are, like as a sweeping generalization, is doing it because they kind of need to. And so there's just a little bit of performance bias in that. So we're tightening up there. But again, net tightening? Yes. Broad based? No. Slamming on the brakes? No. Are we getting paid properly for the risk? Yes. I would say that we have seen a competitive response and pullback that's been most notable in Auto. So, as much as we continue to tighten and increase our liquidity premium into our pricing, we're seeing that there's just less competition out there. So, auto originations are pretty strong, gaining a lot of share there, but pricing is pretty rational. And what we're seeing in the competitive response is pretty rational given capital, liquidity, balance sheet concerns and the like.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Okay. So, let's talk about interest rates and I appreciate there's a lot of uncertainty...

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

I will polish my crystal ball.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So really the question is, look, there is a wide range of outcomes, but higher-for-longer is still one of those potential outcomes. I think it's one that Jamie Dimon's talked about quite a bit. So, what do structurally higher interest rates mean when you think about the Consumer business? Both in terms of deposit flows, deposit repricing, mix shift and ultimately credit quality if we are going to be in this world of interest rates that's say around 5% level going forward?

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. Again, multi-part, so if I don't answer, remind me. I mean, you all know that when we talk about guidance or outlook that we just follow the market implied curves. And so, when we're talking about guidance at the third quarter, as I say, relative to recent history, that was rates being higher-for-longer, albeit that we're seeing some easing through 2025. Our baseline outlook for deposit flows was continued net outflows so modest declines in deposit balances through 2024, stabilizing in the first quarter of 2025 and growing as lower rates take hold. So that's kind of the baseline against which everything is comparable. I think, before we sort of get on to what a different scenario might mean, I think, let's talk about what we're seeing. So, right, to date, we're pretty encouraged that we are still seeing very low deposit betas on our $1 trillion of retail deposits. But why are we encouraged? We're very encouraged because we are meeting our customers' preferences and need for yield through competitive CD offerings and through our Wealth Management complex. In fact, over recent quarters, we've been retaining more than 80% of net yield seeking flows within our ecosystem. So we're like meeting our customers' needs, and that's why that is so interesting.

That said, I think we've been very vocal about the fact that lags are real, that we know we're over-earning right now, and that over the medium-term, and you can pick your path and you can pick your timeline, deposit margins will normalize through some combination of factors that will likely include all of mix shift, reprice and possibly lower rates. And that is a little bit of the story behind Jeremy's kind of medium-term NII guidance of $80 billion. And I'll remind you that while obviously there's a lot of questions about the number and the timeline and the path to get there. It was based upon the triangulation of a number of different scenarios that when all was said and done, didn't materially change the end result. And so therefore, imagine that that included scenarios that incorporated obviously the forward curve, but clearly pausing for longer and also something that's higher-for-longer. So all of that was sort of contemplated in the guidance.

Marianne Lake A
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

What does it mean? I mean, it kind of depends on why and what accompanies it. Because if what you are asking is if the Fed has to pause longer than the market expects right now, but it's still a pretty healthy economy, below trend, but still positive growth, inflation, maybe not gliding down towards target, but continuing on its journey. I think it's a sort of yes, will the path change, but nothing materially changes in our view. If it is for less good reason, so if we find ourselves in a situation where rates have to go higher, where that is in a no growth sub in inflation, employment rising situation, the just generic answer to that question is over any period of time, that's not great for consumers. Because while they've been insulated to date from the negative impact of rates, because, yes, anyone who's had to buy a home or a car has felt it, but most people haven't had to, right. And yet they've been getting more on their cash. Over time that naturally changes and so the pressure on balance sheet will rise together with unemployment, et cetera. So, it depends on what's coming, but QT is a wild card. So the only thing we know is with higher rates, we probably would get a short-term sugar high, right. Deposit margins would go up in the first instance because higher rates would pass through, but then you would get competition for deposits. QT would play into that.

