1Q20 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's First Quarter 2020 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

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

Jennifer A. Piepszak

Chief Financial Officer, JPMorgan Chase & Co.

Thank you, operator. Good morning, everyone. As you heard, Jamie is with me on the call, and I know I speak for the entire company when I say we are just thrilled that he's back. Before we get into the first quarter performance, we want to start by recognizing that this is an extremely challenging time for all of us, and our thoughts are with those most affected by COVID-19, particularly those on the front lines of this crisis.

The presentation this quarter is slightly longer to address a few key topics as we navigate this environment. And as always, it's available on our website, and we ask that you please refer to the disclaimer at the back.

Starting on page 1, I'd like to highlight some of the ways we're responding to COVID-19. As a firm, we are focused on being there for our employees, customers, clients and communities in what is an unprecedented and uncertain environment. And while we don't know how this will play out, we will be transparent here about our assumptions and what we know today.

Our number one priority is to continue to provide our services in an uninterrupted way, while also providing a safe work environment for our employees. We're incredibly proud of all that our firm has been able to do over the past few weeks, so I'll just hit on a few examples here. We've mobilized our workforce around the globe to work remotely where feasible, including operations and finance teams, portfolio and risk managers, bankers and traders, ensuring they have the right tools to work effectively.

Currently, we have about 70% working from home across the company, and for many groups, that number is well north of 90%. And for those who still need to go into the office or into a branch, we are taking extra precautions and being extremely mindful of their safety. And we're providing assistance in other ways too. For instance, we're offering free COVID-related medical treatment for US employees and their dependents.

On the Consumer side, approximately three quarters of our 5,000 branches have been open, all with heightened safety procedures and many with drive-through options. And the vast majority of our over 16,000 ATMs remain accessible. And while our call center capacity has been challenged, we've clearly activated resiliency plans to address customer calls seeking assistance and we put in place new digital and self-service solutions in record time. And while wait times have been extended, we're making good progress reducing them.

For our customers who are struggling financially during this time, we are providing relief such as a 90-day grace period for mortgage, auto and card payments, as well as waiving or refunding certain fees. We continue to support our customers and clients by providing liquidity and advice during this challenging market environment. And in the month of March, we extended more than $100 billion of new credit.

In Wholesale, clients drew more than $50 billion on their revolvers with us and we approved over $25 billion of new credit extensions for clients most impacted. And for our small business clients, we're actively supporting the SBA's Paycheck Protection Program. The numbers you see on the slide are as of April 12. And as of this morning, we have more than 300,000 in some stage of the application process, representing $37 billion in loans. And we funded $9.3 billion to businesses with over 700,000 employees.

And to help the most vulnerable and hardest hit communities, as an initial step, we've announced $150 million loan program to get capital to underserved small businesses and nonprofits as well as $50 million philanthropic investment.

Now turning to page 2 for highlights on our first quarter financial performance; for the quarter, the firm reported net income of $2.9 billion, EPS of $0.78, and revenue of $29.1 billion with a return on tangible common equity of 5%.

While the underlying business fundamentals this quarter performed very well, we reported a number of significant items all due to impacts from COVID-19, which I'll discuss in more detail later. But, at a high level, these items are: a credit reserve build of $6.8 billion; approximately $950 million of losses in CIB largely due to the widening of funding spreads on derivatives; and a $900 million markdown on our bridge book.

It might be an obvious point, but the quarter was really a tale of two cities; January and February, and then March when the crisis started to unfold. And with that, I thought it would be helpful to talk through some key metrics that highlight this dynamic across our businesses, so let's go to page 3.

Starting with Card sales volume on the top left, in March, we saw a rapid decline in spend, initially in travel and entertainment, which then spread to restaurants and retail as social distancing protocols were implemented more broadly. While most spend categories were ultimately impacted, we did see an initial boost to supermarkets, wholesale clubs, and discount stores as people stocked up on provisions. But even that is now starting to normalize.

And we saw similar trends in Merchant Services as highlighted in the significant decline in brick-and-mortar spend, excluding supermarkets, whereas e-commerce spend has held up well by comparison. In Investment Banking, in the middle of the page, there was a surge in debt issuance by investment grade clients as the market remained open and clients' desire to shore up liquidity was top of mind. It was the largest quarter ever in terms of investment grade debt issuance led by J.P. Morgan.

And in Markets, volatility drove elevated trading volumes across products, most notably across rates and commodities, which at their peak were more than triple our average January trading volumes. And on the far right, deposit growth accelerated meaningfully in March, most notably driven by wholesale clients as they secured liquidity and held those higher cash balances with us. At the same time, we saw accelerating loan growth primarily driven by revolver draws.

And finally, flows in AWM were meaningfully different in March compared to January and February. Long-term flows through February were strong, positive across all asset classes, but this was more than offset by outflows in March. On the flip side, we saw significant net liquidity inflows into our government funds during March, which more than offset prime money market outflows.

Onto page 4 and some more detail about our first quarter results. Revenue of $29.1 billion was down $782 million, or 3%, year-on-year as net interest income was flat to the prior year due to the impact of lower rates offset by balance sheet growth and mix and higher CIB Markets NII. And noninterest revenue was down 5%, driven by the significant items I already mentioned which were largely offset by higher CIB Markets revenue.

Expenses of $16.9 billion were up 3%, driven by higher volume in revenue-related expenses, continued investments and higher legal expense, all of which were largely offset by structural expense efficiencies. This quarter, credit costs were $8.3 billion, including a net reserve build of $6.8 billion, reflecting the impacts of COVID-19, and net charge-offs of $1.5 billion, in line with prior expectations.

