Please stand by, we are about to begin.

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Fourth Quarter 2011 Earnings Conference Call. This call is being recorded. [Operator Instructions] At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Doug Braunstein. Mr. Braunstein, please go ahead.

Douglas L. Braunstein

Thanks, operator. I'm going to take you through the earnings presentation. It's available on our website. We'll take questions after we walk through the presentation, and remember the disclaimer in the back of the presentation.

So if you turn to Page 1. For the quarter, we generated a net income of $3.7 billion, $0.90 per share on revenues of $22.2 billion. Return on tangible common equity for the quarter was 11%. For the full year, we generated record net income of $19 billion, that's up 9% over last year. $4.48 per share which was also a record per share on revenues of a little under $100 billion. Return on tangible common equity for the year was approximately 15%.

There's a few significant items in the quarter, we highlight them upfront. I'm going to discuss each of them in the businesses. So if you see, we ended the quarter on a Tier 1 common basis of $123 billion, strong Basel I, Basel III ratios of 10% and 7.9%, respectively. And for the full year, we increased our Basel III ratio by approximately 90 basis points and that's after the repurchase of $9 billion of our stock this year. As we noted last quarter, we continued to see year-on-year loan growth across many of the businesses. Total loan balances across the company were up $31 billion year-on-year. And if you exclude the impact of the $30 billion in runoff in our Home Lending portfolio, predominantly WaMu related, the year-over-year growth of $60 billion would be a run rate of 9% year-over-year. And just to highlight some of the specifics, small business loans were up 52%, market loans up 17%, trade finance loans up 73%. We also saw card outstanding growth this quarter and solid mortgage originations. Deposit growth also continued in the quarter, liability balances ended the year at $1.1 trillion. That's up $200 billion or 21% year-on-year.

I've covered much of the data on Page 2 and 3, so if you turn right into the Investment Bank on Page 4. You see circled net income of $720 million, that's on revenue of $4.4 billion. We highlighted on Page 1, the first significant item impacted the IB results this quarter. That's a $570 million DVA loss on a pretax basis and that reduced our reported EPS for the quarter by $0.09 a share, and that's largely the result of the firm's tightening credit spreads this quarter. We've consistently said we don't consider these gains or losses to be part of the underlying operating performance of the business, but when it's material to the results, we're going to identify that number as a significant item. If you exclude DVA, revenue for the IB in the quarter was $4.9 billion, that's up 10% quarter-on-quarter. It's still down 21% year-on-year. Net income, x DVA, was $1.1 billion this quarter. So if you go into the particulars, IB fees of $1.1 billion this quarter are down almost 40% year-on-year, up modestly quarter-on-quarter, primarily driven by the low industry-wide volumes that we talked about last quarter. We did maintain our #1 ranking for Global IB Fees this year and we also generated record loan syndication fees we share which again part of that loan story we talked about. You can find the league table results in the back in the appendix on Page 20.

Fixed Income Markets. Revenues of $2.6 billion (sic) [$2.5 billion) x DVA. That's down 9% year-on-year, 6% quarter-on-quarter. We continued to see solid client revenue across most of our products in Fixed Income. Equity Markets revenue was $0.8 billion. That's x DVA, down 26% year-on-year, 23% quarter-on-quarter. That's primarily been driven by lower market volume. And I would add, we had some consistent results again this quarter in our prime services business so the volume impact was largely in our cash and our derivatives business.

We recognized negative revenues of $31 million in the Credit Portfolio, largely driven by the DVA losses and that's offset by the NII and fees in retained loans, and then we had a small net CVA gain this quarter. Credit cost in the quarter, $272 million, that largely reflected some main specific charge-offs. And then on the expense side, you see $3 billion in expenses, down a little under 30% year-on-year, that's driven by lower comp and lower non-comp expenses. The comp-to-revenue ratio for the year we reported was 34%. If you exclude DVA, the revenue was 36% and that's largely at the lower end of our prior guidance of 35% to 40% for the year.

So with that, I'm going to actually skip Page 5 as well and drill down to specifics of CBB on Page 6. You see circled net income of $800 million, that's down 16% year-on-year; revenues of $4.3 billion. Revenues are down $365 million quarter-on-quarter. That largely reflects the impact of Durbin this quarter. Year-on-year, revenues are down 2% and that was an increase in deposit-related fees that partially offset the impact of Durbin this quarter. We continue to see very positive growth in a number of the fundamental measures we keep track of for the business year-on-year. Total deposits were up $25 billion; 216 branch builds during the course of 2011; 246 CPC, Chase Private Client branches opened this year; and we added 3,800 new sales staff, bankers, salesmen, mortgage brokers during the course of the year. Expenses up 6% year-on-year primarily driven by that investment spend I just talked about. Also, I want to remind you the impact of both the rate environment and the regulatory environment on 2012 earnings. We expect spread compression likely to have a negative impact on earnings next year of about $400 million, plus or minus, as deposit margins are going to continue to decline in 2012. And on the Durbin Amendment, we've said it will reduce earnings by $600 million plus or minus on an annualized basis in the course of 2012.