So, some combination of higher outflows and/or, probably both higher interest expense would happen. A question about when and if and to what extent that would require repricing of the whole complex, that hasn't had to happen yet. All of those things are unknowns. And so, it depends on the scenario. Credit, back to what we're expecting. You know we're expecting a tailwind in NII from Card loan growth because we still haven't fully normalized, because there is still some inflation, albeit lower, because people are using credit more than they're using cash, because spend trends are still quite good. So that's a tailwind right now. But obviously a different rate path, a different unemployment path would dampen loan demand in Card and increase delinquency. So, we don't have a crystal ball. We prepare for all scenarios. The fact that Jamie has been talking about it for a while, you should read into that that we've been studying it for a while. We prepare for that. I think on the asset side of the balance sheet, we've been patient about deploying liquidity. On the liability side, we have, in my humble estimation, one of the best deposit franchises out there, deep customer relationships, great products and services. So I think, we're well positioned for a range of outcomes and I think Jeremy's guidance foresaw a range of outcomes. So the path will be very different and we don't exactly know how it will play out.

Richard Ramsden Q
Analyst, Goldman Sachs & Co. LLC

Okay. So let's talk about loan growth that's obviously been weaker this year ex. card, card's obviously been pretty healthy. What are you expecting in terms of loan growth heading into next year? Do you think there's going to be any bifurcation between, let's say, consumer loan demand broadly and corporate loan demand?

Marianne Lake A
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

Yeah. So I would say, I mean, a couple of things. Obviously, everybody is talking about record household levels of debt, reaching over $17 trillion, credit card balances are 22% above pre-pandemic. I will remind you, they haven't yet fully normalized. And so debt service levels are still reasonably healthy, flat year-over-year and below pre-financial crisis. The driver of growth has been credit card and that's true for the industry as it is for us, but it is a combination of the impact of inflation, normalization, spend, all the things we've talked about and we do expect that to continue. So, while I don't think Card loan growth will be at the level it was 2023 over 2022, it's still going to be in double-digit territory caveat it will depend on the environment, but based on our baseline expectations into next year and that will support consumer overall balance growth in the kind of mid-single digit territory like you've seen this year. For us, Mortgage will be flat to bias to down. The bias to down is going to be off optimizing our balance sheet against liquidity and capital constraints.

So we are looking at every opportunity to sell securitized risk transfer, obviously economic decisions. But I think that a combination of that and prepayments will mean that the pressure will be flat to down on Mortgage and a little flat to up on Auto for the reasons I talked about. Just we're seeing more inventory come online, more availability, demand has held up and that competitive pressures have abated and we're gaining a little share there. So I think that the story for 2024 in Consumer will look a little bit like the story for 2023, unless something changes. I think on the Wholesale side, we are expecting things to be a little bit more muted, which I think is reasonable. Obviously, the area of concern there is Commercial Real Estate, and within that Office, and we could talk about our own portfolio for which that's not a significant risk concentration. But, we are seeing both C&I and CRE within regional banks on the sidelines for like rational and obvious reasons. And we ourselves are being prudent and selectively lending to key clients, but pruning our books. And I think you'll see more muted loan growth on the Wholesale side.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. So before we move on to strategy, maybe we can just talk about the fourth quarter. Is there anything we should be aware of either in terms of NII, trading, investment banking, credit? And then a number of banks have said they are going to take the FDIC charge this quarter. So maybe you can clarify if that's something that you're going to do as well.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So let me just tick through them, if I miss one, let me know. So to start with NII and expense, I think they're pretty easy. The guidance that Jeremy gave you is $89 billion of NII ex. Markets and $84 billion of adjusted expense for the year. I think when he last spoke at BAAB he said we're in line to a little better on each of those. We're still in line to a little better on each of those. So no new news, the same as he said before. The FDIC special assessment, yes, that is a fourth quarter event. We guided based upon our understanding of that, I think, around the middle of the year for it to be about $3 billion pre-tax, that's a pretty good estimate. I think it'll be a hair inside of that. And that will be a fourth quarter event. For CIB, I'll talk about, yeah.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

For trading, yeah.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. For CIB, I'll talk about trading first. So normal seasonal declines into the fourth quarter, but relative to a, I think, quite strong comparable quarter last year, we're expecting our Markets revenues to be flattish year-over-year. And then on IB fees, obviously it's been a bit of a challenging year and the timing of deals matters and all so, there's still time to go in the fourth quarter. But based on where we are right now, we're expecting pretty healthy growth year-on-year and single-digit growth quarter-on-quarter in IB fees. Credit is in line with guidance, 2.5% for Card for the year and our Investor Day guidance still looks solid for next year. And then I guess – was there was another one? The only other thing I would mention maybe, and this is still a sausage being made, is reserves – just normal loan loss reserves, where we haven't finished doing all our work and so there's time to go. But just based on Consumer alone, I would say you're a little light in your models just a bit, because we're seeing solid loan growth and that alone will see us build some reserves in Card.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. So let's talk about strategy, investment priorities, I think you're up to $11 billion of investment spend now in the Consumer division.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

$8 billion.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Sorry, $8 billion, sorry.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Although...