Now turning to page 5, we have some more detail on the reserve builds. Our net reserve build of $6.8 billion for the quarter consists of $4.4 billion in Consumer, predominantly Card, and $2.4 billion in Wholesale, with builds primarily due to impacts of COVID-19 as well as lower oil prices. This reserve increase assumes in the second quarter that U.S. GDP is down approximately 25% and the unemployment rate rises above 10%, followed by a solid recovery over the second half of the year.

In addition to these macro assumptions specific to each business, our Consumer reserve build reflects our best estimate of the impact of payment relief that we are providing to our customers as well as the federal government's stimulus programs. And in Wholesale, the majority of the build is in sectors most directly impacted by COVID-19, such as in consumer and retail and also in oil and gas. We expect other sectors to be impacted to a lesser extent if we avoid a prolonged downturn. We have also assumed that the stress in oil and gas continues with WTI remaining below $40 through the end of 2021.

After we close the books for the quarter, our economists updated their outlook which now reflects a more significant deterioration in U.S. GDP and unemployment. If that scenario were to hold, we would be building in the second quarter, and builds could be meaningfully higher in aggregate over the next several quarters relative to what we took in the first quarter. A primary unknown is the duration of the crisis which will directly impact losses across our portfolios.

With that being said, our Consumer portfolio skews more prime than the industry average, and the effectiveness of government support, customer relief and enhanced unemployment benefits, while uncertain, undoubtedly will act as mitigants to the losses. And so, even though our losses will be material, we will be doing what we can to help our customers recover from this crisis and help our clients stay in business.

Now moving to balance sheet and capital on page 6; our balance sheet, capital and liquidity going into this crisis were incredibly strong and, importantly, allowed us to facilitate client needs in a period of stress. And that, combined with our earnings power, is an extraordinary base to absorb the inevitable losses to come.

For the quarter, we distributed $8.8 billion of capital to shareholders, which includes $6 billion in net share repurchases up to March 15. Since then, we stopped our buybacks, which was both a prudent decision at the time and consistent with what we always say, which is that we would prefer to use our capital to serve our customers and clients. This capital distribution outweighed our earnings for the quarter, and this, coupled with significant RWA growth, resulted in a decline in our CET1 ratio to 11.5%.

On RWA, which you can see on the bottom right on the page, the key drivers of growth were market volatility, which should subside over time, and more importantly, an increase in lending at this critical time for our clients.

Going forward, in order to leverage our balance sheet to serve our clients, we are prepared to use our internal buffers, which may mean our CET1 ratio falls below our target range, and if necessary, we can also use regulatory buffers to go below our 10.5% minimum. It's worth noting here that an environment like this is precisely why we have the buffers in the first place.

We currently also have capacity and intend to continue to pay the $0.90 dividend pending board approval. And as you can see in the CET1 walk on the bottom left, it is a small claim on our capital base.

And before we move on, just a moment on liquidity; even with everything we facilitated, our liquidity position remains strong. And looking forward, it's helpful to remember that we have significant liquidity resources beyond HQLA including the discount window if need be.

And now turning to the businesses, starting with Consumer & Community Banking on page 7. CCB reported net income of $191 million, including reserve builds of $4.5 billion. January and February showed a continuation of strength across the business, but again, March showed a major shift in trends. And across our Consumer segments, we saw a drastic deceleration in spend across all forms of payments and a decline in origination volumes except in the mortgage refi market.

And on the small business side, we saw significantly reduced inflows in merchant processing activity, early signs of pressure on payment and delinquency rates as well as line utilization and increased demand for credit. Turning back to the results, revenue of $13.2 billion was down 2% year-on-year.

In Consumer & Business Banking, revenue was down 9%, driven by deposit margin compression partially offset by strong deposit growth of 8% that accelerated in the quarter. Deposit margin was down 56 basis points year-on-year, and we expect it to decline further given the current rate environment. Home Lending revenue was down 14% driven by lower net servicing revenue and lower NII, partially offset by higher net production revenue.

And in Card & Auto, revenue was up 8%, driven by higher card NII on loan growth and margin expansion. Average card loan growth was 8% with sales up 4% over the quarter driven by January and February activity.

Expenses of $7.2 billion were up 3%, driven by revenue-related costs from higher volumes as well as continued investments in the business, partially offset by structural expense efficiencies. And lastly on this slide, credit costs included the $4.5 billion reserve build I mentioned earlier and net charge-offs of $1.3 billion driven by Card and consistent with prior expectations.

Now turning to the Corporate & Investment Bank on page 8; CIB reported net income of $2 billion and a ROE of 9% on revenue of $9.9 billion. Investment Banking in the first half of the quarter showed continued momentum from last year, but as the market environment shifted, we saw delays in M&A announcements and completions, postponements of new equity issuance and increased draws on existing lines of credit.

At the same time, the investment grade debt market remained open, and we helped our investment grade clients raise approximately $380 billion of debt in the quarter across a wide range of sectors. By contrast, the high yield market was effectively closed, and high yield spreads widened significantly.

As a result, our bridge book commitments were marked down by $820 million. And here, it's worth noting, our bridge book exposure is about a quarter of what it was entering the 2008 crisis and is a higher quality portfolio. As a result of this backdrop, IB revenue of $886 million was down 49% year-on-year, largely driven by the bridge book markdowns.

IB fees were up 3% year-on-year, and we maintained our number 1 rank with 9.1% wallet share. Advisory was down 22%, not only due to a tough compare, but also reflecting delays in regulatory approvals pushing out the closing of certain large deals. We did however complete more deals than any other bank this quarter.

Equity Underwriting was up 25% versus a challenged first quarter last year, and we saw strong activity in January and February before the market effectively closed in March. And Debt Underwriting was up 15% and an all-time record. We maintained our number 1 rank with 9.5% share, up 90 basis points from 2019.

Lending revenue was up 36% year-on-year, driven by the impact of spread widening on loan hedges. Looking forward, while a rapid recovery in the economy could produce a corresponding rebound in activity, we could also see significant downside risk to our forward-looking pipeline if the downturn is protracted.

