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TRANSCRIPT

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JPMORGAN CHASE & CO.

MANAGEMENT DISCUSSION SECTION

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

Good afternoon. Thanks, everybody, for joining me and Gordon Smith, JPM's Co-President and Co-Chief Operating Officer, as well as CEO of the Consumer Bank. Gordon, thanks so much for joining us this afternoon.

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

Oh, you're welcome. Thank you very much for doing this, Betsy, in a COVID environment. And so, it'd be so much nicer to be sitting on the stage with you, as we've done previously.

QUESTION AND ANSWER SECTION

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

Q

Next year. Next year. There's always next year.

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Definitely. Yeah.

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

Q

So Gordon, I wanted to kick off by just asking about how, in this COVID environment, you're managing the line. I mean, what are you looking for from your team? And really, the underlying question is do you keep the budget that you had at the beginning of the year, or do you throw it out the window and rewrite the whole thing?

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Well, no, we never throw it out. Clearly, we've had to make a number of adjustments. We focus on the expenses that we would want to deal with quickly. So for example, simply bringing down travel and entertainment, reducing the need for contractors, just rigorously going through the expense statements and say what would be no-regrets cuts in this environment.

But what we also want to do, and this again comes back to the plan, is we want to continue to invest heavily in all of the things that we originally had put into our financial plans. I think I've said to you before, Betsy, we have the strategic offsite with Jamie each summer and we kind of are laying out the plans for the future, kind of of 12 to 24 months. And I think one of the really reassuring pieces from this whole exercise, if I could possibly call it an exercise, this whole situation, has been that those plans that we put in place are the ones that have stood up to this environment, and we're continuing to invest in pretty much everything that we laid out.

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

Q

Okay. So, maybe you give us a sense as to what some of the biggest opportunities are that you see for yourself over the next 12 months or so or 24 months, post-COVID environment.

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

By the way, one other thing I would say on expenses is clearly, if we reach a point - and we'll talk more about this over the next half an hour - but if we reach a point where we think things could get much worse, then obviously, there's a great deal more of expenses that we could take out of the business that we have not at this point.

In terms of the big opportunities, we laid out at Investor Day, Betsy and I, for everyone listening, were just saying right before we came on air, the Investor Day, which was in February for us at JPMorgan Chase, just now seems like 100 years ago, but some of the big investments that we laid out were market expansion in the retail bank. That momentum has really been terrific, so we continue to invest heavily there. Digital and mobile capabilities, we've continued to invest heavily there. And actually, maybe I'll come back, Betsy, in a moment or two and just describe some of the adjustments that we made in digital and mobile that have also served us well, but largely kept our focus on the plans that we laid out. And then, deepening relationships with customers, huge opportunities as we take customers who were totally checking customers, adding savings, adding credit products like credit cards, auto finance, mortgages and wealth management. So, that's really significant opportunity and all engineered through the customer experience – how do you build an experience that it just – it makes it easier for the customer to have multiple product relationships with JPMorgan Chase all integrated through mobile and digital capabilities.

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

Q

Now, there must be some challenges that this environment brings. Anything you want to highlight?

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Well, if we go over, I guess it's been maybe 10 or 12 weeks, we've had the whole team dispersed. I think our technology team just did an astounding job getting people up and running from a home environment. Call centers was tough initially. And we've deployed tens of thousands of desktop capabilities so that people can work from home. The branches, to make sure that our customers and our bankers are safe, we closed about 1,000 branches and have been progressively reopening those. Use of Perspex spit screens inside the branch have been installed - all the things that you see in other retail outlets - making sure that customers and our teams stay six feet distant. And so, all of those have really kind of moved through, I think, quite successfully. And I have to say we've worked very, very efficiently working from home.

One of the early challenges, of course, was bringing up the PPP program, which I think was really a success on all fronts. Although it was a tough start, we were building the product as it was announced. But I think partnering with the Small Business Administration, partnering with Treasury, we, I think, got an awful lot of money to a lot of small businesses - actually quite quickly. We all read about a number of complaints industry-wide for small businesses who are looking for money. It took about 10 to 12 days to build the technology. And then, our numbers, over the course of about 24 hours, we were able to submit and then fund about 220,000 loans in basically a 24-hour window, having built the technology with the SBA and with the help of Treasury. So, I think that ended up being a really positive program.

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

Q

Coming through all this, are there any strategic opportunities that you're looking for? I mean, in times like this, sometimes, you've got opportunities to acquire that you didn't have in the past or maybe you have new functionality you would like that you weren't thinking of before?