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

$8 billion of investment spend in the Consumer division. Can you talk a little bit about the priorities for that investment spend? Talk about how those perhaps changed over the course of the last couple of years. But, I'm also interested in hearing how the return on investment has changed as interest rates have...

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

...structurally changed and become higher for that business.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Okay. So we are investing heavily in the business. I don't think it would surprise you to tell you that the places we're investing, that the areas we're investing, because we invest over the long-term, haven't materially changed. By the way, they hadn't changed in 2023 over 2022 either. So it's the branch network optimizing and growing the branch network. It's marketing, adding customers across the complex, come back to that in a second. We obviously have been investing pretty heavily in tech products and data. That's an area where our investment spend grew quite a lot and so we would expect that growth to moderate. Looking forward, we feel more right so we're looking to become just more productive in that area. And then we have our growth businesses, Connected Commerce, Wealth Management. So all the sort of investment categories continue to be the same and because we make these investment decisions through cycles, the sort of basic thought process hasn't changed. But there is one area and particularly in Consumer & Business Banking checking accounts, where the short-term interest rate environment, we still obviously expect to revert to through the cycle deposit margins over some period, but in the interim, those are making more valuable, those accounts and so we're leaning into that space.

Just really briefly on branches, you know that we continue to want to grow our branches in certain markets where we've either just entered them or where the opportunity is high. We have been adding branches at about gross, about 150 plus or minus a year. We expect to continue to do that. We've obviously been consolidating also, but going forward there are less and less accretive opportunities to consolidate. So over time, you'll see our network generally be flat to up, but we're going to keep adding in areas where we think the opportunity is there to do it. And those investments are performing. At Investor Day, we told you that the branches we've opened since 2017 have already added $85 billion of deposits and they're not seasoned yet and we haven't finished. So they are working. And again, I would say the NPV of those decisions are better because the short-term macro environment is better. It doesn't change our view in the long run, but we'll take it. Marketing is a function of the opportunity, demand and also our decisions. And we've seen a lot of really strong demand, particularly in Card for our branded card complex and it's always unsatisfying to only talk about expense, right? Because we may spend more, but we get more for it.

And so we're feeling like really, really good about the performance of our recent marketing acquisition vintages in Card. We're leaning in to the deposit side of things. We're going to add net over 2 million net new checking accounts this year. And we still have extraordinarily good primary bank relationships because you don't want to just add accounts, you want to add accounts that you can deepen into and that you can have for decades to come. And so we feel great about that. As I said, like there's still a lot of opportunity in the tech space. We do expect that growth to moderate. But we're still building digital capabilities, we're still building new products, we're still investing in our platforms, we're still making sure that we're investing in our foundational capabilities so we can accelerate our AI opportunities. So that's still a lot of profit opportunity there. And then, Wealth Management, we're growing our advisors. We're making sure we have omni-channel experiences across the wealth spectrum. We've delivered a lot in that space and everything is on track to better than our business cases. So feel great. You should expect us to carry on doing this.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So let's talk about that, you spend more, you get more 180 basis points of market share gains and deposits over the last three years, which is really, really impressive. I mean, maybe you can just talk about how sustainable that is? I mean, is that the type of market share gains that you think we could see over the next three years? Or was the environment of the last few years really unique just because of what happened in terms of just growth, in terms of deposits in the system overall?

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. I think I mean, I think a bit of all of that, but let me just sort of qualify it slightly. So, obviously, it won't surprise you for me to start with deposit share is an outcome, it's not a strategy. However, yes, we do expect to continue to gain share because we have been investing and because we intend to continue investing not just in branches, but in bankers and in digital capabilities and in models that help them become more productive, all of which help us gain share. It is a long game and so we expect that to be the general trend. If I update you year-on-year since 180 basis points moving forward to this year, that's 220 basis points. Yes, that's a bit of First Republic. So we're happy about that but we continue to make progress. And I think maybe three things that will give you confidence that you should expect us to continue to make progress.