Now moving to Markets, here total revenue was $7.2 billion, up 32% year-on-year. It's worth noting that, even before the crisis, as we said at Investor Day, Markets performance was strong for the quarter. Then, the growing COVID-19 concerns triggered a major correction in equity markets, significant widening of spreads and a spike in volatility, leading to extraordinary government intervention and a substantial change in monetary policy, followed by a sharp decline in treasury yields. Simultaneously, we also saw a drop in oil prices. This unique combination of events led to further increased client participation and record trading volumes in several products.

Fixed Income was up 34%, driven by strong client activity, most notably in Rates and Currencies and Emerging Markets. Equity Markets was up 28% on strength in Equity Derivatives, driven by increased client activity.

In terms of outlook, it goes without saying that it's too early to project this performance going forward. In fact, low rates and low economic activity may even be a headwind. However, we are in a strong position to continue playing an essential role in ensuring the orderly functioning of markets and serving our clients' needs.

And now onto Wholesale Payments, a new business unit we're reporting this quarter comprised of Treasury Services, Trade Finance and the Merchant Services business which was previously part of CCB. Wholesale Payments revenue of $1.4 billion was down 4% year-on-year, driven by a reporting reclassification in Merchant Services. As clients focused on preserving liquidity, we experienced higher deposit levels in Wholesale Payments throughout the quarter, offsetting revenue headwinds from lower rates and payments activity.

In Securities Services, revenue was $1.1 billion, up 6% year-on-year. Market volatility drove increased transaction volumes and deposit balances which offset the impact of the market correction on asset balances. In Wholesale Payments and Securities Services, tailwinds from this quarter like elevated deposit balances may be relatively short-lived and more than offset by the impact of low rates and potentially lower transaction volumes if the crisis is elongated.

Credit Adjustments & Other was a loss of $951 million which was one of the significant items that I mentioned upfront. Credit costs were $1.4 billion, driven by the net reserve builds I referred to earlier. And finally, expenses of $5.9 billion were up 5%, driven by higher legal and volume-related expenses and continued investments.

Now, moving on to Commercial Banking on page 9; Commercial Banking reported net income of $147 million, including reserve builds of approximately $900 million. Revenue of $2.2 billion was down 10% year-on-year with lower deposit NII on lower rates and a $76 million markdown in the bridge book, partially offset by higher deposit balances. Gross Investment Banking revenues were $686 million, down 16% year-on-year compared to a record prior year. While we remain confident in our long-term target, we expect some softness in our pipeline specifically related to M&A and equity underwriting.

Expenses of $988 million were up 5% year-on-year, consistent with the ongoing investments we discussed at Investor Day. Deposits were up 39% year-on-year on a spot basis and increased about $40 billion during the month of March with about half of that coming from clients drawing on their credit lines and holding their cash with us as they look to secure liquidity.

End-of-period loans were up 14% year-on-year, mainly driven by increases in C&I loans in March. C&I loans were up 26% as revolver utilization increased to 44% which is an all-time high. CRE loans were up 3% and here the story remains largely unchanged. Higher originations in Commercial Term Lending driven by the low rate environment were partially offset by declines in Real Estate Banking as we remain selective. Credit costs of $1 billion included the reserve builds I mentioned and $100 million of net charge-offs largely driven by oil and gas.

Now on to Asset & Wealth Management on page 10; Asset & Wealth Management reported net income of $664 million with pre-tax margin of 24% and ROE of 25%. Revenue of $3.6 billion was up 3% year-on-year, driven by higher management fees on higher average market levels and net inflows over the past year. And then, in addition, we saw record brokerage activity in March related to the recent market volatility. These increases were largely offset by lower investment valuations.

Expenses of $2.7 billion were flat year-on-year with higher investments in the business as well as increased volume and revenue related expenses offset by lower structural expenses. Credit costs were $94 million, driven by reserve builds from the impact of COVID-19 as well as loan growth. Net long-term outflows were $2 billion as the strength we saw in January and February was more than offset in March. At the same time, we saw $75 billion of net liquidity inflows driven by significant inflows into our industry-leading government funds in March as I mentioned earlier.

AUM of $2.2 trillion and overall client assets of $3 trillion, up 7% and 4% respectively, were driven by cumulative net inflows partially offset by lower market levels. Deposits were up 9% year-on-year on growth and interest-bearing products. And finally, loan balances were up 11% with strength in both wholesale and mortgage lending.

Now on to Corporate on page 11; Corporate reported a net loss of $125 million. Revenue was $166 million, a decline of $259 million year-on-year primarily due to lower net interest income on lower rates, partially offset by higher net gains on investment securities. Expenses of $146 million were down $65 million year-on-year.

And now let's turn to page 12 for the outlook. At Investor Day, we showed you a path to 2020 where we expected net interest income to be slightly down from 2019. And obviously since then, the backdrop has changed significantly. Based on the latest implieds and what we know today, we expect to see further pressure from rates partially offset by balance sheet growth in CIB Markets NII, which results in NII of about $55.5 billion for the full year.

And to give you an idea for the second quarter, we expect NII to be $13.7 billion. On noninterest revenue, it's always difficult to provide meaningful guidance and even more so given the current heightened level of uncertainty. But, based on our best estimates today, we do expect to see headwinds in 2020 compared to 2019. In addition to the two significant items in the first quarter, these headwinds include a $3.5 billion decrease in noninterest revenue, all else equal, which is also due to the impact of rates and is the offset to higher CIB Markets NII and, therefore, revenue neutral.

We also expect to see pressure on AWM and Investment Banking fees. And we now expect adjusted expenses for 2020 to be approximately $65 billion, largely due to lower volume and revenue-related expenses versus the outlook we provided at Investor Day. It goes without saying all of this is market dependent and we'll keep you updated at future earnings calls.