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yeah. I think the answer is yes, we're always looking. Nothing's really got to be inexpensive in this environment, which is interesting. But I think if we could find synergistic opportunities like we did with WePay, where we were acquiring a great leadership team, really good technology capabilities, and a great infrastructure, we would absolutely do that.

I think in the wealth management space, there's opportunities for us to do acquisitions there too. Obviously, from the deposit cap perspective, there would be nothing in the direct retail banking space. But I would say in technology, building capabilities and in the wealth management spaces, are the opportunities that we would be most focused on on the consumer side of the business.

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

Got it. Okay. All right. Let's turn to some of the client insights that you're getting from how your consumers are behaving. Just want to get an update on spend patterns and borrowing patterns. Is there any differences in spend on geography, FICO, or employer? And maybe you can give us a sense on the borrowing side as well. Is demand coming from existing or is it more coming from new?

Gordon Smith **A**
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

Yeah. The year started so strongly. And we talked internally about what would the next downturn be driven by. And in many conferences, people talked about it as we're in late cycle. I don't think anything – anyone expected it to be a pandemic. And if we look at debit and credit card growth in January and February, we were solidly at 9% growth. That dropped to about 5% percent in March, and in April, consumers really retrenched aggressively; debit and credit spend down for us 23%.

We then, as May began to progress, began to see some improvements. We were down – these numbers are year-over-year, Betsy – we were down 15% year-over-year. And in the first week of June, we're down 12%. The states that are opening up are modestly and only modestly better, but I think that that's just very, very early. My observation of customer behavior is that people have been very careful. They have retrenched. They are carefully managing their balance sheet. Where people are spending, it's on their rent payments, their mortgage payments, on essentials around food and so on. So, I think I've seen the consumer just being very prudent in their actions.

In terms of, as we think about the different asset classes, demand for borrowing in the credit card space is very low, very weak right now, which is exactly what you'd expect because it sits in parallel with consumer spending on credit cards. So, people have pulled back and credit card is very low demand.

Auto, we started to see, really from the last week of May and the first week of June, a real improvement. Now, whether at two weeks is a trend, who knows. But obviously, sales have been very weak for 8 or 10 weeks. People weren't going out to car dealerships to – whether they were even open – to buy cars. And in the last couple of weeks, we've seen sales on a year-over-year basis up about 15%. So, I think I would mark that down as an encouraging early sign.

And it's true on mortgage originations, in terms of purchase, which were obviously heavily suppressed over the course of the last 8 to 10 weeks, starting to look like it's coming back. Refi, of course, with rates at this level, has been extremely strong. But that's kind of how I would look at the asset classes. Now, with New York, New Jersey, Connecticut, the Tri-State area, really beginning to pick up, also open up, it'll be interesting over the next 30 days to see what type of momentum we begin to drive there. But I think there are definitely early signs of optimism.

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

Just turning to the forbearance requests, maybe you can give us a sense as to what you're seeing there. I think Jamie mentioned that a third of the customers who asked for forbearance aren't using it. And I'm wondering why you think that is and how do you expect that that's going to track over the next few months here.

Gordon Smith **A**
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

Well, again, I would just go back to my comment. I think consumers are just being very prudent in managing their finances, and the ability to take a forbearance program was there for people and I think if customers didn't fully need it, they thought, I'll take the opportunity for one of those programs so that I can assess the situation and see how the world evolves over the course of the next few months because – none of us knew what June was going to look like when we were at the end of March there.

And in terms of our numbers, we had about just a shade over 1.5% of our credit card accounts went into some of type of forbearance program, around 7% for auto, and about 6.5% roughly for home lending. And just again, it's still too early but I think kind of quite encouraging, the very first tranches of credit card customers, which I think is a good early read, about 80% of customers made a payment and 20% asked for some additional level of help. So, I think that's actually pretty positive.

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

And then, how are you thinking through the benefit that customers are getting, consumers are getting from the fiscal support here, right? We've got the unemployment, plus $600 a week, and we've got the checks that came through, $1,000-plus. And I asked because there's an end point on this at least the end of July for the extra on the unemployment side. You guys see your numbers and you dig into the weeds on all of this. How do you think that's impacting the consumer and do you anticipate any change in your customers' behavior as those programs sunset?

Gordon Smith

Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yeah. I think they're affecting the consumer positively. Those payments are helping customers to pay their rents, to go to the grocery stores, to pay their mortgages where they're not on a forbearance program. So, they have helped. And interestingly – and of course, so many of these programs are still maturing through so to really see what the outcome will be – but in terms of kind of the sort of earliest waves of payment, what we see in terms of, as we look at kind of Chase bank account, customers who had their payment deposited into a Chase bank account, about almost 30%, in fact actually right on 30% of the funds are still either in checking or savings. So again, I look at that quite positively.