The first is, while our legacy markets are driving that growth and they should, because we're investing, obviously, in the tools, the capabilities of products, the services, the bankers and everything else. Of that 180 basis points of share, 60 basis points of that were branches that are less than 10 years old. And we're going to continue to add branches, and those branches are going to continue to season. So I think it's a pretty significant tailwind and it's a pretty big moat because this is a long game and it's the product of the 10 years of investments we made and the 10 years we're about to make that's going to continue to see that kind of growth going forward. I think, the other thing that we're encouraged about is that it's very broad based. So, we grew in 47 of the top 50 markets, we grew share. We're number one in four of the top five markets and making progress in the fifth, in Miami. We bought, there's still huge amounts of opportunity and Jenn went it through all at Investor Day. But we have less than 5% branch share in 17 of the top 50 markets and that's not where we want to be, and that's not where we will end up. We're going to keep trying to densify in the right markets. So we're pretty encouraged. And I think, that's the trend you should expect. It won't be a straight line, but it will also be hard for people to catch up I think.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

So you mentioned First Republic, so let's talk a little bit about that. I mean, it feels like an eternity ago, but I guess it was what, seven, eight months ago?

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Seven months.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Seven months ago. So can you talk a little bit about how that's fared relative to your initial expectations, both from a customer and a deposit retention perspective? Maybe talk a little bit about the integration, how that is tracking? And then talk a little bit about how it does change the longer term growth profile of the Consumer business.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. So, first of all, obviously, when we did the deal we had the weekend and maybe a few weeks to think about it upfront, but we knew what we knew. So we were appropriately cautious about how we thought about the acquisition over the course of the weekend, but we're pretty encouraged since then. So we expect to outperform the deal model, which is obviously a good thing. In terms of the integration itself, we do this. We've done this before. It's not that it's not hard, but we're on track against our integration milestones. We, in fact, have done the Home Lending integration, mortgage origination and servicing already. We're going to do the deposit migration and integration by the middle of next year, and there will be a bit of a tail on some of the more complex wholesale lending. But like largely everything is moving ahead according to our plans. So, what are we trying to achieve, though, in terms of like actually delivering incremental value? It's the combination of the best of JPMorgan can bring to the table, which I think is obvious. But it's the products, the services, the digital and technology and tools, the customer facing digital technology and tools, which is better, and the fortress balance sheet.

And then couple that with the sort of one stop for life seamless white glove service that First Republic people customers were accustomed to and that's the holy grail, and that's what we're obviously looking to try and achieve. And the great news is that we're going to get lots of at-bats to do it. Why? Because we did retain 90% of the relationships, granted a lot of the deposits came down rationally and over a very short period of time. But we still have relationships with 90% of First Republic clients, so we still have a lot of opportunity to talk to them about bringing more of their wallet back to the company. We have seen deposits grow 20% since the acquisition, so still a lot more opportunity, but that's also encouraging. And we're now moving forward to figure out how we can scale that service model across our affluent customers. And if you

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

combine First Republic with JPMorgan's affluent customer base there is a significant deepening opportunity, we talked about it before. We have a lot of relationships with affluent customers, but we don't have – we're not punching where we want to in terms of share of their wallet. And they have a lot of deposits and investments off of us. That's a lot of opportunity for us that we're getting after.

And the question is, can we do it in a way that is scalable, profitable and within our controls and risk framework? And we're confident that we're going to figure that out. In the context of Chase, it's not going to be a needle mover in terms of customer growth because we already have a lot of these relationships. But it should be a needle changer in terms of the depth of our relationships over time and this is going to be a long game too, but over time with our affluent customers, which is a priority for us.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Great. So let's talk about the regulatory landscape, and I'm going to ask you about both Basel III, but then I do want to talk to you about the CFPB as well, because there's a lot going on. So Basel III, a lot of focus on what it does to the firm overall…

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

... not a lot of discussion about what it does to the Consumer business. So perhaps we can just…

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

That is because everyone is in shock and awe about Markets.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Q

But there are some far-reaching ramifications around the...