So, to wrap up, the challenges we are all facing as the COVID-19 crisis continues to unfold around the globe are unprecedented. Although we don't quite know what the path will look like going forward, what we do know is that we will continue to be there for our employees, clients, customers, and communities as we always have been, and we have the talent, resources and operational resiliency to do so.

Our employees have proven that being resilient is not just about maintaining operations. It's also about culture. And that feels stronger than ever with our teams around the world working harder than ever to continue to serve our clients, customers and communities. We have never been more proud of our people, and we simply can't thank them enough.

And with that, operator, please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Erika Najarian from Bank of America.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning. And, Jamie, we're glad that you could join us and that you're well enough to join us. My first question is on the forbearance activity. Jenn, if you could give us a sense of, by product, how many of your clients, for example, in Card & Auto, Home Lending, are in a forbearance state, so they started to defer the payments for the percentage of your clients. And how we should think about the significant government intervention relative to the severely adverse scenarios? I believe, for total losses, it's 5.9% over nine quarters for the Fed and 4.1% for company-run.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, first of all, I'll start with the payment relief and forbearance. There, I would start by saying that we have already refunded millions of dollars in fees. We've approved payment relief for hundreds of thousands of accounts across consumer lending, and we obviously expect that to be meaningfully higher through time. We paused foreclosures and auto repossessions. And importantly, we've made the process easier for our customers through digital and self-service options that we built in record time.

But, in terms of what we're seeing, those are the numbers. They're still, as I said, relatively small compared to what we think we'll ultimately see. In mortgage, just to give you context, outside of customers asking for forbearance, which is just a little over 4% of our service book at this time, the April 1 payments seems BAU. In Card, we're seeing payment rates down a bit, but still strong, and we've seen a slight uptick in late payments in Auto. But the quality of these portfolios was strong coming in as we've done surgical risk management over the last few years, and that has made these portfolios more resilient.

And then, in terms of how we think about a significant government intervention, I think the ultimate effectiveness of these programs which are extraordinary in terms of the direct payment or the enhanced unemployment insurance, the ultimate effectiveness is, I think, the biggest unknown. The key obviously is being able to bridge people back to employment. And so, we have assumed as best we could for our first quarter results the impact of those programs as well as the ultimate impact on payment relief that we'll be providing to our customers. But that is for sure an unknown, and we certainly expect to learn a lot more about that in the second quarter.

Erika Najarian
Analyst, Bank of America Merrill Lynch
Q

Thank you. My second question, you mentioned that you're prepared to go below 10.5% CET1 to help your clients. Going below 10.5% is also when the automatic restrictions start kicking in from the Fed in terms of payouts. So, if I understand it, it would be a 60% payout restriction on eligible net income. And just wanted to understand your thoughts on balancing servicing your clients and also thinking about your capital levels relative to those automatic restrictions from the regulators.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.
A

Sure. So, as you probably know, Erika, the Fed made some changes there recently which, as you say, puts us in a 60% bucket as we go below 10.5%. And we have a reasonable amount of room below 10.5% to remain in the 60% bucket. I would say that that was very helpful clarification from the regulators in terms of how we should think about using regulatory buffers. So that was particularly helpful.

And right now, we are focused on serving clients and customers. And we've looked at a range of scenarios so we can ensure that we're managing our capital quite carefully. Jamie talked about an extreme adverse scenario in his Chairman's letter that we looked at assuming large parts of the economy remain in lockdown through the end of this year. And in that scenario, our CET1 drops to about 9.5%. And so we think we have significant room to continue to serve our customers and clients through this crisis, but we are managing it [ph] quite proactively and looking at a range of scenarios so we make sure that we're prepared.

Operator: Our next question is from Mike Mayo of Wells Fargo.

Mike Mayo
Analyst, Wells Fargo Securities LLC
Q

Hi, and welcome back, Jamie. The question is for you.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.
A

Hi.

Mike Mayo
Analyst, Wells Fargo Securities LLC
Q

How do you thread the needle between supporting your customers and the country and doing all those things that you want to do, while still protecting the resiliency of the balance sheet and not getting hit with unexpected litigation costs as you mentioned in your CEO letter?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.
A

Yeah, no. That is a very important question. And I think, in times of need, banks have always been the lender of last resort for their customers. And obviously, you've got to be a disciplined capital provider because undisciplined loans are bad. So you take a calculated risk. We're making additional loans. We're adults. We know that, if the economy gets worse, we'll bear additional loss. But we do forecast all that so we are – we know we can handle really, really adverse consequences.

There will be a point, and the last question brought it up, was where if you get below 10% CET1, even though we'll have almost $200 billion of capital and $1 trillion of liquidity, all these other constraints start to kick in like SLR, G-SIFI, advanced risk weighted assets that may kind of constrain it. And then, obviously, then you got to look forward. So we want to do our job. If we can help the country get through this, everybody is better off. If we lose a little bit more money in the meantime, so be it.

But, obviously, we're going to protect our company, our balance sheet, our growth, and we'll be having close conversations with regulators about what that is. I also think you have to take in consideration the extraordinary measures the government has taken. That's the income to individuals, PPP, and all these Federal Reserve things.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

So, also in your CEO letter, you talk about the economy coming back online. And I guess, with your reserve build, you're assuming, what? 10% unemployment and then the economy improves in the second half of the year? So what is your base case for how people come back to work that's behind those [ph] assumptions? And I know you have a lot of scenarios too, but just a base case.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, I'll let Jenn talk about the base case, but I think the back to work, we shouldn't think of it as a binary thing that after the CDC and we all get instructions from the government, after there's enough capacity in the hospitals, after there's proper amount of testing. Remember, a lot of people are going to work today in farms, factories, food production, retail, pharmacies, hospitals; it isn't like no one is going to work.