If you move to Page 7, Mortgage Production and Servicing. Loss for the business of $260 million this quarter and that compares to net income of $330 million in the prior year. Production-related revenues, that's at the top of the page and if you exclude repurchases, was $1.1 billion, that's down 20% year-on-year. Originations of $39 billion are down 24% year-on-year, but up actually slightly quarter-on-quarter and we experienced some lower margin in that business. I'd also add, activity this quarter was largely driven by refinancing. Repurchase losses in the quarter, you see was $390 million, that's slightly higher in the quarter based on acceleration of the timing of certain claims with the agencies. We do continue to expect, for next year, $350 million plus or minus per quarter in repurchase losses and that's largely in line with our prior guidance. And I'll remind everyone, our total repurchase reserves remain at $3.6 billion, $3.2 billion in this division.

Servicing-related revenue, in the middle of the page, of $1.1 billion is down 9% year-on-year and that's largely a decline in our service portfolio and that was partially offset by a reduction in the amortization of the MSR asset. Servicing expense, you see in the middle, $925 million in the quarter. It remains very elevated as a function of default costs which represent about 75% of that total number and we would expect that number to remain high certainly through the first half of 2012. We did record an MSR risk management loss of a little under $400 million this quarter, $377 million. The results really are a combination of reduction of the MSR asset of $830 million, that's based on valuation adjustments and rate and that was offset by a $460 million gain from hedging the asset. And for those interested in the MSR, I'd point you to a detail in the financial supplement in the footnotes.

Page 8, Real Estate Portfolios. A modest net loss in the quarter. That compared to a net loss of a little over $800 million in the prior year. Revenues, same story as we've been talking about, down 20% year-on-year, consistent with the reduction in the NII from the portfolio runoff, as we said, was $700 million a year. And remember, balances were down $30 billion year-on-year. We'd expect to see balances continue to decline somewhere in the 10% to 15% range again in 2012 and that would have the result of reducing NII next year by $500 million plus or minus. But remember, that reduction will also free up capital at the company level. Expenses up 5%

year-on-year and that continues to be consistent with the overall increase in servicing costs that I talked about in mortgage servicing.

I want to cover credit on Page 9. So if you turn to 9, you see circled net charge-offs of $877 million, that's, again, a marginal improvement versus the prior quarter. We experienced improvement this quarter in our early-stage delinquencies. You can see those charts on Page 19 in the appendix and we saw an improvement both in our NCI and our PCI portfolios. And again, we've experienced the consistent improving level of net charge-offs for several quarters in the NCI portfolio. So the result of those factors is a net release of $230 million in our Home Lending portfolio. And there are 2 components to that reserve change. First, in NCI, we took $1 billion reduction in reserves primarily due to the improvement in our outlook for losses, particularly in Home Equity and sub-prime. And reminder now, current reserve levels for the portfolio are $8.7 billion. The PCI portfolio, we actually added $770 million to reserves and that, remember, is a lifetime loss estimate and while we've seen improvement in the delinquencies in the portfolio, they weren't as significant as we had expected in our lifetime loss estimates, primarily driven by default frequencies relative to modeled expectations. And so we, therefore, increased reserves. Reserves in the portfolio now are $5.7 billion. But if you step back from all of this, given the improvement in credit performance, you'll see over in the right, we're revising our quarterly loss guidance to $900 million plus or minus, that's down from the $1.2 billion we had in the prior quarter and that's for 2012.

If you turn to Page 10, Card Services & Auto. Circled consolidated net income for the business of $1.1 billion, that's on revenues of $4.8 billion. Now we continued to see the trend that we've talked about all year. Credit costs down again this quarter. You see the details on the Chase portfolio at the bottom of the page, 3.93% net charge-off rate. That's again, below us, through the cycle target. 30-plus day delinquencies declined to 2.54%, that's 112 basis points below the prior year. And just a quick note here, we're going to report Chase and WaMu portfolios as a single portfolio in 2012. And for the combined portfolio, which ended 2011 at a net charge-off rate of 4.33%, we expect Q1 rate to be 4.50% plus or minus. It tends to be slightly elevated versus the year end, just literally as a function of seasonality, but the absolute numbers should be consistent. As we highlighted on Page 1, we did release $500 million on loan loss reserves this quarter in our Card business. And if you add that to the Home Lending actions, the combined release across Consumer was $730 million and that had a positive impact on EPS of $0.11 a share. In fact, the Card, though total reserves in card will end the year at $7 billion, that's 5.3% of our outstandings. And the final note I'd say on Card is, on a sales volume basis, it continued to be very solid results for the Chase portfolio, up 9% year-on-year, 14% if you exclude the impact of the Kohl's portfolio sale that we had. And part of those increases are really being driven by our new products, Sapphire, Freedom, Ink, where sales growth is actually higher than the average. The result of all of that is we continue to think we've picked up close to 180 basis points of market share in the Visa and the MasterCard systems.