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

I'm very focused on the Consumer…

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

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...around Card. So can you talk a little bit about those? I mean, look, again, I know this is very fluid that does seem to be an expectation that some of this could change. But assuming that this does go through as is, does it change the way that you either think about managing the balance sheet? Does it change the attractiveness of holding some of these assets that historically you would have held like credit card receivables on balance sheet, but talk us through the dynamics.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

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Yeah. So I think, so you've seen the whole story for the company is obviously excessive and punitive and lacks rigorous financial analysis in our estimation in total. And if you dive deep into individual pieces, it's unclear whether the consequences are intended or unintended. It doesn't sort of really matter. They're definitely going to be real given the kind of size of the changes we're looking at. Just to take credit card and so,

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

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yes, the answer is yes. It will change how we manage the business. It may shape the business differently over the long-term. It definitely changes our thoughts about the cost of using our balance sheet, all of those things, yes, yes and yes. In credit card, just to give you an example, the risk weights are very punitive, but they're particularly punitive for the lowest risk, least volatile customers that we have. Where we see risk weighted assets going up by 30% to well above 100%, effectively on the highest credit quality customers that we have and that's before you take into consideration operational risk, which we can talk about another time.

And by any measure, especially when you include the stress capital buffer, the amount of capital we would hold relative to any version of stress losses is excessively high. And so – but it's unclear whether that is intended or unintended, but if what is intended by that is that there is a smaller credit card market that access to credit is more limited, particularly to those who need it the most. So to, average Americans, low to moderate income Americans, that access to credit is more expensive for everybody, that lines are lower, which doesn't just have an impact on consumers, but on the payments ecosystem and merchants writ large and that benefits and rewards and other things that come along are eroded. Then yes, those things will happen. That's a natural consequence and it's a pretty significant change. And then if you couple it with the CFPB late fees, it's going to hit hardest the sort of lower income borrowers. And so over time, we will adjust. We're a smart bunch. We will do fine. We will adjust to the rules. I don't know if they will change. We were talking about it earlier, like, I think it's a little bit like being a hostage. It's so shocking in the first instance that even if it changes a bit, you sort of are grateful for that. But it's still probably going to be high and really, it's the lack of rigorous financial and economic analysis that is the most shocking thing and the thing that we really need to ask for more.

And Mortgage is the same. So, right now, we have risk weights on average of 50%, but they go as high as 90% and higher than that when you add operational risk and stress capital buffer, which means what it means that first time home buyers, lower income home buyers are going to be able to have access to less opportunity or if they do, it's going to be more expensive. And certainly, if the intention is that even more mortgage origination, servicing leaves the regulatory perimeter, then yes, that's what you'll get because your disincentive for wanting to have these assets on your balance sheet and we will optimize again. And I'm less worried about what it will do for us, although, we'll work through all of that and just what it's going to do, as you say, for consumers, for the economy, it's just the unintended consequences I just don't think have been thought through. And then I know we've just got a second, but when you add that to the onslaught of other regulations, it's like a like alphabet soup of regulations coming at us. The issue we've got is that the value of the banking ecosystem is being overlooked, right? And the value that that has for consumers that's going to be destroyed is being overlooked in totality because we're being marginalized individually.

Right now, we have in the U.S., our customers are used to services, our cost structure and with protections that they can – that's not true elsewhere, right? It's an all-inclusive buffet where you have access to branches and bankers and ATMs and debit cards and digital offerings and financial health tools and customer service and fraud controls and AI and models and personalization and everything. And if you take that to its marginal limit, you're being priced at or below cost on those things, then it is true that what we are able to offer people will be less good, more expensive, less complete, the experience will be worse. And so, it's not just that the analysis has to happen for each thing, but the impact of all of them has to be taken into consideration. And we have to do a better job talking about the value of the ecosystem in totality, because it's not just the value of the next marginal movement of a dollar digitally, it's the whole thing.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

So sadly, we're out of time. I would love to carry on…

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

So would I.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

... but, you'll have to come back next year.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

It will be my pleasure.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

But Marianne, thank you so much.

Marianne Lake
Co-CEO of Consumer & Community Banking, JPMorgan Chase & Co.

Thank you. Thank you.

Richard Ramsden
Analyst, Goldman Sachs & Co. LLC

Thank you.