And hopefully, you can turn it back on where it's very safe, there's plenty of capacity, you're not worried that you can't give every American who does get sick the best possible medical advice. And the turn on would be regional, by company, all following standards and best health practices. And in some ways, you need to get that done because the bad economy has very adverse consequences way beyond just the economy in terms of mental health, domestic abuse, substance abuse, et cetera. So, a rational plan to get back to work is a good thing to do. And hopefully, it will be sooner rather than later. But it won't be May. We're talking about June, July, August, something like that. So I don't know if that answers your whole question.

Oh, and then, Jenn, can you give the base case on...?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, Mike, as we close the books for the first quarter, just to give it context, we were looking at an economic outlook that had GDP down 25% in the second quarter and unemployment above 10%. It's just important to note that that kind of gives you a frame of how to think about it, but there's a lot more that goes in to our reserving, including management judgment of some world class risk management and finance people and also other analytics.

And so that just kind of gives you a frame of reference. But there we did think about a number of other scenarios that we should contemplate in reserving. And we also thought about the impact, what's our best estimate of the impact of these extraordinary government programs as well as our own payment relief programs. Since then, as I noted in my prepared remarks, our economists have updated their outlook and now have GDP down 40% in the second quarter and unemployment at 20%. That's obviously materially different.

Both scenarios though do include a recovery in the back half of the year. And so, all else equal – and of course the one thing – probably the only thing we know for sure, Mike, is that all else won't be equal when we close the books for the second quarter. But, all else equal, given the deteriorated macroeconomic outlook, we would expect to build reserves in the second quarter. But, again, a lot will depend on the ultimate effect of these extraordinary programs and how effective they can be in bridging people back to employment. And we're going to still have a number of unknowns, I would say, at the end of the second quarter, but we're going to learn a lot through these next few months that will inform our judgment for second quarter reserves.

Operator: Our next question is from Steven Chubak of Wolfe Research.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Hey. Good morning. And, Jamie, nice to have you back. So, wanted to ask a question on some of the remarks relating to capital. Quarles actually made some comments on Friday alluding to efforts by the Fed to incorporate real-life COVID stress in the upcoming CCAR cycle.

We haven't gotten much color since then. I'm wondering whether you received any guidance from the Fed on which changes if any they plan on contemplating for this year's test. And maybe just bigger picture, how are you thinking about the potential impact that could have on the SCB and potentially raise some of your capital requirements?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. Thanks, Steven. So, we haven't gotten specific guidance, but it certainly makes sense that the Fed would want to look at a scenario like that. We have been, as you might imagine, staying very close to our regulators through this crisis, so they can have a very good understanding of how we are managing things. And then, in terms of the potential impact, we'll learn more about that in June. We've given our best estimate of SCB and the impact it will have on our minimums, and that is absolutely incorporated into our thinking about how we'll manage capital through a range of scenarios here. But we'll learn more from the Fed in June.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Okay. Just one follow…

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And then I would just add, I've always pointed out the flaw doing one stress test which will not be the stress you go through. JPMorgan does 100 a week, and we're always looking at potential outcomes. And obviously, we're doing our own COVID-related type of stress testing including extreme. And we'll always be updating them and talking to regulators about it because that's what we have to deal with at this time, not what you all would consider a traditional stress test.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, we…

Steven Chubak
Analyst, Wolfe Research LLC

Q

Got it. And just one…

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

...have both a – the range of outcomes probably have never been broader. And so, as Jamie said, we have – CCAR has been a good place for us to start in terms of one scenario, but we have looked at a number of different scenarios at how this may play out, and obviously Jamie articulated what we think could be an extreme adverse, and we're prepared for that too. So I think the most important thing is that we're prepared for a range of outcomes, and we'll learn more about SCB in June.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Got it. And just a follow up on the securities book. Just given some of the significant declines at the long end of the curve, Jenn, I was hoping you could help us think about where reinvestment levels are today just compared with the 2.48% yield on the blended securities book. And then just separately, given the large impact of QE-driven deposit growth, how you're deploying some of that excess liquidity in this environment.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, on the investment securities portfolio, managing the balance sheet in this rate environment is obviously a different dynamic. And with lower rates as well as the deposit growth that you mentioned [audio gap] with the Fed balance sheet expansion, you do see a large increase in our investment securities portfolio this quarter, which makes a lot of sense. Right now, in terms of balance sheet management, we are completely focused on supporting client activity. Our balance sheet is harder to predict right now, but we are prepared for a range of outcomes.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Okay. Thanks very much.

Operator: Our next question comes from Saul Martinez of UBS.

Saul Martinez
Analyst, UBS Securities LLC

Q

Hi. Good morning. Wanted to follow up on the CECL-related question. Jenn, you gave us a good amount of color on what the underlying economic assumptions that were used to build the reserves and where the risk has been and your economics team is now for the second quarter. But maybe thinking about it a little bit differently in terms of how to attribute the CECL reserve build. And I'm not looking for specific numbers, more just directional.

How do we think about it in terms of how much is attributed to sort of mechanistic model-related changes where you calibrate your model for new economic scenario versus actual signs of stress that you're seeing in your book that maybe aren't showing up in credit measures, but that you do think will show up in a reasonably short time period, call it, within the next few quarters? How much of it's growth? How much of it's mix?

Just if you can talk to that, because I guess what I'm trying to get at is how much of it's more mechanistic and how much of it's actual tangible signs that you're seeing that financial stress in your borrower base that could emerge in the reasonably near future as credit losses.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, it's a great question, Saul. So, I would start by saying that we haven't actually seen the stress emerge as of yet. So I wouldn't necessarily use the term mechanistic, but I would say that what we took in the first quarter is our best estimate of future losses. It's also important to note that we don't reserve for future growth. And so future growth, with all else being equal, be a reserve build. So I wouldn't necessarily think of this as materially different because of CECL. We didn't actually really think about the impact of CECL relative to the incurred model.