Betsy L. Graseck

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Let's move towards credit and how you're thinking about the reserving as we go forward here over the next couple of quarters. Just wanted to understand how you're thinking about that, because unemployment hovering at 13%, or if you include the shadow, 16%, seems like it would drive a bigger reserve than you might have done so far, given that it was supposed to be 9% back in March. But at the same time, as you indicated, you've got consumers behaving very positively here. So, can you give us a sense as to what kind of unemployment rate you think your current reserve reflects, or maybe said another way, how you anticipate moving the reserve here over the rest of the year?

Gordon Smith

Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yeah. Well, we'll make a decision on the second quarter reserves when we get through to the end of June. But let's just talk about credit for a moment. If I look at the underlying performance of – I like to sit and look at what are the roll rates as customers' accounts move from current to 30, 30 to 60 and so on – the performance that we see in those delinquency buckets is meaningfully better than what you would have expected with unemployment anywhere close to these levels. And again, the things that we've been discussing here in the last 15, 20 minutes around all of the government stimulus is clearly having a really meaningful effect.

So, the factors that we have to balance when we get to make decisions about it. So now, what should we do for reserves going forward? Start to look at the facts that say, well today, credit performance looks to be a lot better than one would have expected with unemployment at the levels that we're seeing. We're beginning to see an opening up that looks really encouraging. Will that continue, will there be a resurgence in COVID cases, and if there is, how meaningful will that be?

So with all these things, you've got this sort of absolute of what the numbers are telling you today. And typically, in all the recessions that I've been through, and now with so many decades in this industry, it's been a lot, you could, with a fairly good degree of accuracy, be able to kind of run the numbers all the way through what we saw ultimate loss rates would be.

But there is a wide range of potential outcomes from this point forward. Obviously, from very positive, we talked about a number of those factors. Some of them we haven't yet covered, but a number of them. And then, there's a scenario that says that we see a flare up in cases that's really meaningful, that it begins to put more stress back onto the healthcare system. We start to see a close down again and the situation could get much worse.

I think simply as I would think about reserves, I would want to be reserved for all the eventualities. And so, you're much more likely to see us be more on the conservative side as we move into the second quarter. And by, I think the – by the end of the third quarter, we would – we'll have a much better view of how this pandemic is really going to play through.

Betsy L. Graseck

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. And then, as we're thinking about what the ultimate reserve ratio could be, I know it's in play. It's hard to forecast specifically right now. But investors look at some of the prior stress tests that you've run, like 2019, 2018, trying to asses those scenarios and the kind of consumer reserve loss rate that might occur. How do you think about this current environment versus those kind of stress tests that you've run in the past?

Gordon Smith

Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yeah. Well, I think obviously, the first quarter or two are worse than you'd expect, but I think with the probability that the following seven quarters or so could actually be much better than we might expect. So at this point, I feel much more, and hopefully, you hear that in the comments that I've made, that I feel actually much more optimistic than pessimistic about what the next number of quarters are going to look like.

I think there are some challenging areas in the consumer space, particularly in travel and entertainment. And so, the question is going to be how quickly will consumers begin to start to travel, stay in hotels, and go to restaurants, and all of those things will have a factor of what losses ultimately look like over the course of the next multiple quarters.

Betsy L. Graseck

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Yeah. No, that makes sense. Just lastly on this topic, credit extension, are you underwriting to your own customers only or do you bring on new customers in this environment?

Gordon Smith

Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

We are bringing on new customers in this environment but at a much slower level. Obviously, primary focus has been to make sure that we're meeting the needs of our existing customers. We're still in business in the credit card space, but it's true in this recession and it's been true in every recession that I've been in in this business: demand for credit in credit card shrinks dramatically in recessionary times, and we talked a little bit about that. And we're seeing home lending both for our customers and for new customers, and auto finance for new and existing customers, both increasing quite quickly over the course of the last kind of three weeks or so. So we're open for both, but obviously, primarily want to make sure that all of our existing customers have their requirements met.

Betsy L. Graseck

Analyst, Morgan Stanley & Co. LLC

Q

So then, just turning to competitive dynamic, and I really wanted to ask you primarily around the fintech competitor, mainly because digital has obviously become more important and consumers now realize how easy it is to use digital, and this opens the door for potentially a thinner branch network, but at the same time, also potentially reduces barriers to entry for fintech. So, could you give us a sense as to how you're thinking about that dynamic and how you're positioning yourself to compete against fintech, where should you do better, and where are you maybe not getting credit for the work you're doing already?

