JPMorgan's 1Q Slump Shows Just How Little Fun Banking Is Now

by Maria Aspan
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If there's any fun to be had left in banking, don't expect Jamie Dimon to expound on it. JPMorgan Chase's (JPM) profits and revenues are dropping, he's losing senior executives at an accelerated clip and his bank is bracing for "a couple of years" more of potential legal settlements. So Dimon, the very well-paid but embattled chief executive of the nation's largest bank, could perhaps be excused for the lack of enthusiasm he showed Friday.

"Yeah," he ground out in a monotone voice, when asked during a conference call with reporters if he is still enjoying his work.

It was a noticeable reticence from Dimon, often the industry's loudest cheerleader, who as recently as February was telling investors he was "so damn proud of this company." It's also a telling example of how little fun most bankers are having at work these days — and how the lackluster economy and changing regulatory environment are keeping them from enjoying the profits they once reveled in. "Everyone's chasing a small amount of loan growth because there's just not that much to go around at this point," says Jason Ware, an analyst with Albion Financial.

Economic growth is happening in "these fits and starts, and there's nothing Jamie Dimon can do to control that," he adds. "It's got to be really frustrating."

To be sure, most of the big banks are still making money — and leaders like Dimon are still reaping millions of dollars in compensation. JPMorgan Chase, under some of the harshest regulatory scrutiny in the country and exposed by its large investment banking division to an industry-wide slump in debt trading, still managed to report $5.3 billion, or $1.28 per share, in net income for the first quarter on Friday.

Still, its profits were down 19% from a year earlier, while its revenue slipped 8%. Mortgages and fixed-income trading were particularly to blame; JPMorgan's net income from home lending fell 42%, while bond trading profit fell 21%.

The results disappointed analysts, who on average had expected the bank to earn $1.46 per share, according to Bloomberg. Shares were down about 3% by midday.

Meanwhile, rival Wells Fargo (WFC) reported a better-than-expected boost in profits on Friday. But its underlying revenue also fell 3%, in part due to a slump in mortgage originations. Those numbers are foreboding for the other banks around the country, gearing up to report their own first-quarter earnings in the next several days.

"Loan growth was a little weaker than expected" at both Wells and JPMorgan, and both banks' dropoffs in mortgage production and servicing is "a pretty good indicator that we're going to see slow [first-quarter results] for the rest of the banks," says Erik Oja, an analyst at S&P Capital IQ.

After several quarters of results that were overshadowed by multi-billion legal settlements at JPMorgan, "we're coming back to a focus on the core revenue generation of this bank. Unfortunately it's kind of weak right now," he adds.

Marianne Lake, JPMorgan's chief financial officer, blamed the bank's worse-than-expected results on what she called a challenging environment "from both a market and a mortgage perspective." That bodes ill for most commercial banks, including megarivals Bank of America (BAC) and Citigroup (NYSE:C), the latter of which is dealing with a new round of mounting regulatory scrutiny after failing part of the Federal Reserve's stress tests last month.

JPMorgan isn't out of the woods with its own regulatory run-ins either. Last year it paid more than $20 billion to settle regulatory and civil claims over a broad array of its operations, including mortgage securitizations and sales, energy trading, credit card debt-collection practices and its unshakeable London Whale trading mess. In an annual letter to shareholders released Wednesday, Dimon wrote that trying to resolve those legal and regulatory issues was "the most painful, difficult and nerve-wracking experience that I have ever dealt with professionally."

Lake told reporters Friday that, while legal expenses this quarter were immaterial, "this will likely be lumpy from quarter to quarter over the next couple of years."

Besides regulatory pressures, tepid economic growth, compressed interest margins and lackluster trading results, JPMorgan Chase and other banks are also facing a new wave of threats to their data security. Banks have spent several months trying to improve their cyber defenses after hackers stole massive amounts of customer information from Target. This week a widespread Internet security disaster, known as Heartbleed, raised a new round of questions about the security of online information at virtually every large data-gathering company, including banks.

Lake reiterated on Friday that JPMorgan Chase's external websites had not been affected by the Heartbleed flaw. But Dimon also acknowledged that he was increasingly worried about the mounting online threats to banks' data and customer information.

"Cybersecurity's a big deal," he told reporters. JPMorgan is spending more than $250 million annually this year to combat hacker attacks, and that investment "is going to go up every year," he added.