The regulators have given their point of view on that given the change in the capital rules where 25% is assumed to be the difference. But that's their view. And like I said, we didn't spend a lot of time thinking about it. And I would say that it is our best estimate of the losses that will inevitably emerge through this crisis. And it is life of loan which, of course, is different under CECL. And so, again, all else equal, you can think Card was larger than it would have been under an incurred model, but we didn't really think about it that way, and it's impossible, of course, to know what judgment we would have applied under a different model.

Saul Martinez
Analyst, UBS Securities LLC

Q

Okay. No, that's helpful. And, Jenn, just on that point of growth, pivoting a little bit, what – obviously, a lot of the pressure in CET1 was because of risk-weighted asset growth and drawdowns on commitments. Where do you think we are in terms of those drawdowns? I think it's like $350 billion still in wholesale commitment – unfunded commitments. But, like, how do we think about that and how much room there is for that to continue to maybe pressure risk-weighted asset evolution?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. So, like so many other things, it is difficult to predict. I will say that early here in the second quarter, we have seen a pause on revolver draws. But it could very well just be a pause. And so we're assuming, as we think about our own capital plans, that we will see revolver draws continue in the second quarter, albeit at lower levels than the first quarter. And then, of course, the timing and the pace of the paydowns will depend upon the ultimate path of the virus and the economic recovery.

Operator: Our next question is from Glenn Schorr of Evercore ISI.

Glenn Schorr
Analyst, Evercore ISI

Q

Hi. Thanks very much. I appreciate the limited sight we all have. Maybe let's assume hopefully sooner than later we get past the bulk of the credit impact. On the other side of this, have you thought about lending spreads, underwriting criteria, and how much turns need to tighten given what we've learned or a scenario that we didn't capture under previous underwriting, in other words, does lending spreads widen and do you get paid more for your balance sheet? I'm just curious how you're thinking about risk management on a go-forward basis.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So there I would say that our approach – we always take a long-term franchise view on things like that. And so, our philosophy has not changed. It is true, however, that the marginal cost of new activity is higher for us right now. And so that's a consideration. But, I would say in terms of risk management, we do what we've always done and what we always do, which is manage carefully within our risk appetite. And I think that has served us well coming into this crisis, and we'll continue to stay close to our clients and manage that carefully.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

I'd just add. On the Consumer side, you have a forward-looking view of risk. On the Wholesale side, the revolvers we're taking down, which are like $50 billion, are existing spreads. The bilateral stuff is being done, i.e. new credits, they're being done at slightly different spreads and stuff like that, higher. And then Trading, obviously, you're actually getting higher spreads in a lot of the things you do in Trading, you finance people and do things and stuff like that. And then you will see a tightening of credit in the market. Think of leveraged lending, certain underwriting, certain non-bank lenders who are no longer there. So you will see an eventual tightening and an eventual increase in spreads. What you won't see banks do is price gouge, which you've seen in other industries. Banks are very careful to support their clients through times like this.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. And then one more impossible question, Jenn, maybe. Could you help qualify, I know you can't quantify, but exit rate revenues that you kind of alluded to in some of the things like underwriting falling off, so tale of two quarters. The quarter itself, if it weren't for the ginormous credit issue that we're facing, would have been like, ah, revenues down a little bit, expenses up a drop. Okay, but how much of the exit rate revenues are we looking at second quarter, third quarter versus the full first quarter? I know it's a hard one.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

So, Glenn, I'm glad you acknowledge that it's an impossible question and a hard one. And so, there's a reason why we gave directional guidance here in terms of what could be headwinds. But it is just impossible to predict right now as you point out.

But I will say if you think there's obviously nothing that we can really say with confidence about exit rates in 2021, but I will say based upon the latest implieds, if you look at NII, you could see growth in 2021 on balance sheet growth there. And then NIR is absolutely going to depend on the path of the virus and the economic recovery and when and how we all get back to work. And then we've given you expense guidance to think about.

And then from a credit perspective, as I said, we could see continued builds over the next several quarters, but the way CECL works in theory, again, all else equal, is that that should be, could be behind us by the end of the year, and we then have those reserves to absorb the losses that will inevitably emerge over the back half of this year and into 2021.

Operator: Our next question is from Gerard Cassidy of RBC.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning. Can you [indiscernible] I know you gave us the color on the best case of the downturn in the second quarter. What is your outlook on that recovery in the second half of the year? Can you give us any color on what kind of recovery you're expecting for the second half of the year as part of the CECL reserve build-out?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, I don't have the numbers to hand, Gerard, but they're public. It was, I suppose you can say, it was based on our economists' outlook at the end of March, which did have a recovery. I just don't have the GDP numbers to hand and the unemployment. I think what's most important to note, Gerard, is that based upon what we're looking at, you do have a recovery in the back half of the year. But it still leaves you from a GDP perspective and unemployment below your launch point on absolute levels of GDP and above your launch point on absolute levels of unemployment.

So, it's a recovery. It is our latest outlook. And as I said earlier, it's probably the only thing we know for sure is that that is going to change through time. But it is a recovery in the back half of the year that doesn't get us back to where we started. And importantly, as we've said, that we're prepared for a range of scenarios. So, while that may be the case that we based our reserve levels of, it is not the only scenario that we are preparing for.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Very good. And then just as a follow up, on the bridge book – and I apologize if you addressed this and I missed it. I know you guys mentioned the losses in the bridge book. Could [ph] you tell us the size of the book and then some more color on what triggered the losses in the bridge book?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, there, I would just start by – I said it in the prepared remarks, but it's worth repeating. Our bridge book is about a quarter of the size it was in the financial crisis. So, it's about $13 billion. It's slightly down from where we were at year-end. Importantly, we don't have any imminent closing deadlines, and the market is actually performing a little bit better here in the second quarter. So we'll see where we land at the end of the quarter, but so far...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

It's just basically marking the provisions to market...