Gordon Smith

Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

So I think with the fintechs, over the last many years now, I think they helped us get better and better at a more rapid pace. And I think if I look back over the last three or four years, maybe it's four or five at this point, that we have had no challenge competing with anyone. And I think what the fintechs have helped us do over time is really focus on the mobile side of the customer experience and make some dramatic improvements. So, I think we have no problems at all competing with any of the fintechs.

As we think about the issue around retail banking, obviously going to watch traffic very carefully. But just an interesting observation from our data is if we've looked over the last 12 weeks or so and we look at the behavior of our existing clients, the number of mobile and digitally-active customers has edged up minimally. But when I take the mobily and digitally-active customers, they're doing much more on those devices. And so – but the interesting takeaway is, consumer behavior can sometimes take a long time to change. And so obviously, the outcome of what I just described is that customers that were not mobily active, the majority of them are still not mobily active even as we go through this pandemic experience. So, I would expect to see that branch traffic will drop, will stay down, obviously for some period of time, and then, how far it normalizes, we'll obviously watch. But I still think we'll see meaningful traffic through the branch network. I really do.

And in terms of particularly what I think we've learned over the course of the last 8 to 10 weeks is, we've seen the speed of decision-making really accelerate. And so, it's just some good learnings for us, because obviously, we've been managing a crisis situation. I think we just really picked up the speed of our decision-making and development. And I mentioned earlier that we've made a couple of changes to our approach to the digital development area, and that was really taking areas that customers needed to call into Chase or to visit a branch and making sure that we quickly – and by quickly, I mean, literally in hours and days – deploy that same capability on the mobile device. And then, do we get credit for it? I really think we do. We've gained market share in our key businesses almost every year for the last decade. So, I think the momentum and the results are there.

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

Q

You talked at the beginning about how, with the PPP program, there were some expenses that you had to gin up to invest in a technology platform in order to get that done. And I'm sure there were some other expenses associated with moving people to work-from-home environment. Is that an expense level that we're going to see in the numbers or do you have some other offsets that you think are going to make up for that? Just wondering. It's a question that came in over the Web.

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yes, we have offsets. And so, if we think about kind of PPP, all the development work that we've been doing, communicating with customers, all of those things, we're probably all in somewhere close to $200 million. But as I said, we've been going through obviously the expense base very, very quickly to eliminate expense that we can, and Jenn guided to less than $65 billion, and that's about where we expect to be…

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

Q

Got it. Okay. And then, just...

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

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...which effectively just think about as flat to 2019.

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

Q

Right. So, you're trying to find offsets for the one-timers that you've got coming at you from this crisis. Yes.

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yes, and still continuing to do, Betsy, all the things that we've described that we want to keep doing, expanding the retail network and growing the mobile and digital capabilities, all those are things still being managed too.

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

Q

Just as we think about the post-COVID environment here and positioning Chase for growth, which business lines within Consumer & Community Banking are you looking for to generate that growth going forward?

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yeah. Obviously, retail banking will be challenged with interest rates, but we'll keep aggressively growing in that business. Because I've said for a decade now that deposits, are merely an outcome metric. What we want to be is the primary bank for our customers. Once we do that, they take credit cards, they take wealth management, home financing, and auto. So each of those core businesses – it's many years now since we stepped away from areas like student lending, just a business that we didn't feel like we wanted to be a leader in – and so, we stayed true to these businesses that make up Consumer & Community Banking now since 2011. And I think every one of them have got tremendous opportunity to grow, inclusive of the Wealth Management businesses, led by Mary Erdoes and Kristin Lemkau in the US.

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

Q

And you have your branch expansion also in some of the new locations that aren't just around universities and well strongly performing cities but also in some of the locations that haven't had branches in a while. Could you give us a sense as to how you anticipate that impacting your growth going forward?

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

A

Yeah. Before COVID, and obviously, with branches being closed and some of that – it's a different scenario, but before COVID, our – all of our branches in the branch expansion space were significantly outperforming our business case. We're really delighted with the momentum that we were gaining. And I think we'll continue to gain once we – once the market starts to open up. So, very encouraged by that first real sort of 12 months of market expansion.

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

Okay. Great. Well, thank you so much, Gordon, for joining me this afternoon. Appreciate your thoughts and insights.

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

Thank you, Betsy. You too. Stay safe.

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

All right. Take care. Bye now.

Gordon Smith
Co-President and Co-Chief Operating Officer of JPMorgan Chase & Co., and Chief Executive Officer of Consumer & Community Banking

Bye.