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

…effectively.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, and the good news is with no imminent…

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Ex-fees.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Right. And with no imminent closing deadlines, it's not necessarily the case that we'll realize those losses. But, as Jamie said, they're mark-to-market at the end of the quarter.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And I would just also put into some perspective, we're adults. We know that when you have a bridge loan book that you're going to have quarters where things get bad where you might lose some money. We're the leader in leverage lending, we're the leader in high yield, the leader in loans, et cetera, and we intend to maintain that position. And every now and then, you'll have not a particularly good quarter. So we're not – we don't worry about this very much. And like Jenn said, so far, if you look at spreads, it's probably a recovery this quarter.

Operator: Our next question is from John McDonald of Autonomous Research.

John E. McDonald
Analyst, Autonomous Research

Q

Hi, Jenn. Regarding credit cards, just based on payment rates that you've seen so far and maybe the draws on revolves, how are you expecting Card spending and Card balances to trend over the next few quarters this year?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Hi, John. So, based upon what we're looking at right now, spend was down. We talked about different categories, but spend in aggregate was down 13% in the month of March year-over-year, and we're seeing trends like that continue here in April. And so, with that, I would say that we would, given what we know today, expect outstandings to trend down from here.

John E. McDonald
Analyst, Autonomous Research

Q

And then can you help us think about how you do the accounting for the consumer deferrals? You keep accruing, but do you add some kind of haircut for NII suppression in terms of what might not be collectible even though, technically, you're allowed to accrue what you defer?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. You got it, John. So, we do continue to accrue, but it is a lower yield over the life of the loan.

Operator: Our next question is from Betsy Graseck of Morgan Stanley.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Hi, Betsy.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

I just want – I have two questions. One, just thinking about the outlook for the next couple of quarters here. I know you mentioned that your economics team had updated their estimates. And maybe you could give us a sense as to the timing of when you clip your reserves versus those estimate changes.

And part of the reason I'm asking is because of the reserve ratio move between 4Q 2019 and 1Q 2020 for the various segments, when I look at the CIB and the Commercial Bank, the reserve ratios are down from where they were in 4Q 2019. So I'm trying to understand how the next change in the reserving is likely to traject between the various asset classes. Is there – as you move from an adverse case to a severely adverse case, are there different asset classes that potentially have a higher uptick in reserve ratio that we should be expecting here?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, on the Wholesale side specifically, Betsy, the reason you see that dynamic is because of CECL. And it's in the presentation, so you can see the numbers. So we – the CECL adoption impact in Wholesale was a net release. And so we've now built back, and so that's why you see that dynamic there.

And then, in terms of the reserving, when we closed the books, which was here in early-April, we do have to, of course, kind of snap the chalk line at some point and close the books, which is why we wanted to be very transparent about how we think about reserving going forward because, like I said, all else equal, given the macroeconomic outlook that we're looking at that we would expect to have a build in the second quarter and perhaps beyond because, as I said, obviously, everything is incredibly fluid and we need to – we really need to learn a lot about the ultimate impact of these programs because they are extraordinary and should have an extraordinary impact. But we need some time to learn.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And also, just to...

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

So…

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

...add on the Wholesale side, at one point, you have an overlay about what you expect in terms of migration downward and downgrade and stuff like that. It would also be name by name, company by company, name by name, reserve by reserve, so a real detailed review of that.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

So, as we think through because, effectively, I think what we're saying is there's the possibility of the severely adverse case coming, which we can look back at prior Fed stress tests to see what you anticipated that to mean for the credit losses. And maybe, Jamie, if we can get an understanding as to how you're thinking about what your economists are looking for versus prior severely adverse stress cases that you have run on your own bank.

Is this fair to look at the severely adverse stress cases on a bank-run modeling basis that we have access to and it's in line with that kind of level? Or is this something that is even a little bit tougher? And specifically around things like commercial real estate, I get the name by name on the corporate side. That is, obviously, extraordinarily granular and you have access to that. But I'm wondering on the commercial real estate side, is there anything we should be thinking about that's different from, perhaps, what the Fed stress test might have suggested in the past?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

I'll start by saying commercial real estate, eventually, it will be loan by loan and name by name too. So if you have reason to believe that a loan is bad, you're going to write it down and put a reserve against it, something like that. This is such a dramatic change of events. So there is no models that have done – dealt with GDP down 40%, unemployment growing this rapidly. And that's one part.

There are also no models that have ever dealt with a government, which is doing a PPP program which might be $350 billion, it might be $550 billion. Unemployment, it looks like 30%, 40% of people going on unemployment book higher income than before they went on unemployment. So what does that mean for credit cards and something like that? Or that the government is just going to make direct payments to people. So this is all in the works right now.

The company is in very good shape. We can serve our clients, and we're going to give you more detail on this, but it's happening as we speak. And I think people are making too much of a mistake trying to model it. When we get to the end of the second quarter, we'll know exactly what happened in the second quarter. We know – you got to respect the credit card delinquencies and charges will go up though we've seen very little of it so far. But, in the second quarter, you'll see more of it. And then we'll also know if there's a fourth round of government stimulus. We'll know a whole bunch of stuff and we'll report that out. We'll hope for the best, which is you have that recovery, and plan for the worst so you can handle it.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

And then in terms of planning for the worst, Betsy, maybe it would be helpful. The extreme adverse scenario that Jamie referenced in his Chairman's letter had 2020 credit costs of more than $45 billion. So, clearly, that is not our central case, but that's the kind of scenario that we are making sure that we're prepared for. And then, just coincidentally, if you look at our credit costs from the fourth quarter of 2008 to the fourth quarter of 2009, across those five quarters, we had credit costs of $47 billion. So...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Right. I forgot the number. Reserves went from like $7 billion to $35 billion back to $14 billion.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Right.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Reserving itself is pro-cyclical and often wrong. And you're required to do it, but it certainly doesn't match revenues and expenses. So we like to be conservative in reserving, but I have to point out the flaws of it.

Operator: Our next question is from Brian Kleinhanzl of KBW.

Brian Kleinhanzl
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah, thanks. Good morning. Just a couple questions. Again, one on CECL maybe to start with. Can you just maybe give a little more qualitative disclosure on how this payment relief factors in? Are you assuming some amount of government programs get used and that's included, or is this just payment relief that you're directly giving to consumers and corporates? Just trying to get a sense of how all these government programs kind of flow through the model.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure, Brian. So you can think about the government stimulus as being incorporated in the macroeconomic variables. And then the payment relief, those are – I'm referring to our own programs there. And there we, based upon our judgment and experience in the past, we apply some percentage of pull-through in the portfolio of people who will get payment relief. And then we think about the impact that that could have. Again, I would say both, while estimated for the first quarter, we'll know a whole lot more about both of them for the second quarter.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And, Jenn, remind me when we do the 10-Q for the quarter, we're going to lay out lots of these various assumptions about CECL. And one of the problems with CECL is this precisely. We're going to spend all day on CECL, which was $4 billion, and it's kind of a drop in the bucket. But it's a lot of data. It's like all the data we did after the last crisis. We give you on level 3 and all these assumptions and stuff like that. No one ever looks at it anymore.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

That’s right. And we still have…

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And every company does it differently.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. And we still have obviously several weeks before the Q, and so we'll be able to give our best view on things then.

Brian Kleinhanzl
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. And then, in the quarter, you gave what the marks were on the bridge loans, but is there a way to frame what the total marks were, assuming credit spreads tightened kind of dramatically post quarter end, so it seems like there would be a reversal of some of those marks initially.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, there could be, but that's only where we are at this point in the quarter. And so it will obviously all depend on the market from now to the end of the quarter. But, right now, the market is performing a bit better, and spreads have come in as you mentioned.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

A couple of the deals may be syndicated – hopefully, might be syndicated by the end of the second or third quarter.

Operator: Our next question is from Chris Kotowski of Oppenheimer.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Good morning. Thank you. At Investor Day, Jamie said that the real earnings are pre-provision earnings minus net charge-offs [indiscernible].

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

I don't about you guys, but I can't – we can't understand a word you're saying.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, Chris, this is unfortunately part of our – all our new reality as we all work remotely. We couldn't hear you.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

Sorry. Is this better?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yes.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

Okay. So, my apologies. At Investor Day, Jamie said something like that the real economic earnings are pre-provision earnings minus net charge-offs, which I agree with. And so, if you push aside all the CECL reserving noise, I'm curious, does the customer relief, the 90-day grace period, does that alter the historic charge-off assumptions? Like, for example, credit card was always pretty cookie cutter, 180 days after delinquency, it's charged off and maybe with auto. So, will those customer relief periods pushback the charge-off curve as well?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

It may because, as long as a customer is performing under the forbearance program, they are not delinquent. But, of course, it will all depend on whether these programs ultimately are able to bridge people back to employment.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

Right. Okay, but if...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

We'll know a lot more in 90 days. We'll certainly know a lot more in 90 days about how this affected what we would've expected.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. And to Jamie's point, what we may learn over the next 90 days is, of course, whether programs have been effective or whether they've just delayed losses. And of course, with CECL being life of loan, if it's just delayed losses, you can expect that that would – we would be reserving for that.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

Okay. But, in terms of charge-offs, while normally in regards to credit cards after 180 days, it now might be 270 days. Am I getting that right?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

It may be. It may be. But, again, it's going to just completely depend on whether people are able to remain performing under a payment relief or a forbearance program. But we don't really think about it that way. We think about what the ultimate losses will be and we reserve for that.

And then importantly, in the first quarter, the charge-offs you're seeing – which is why I was clear to say it was consistent with prior expectations, because the charge-offs in the first quarter of course don't at all reflect the ultimate impact of COVID-19. They were just normal BAU, I would say.

Operator: Our next question is from Andrew Lim of SocGén.

Andrew Lim
Analyst, Société Générale SA (UK)

Q

Hi. Good morning. Thanks for taking my questions. So, firstly, on government guaranteed loans, these are zero percent risk-weighted. And I'm wondering to what extent you're using them to refinance existing loans on your portfolios. And if you are, to what extent risk-weighted assets have gone through as you do those?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, so I'm not sure specifically what program you're referring to. I would just say, broadly speaking, on the Fed facilities, they're obviously very large programs rolled out very quickly and just an extraordinary response to unprecedented market conditions. Here, we are happy to leverage the facilities to intermediate these programs for our clients, but we are only using them where it makes sense to ensure that credit and liquidity is flowing to where it's needed.

Andrew Lim
Analyst, Société Générale SA (UK)

Q

So, just to maybe elaborate on that, is there may be some part where there's a bit of a capital uplift if you use government guaranteed loans to represent risk weighting where previously...

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

What uplift? What uplift?

Andrew Lim
Analyst, Société Générale SA (UK)

Q

A capital uplift. So your risk weighted assets go down say for something like corporate loans that now are government guaranteed.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Look, we'll incorporate all of that into how we run the company, trying to serve the client, et cetera. And there are peculiar things like the PPP that you put in your balance sheet as zero RWA, but it does affect a lot of other things like SLR and G-SIFI and stuff like that, because if you sell it to the government, it all goes away. And we'll manage through that as we learn how these programs are working and what we want to do.

Operator: And we have no further questions at this time.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Thanks. Thanks, everyone.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, thank you. Thanks for spending time with us.