Page 11, for Commercial Banks, you see circled net income of $640 million, that's on record revenues of $1.7 billion. Full year revenues of $6.4 billion, $2.4 billion in net income are both record performance for the business. And the revenue growth and the earnings continue to be driven by that same story of loan growth and liability balances, 6 consecutive quarter of loan growth balances. You see EOP balances of $112 billion circled, that's up 13%. Middle Market balances continued strong growth. They're up 17% year-on-year, that's the seventh consecutive quarter of growth. And we also had record liability balances just slightly under $200 billion, up 35% or $52 billion year-on-year. So our customers are very well capitalized today. And then the overhead ratio continues to be very strong, credit story continues to be strong. The result is really excellent performance in our Commercial Bank this year.

Treasury & Securities Services on Page 12. Our revenues are up 6% year-on-year, in part, we had stronger growth in our TS business. But you do see circled net income down 18% quarter-on-quarter of $250 million, really driven by 2 factors. We had some expense increases this quarter driven by exiting some unprofitable business we had and also credit costs increased this quarter and that's related to some of those main specific charge-offs that I talked about in the Investment Bank. We have a share of credit expenses between those 2 businesses. We did, though, continue to see some real favorable trends in the quarter for the business. Liability balance is up 42%, over $100 billion. I talked about trade loan up front. And then international revenue growth, which is a big strategic push for us, grew 16% year-on-year. And for the year, international represented 55% of the total revenues for this business, that's up from 49% last year. So very good performance there.

Asset Management on Page 13. That had a weaker quarter and that was largely driven by market conditions. Revenues of $2.3 billion are down 13% year-on-year, relatively flat quarter-on-quarter, but the fourth quarter tends to be higher than normal and we had lower performance fees this quarter. So for the year, however, we did generate $9.5 billion of revenue and that was a record revenue number for this business and it does reflect the positive long-term flows that we've seen throughout the year and a little better market, on average, than 2010. It was our 11th consecutive quarter of positive long-term flows, we had $53 billion for the year. And we also did experience some significant inflows in our liquidity products this quarter. Expenses, while down year-on-year and quarter-on-quarter, for this quarter were up 15% for the full year. We added 1,000 people to this business, 700 of which are front office personnel, bankers, salespeople, brokers. And all that we expect that to improve future performance, clearly had a depressing impact on margins this quarter.

Page 14, Private Equity and Corporate. Private Equity experienced a loss of $90 million, that's primarily due to market valuations and a lack of monetization opportunities in the quarter. Corporate, you see net income of a little over $300 million. That includes $528 million of an increase in the litigation reserve. That was one of our significant items that reduced EPS $0.08 a share this quarter. The increase in reserves was predominantly for mortgage-related matters. And then you see to the right, we do expect Corporate, excluding Private Equity and significant items, to be at $200 million plus or minus net income number each quarter in 2012, and that's really a result of the positioning of the portfolio, as well as some of the RWA implications of Basel III and what we can hold in the portfolio.

I believe I've covered all the items on Pages 15 and 16. So with that, operator, if you wouldn't mind, why don't you open it up for questions?

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of John McDonald with Sanford Bernstein.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Yes. I was wondering if you could talk a little bit about managing expenses in a tough environment. If the revenue environment remains tough, do you have plans to push expenses down company-wide in 2012? And then maybe also, just in the Investment Bank. Do you see the comp ratio moving lower amid all the regulatory changes and the industry pullback or do you expect 35% to 40% again in 2012?

Douglas L. Braunstein

Yes. So on the expense front, I think we are constantly working to try and manage the expenses. As you saw expenses, John, were down in the quarter versus year-over-year and we're going to continue to manage it and that's what we're expecting of all of our businesses. On the comp-to-revenue side in the Investment Bank, we think we've paid appropriately given the performance of the Investment Bank and I think we're going to expect it to return an appropriate level based on that pay. Also, we're going to constantly be aware of what's going on in the market. So we'll see where the markets end for 2011 for everyone.

James Dimon

So we basically expect our overhead, i.e. non-IB comp, to be about flat next year. And then that's after a lot of investments, too. So it's not -- I think we have pretty good expense control. The only thing I want to say about IB comp, no I think you'll see it stay around those numbers. But there's also a lot of pressure. We get an awful lot of pressure for our bankers and traders to increase our payout ratio to about what newspapers and media have, which is a little bit higher.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

And the thing that you expect to be flat next year, Jamie, is your kind of your core overhead SG&A-type, x litigation reserves?

James Dimon

Yes. So if you look at the overhead which I forgot, it was like almost $50 billion a year and that's x IB comp and things that we have for litigation or something like that, to be essentially flat. But that's -- the way you should think about that is we're making huge investments and we have opportunities to market or -- but we change it all the time.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And then on the net interest margin, Doug, it was up a bit this quarter. Looks like maybe some of the trading funding cost was lower. Can you just talk about what drove that and what kind of outlook do you have for the NIM in 2012?

Douglas L. Braunstein

Yes. So in NIM, John, for the quarter, it was really a mix issue. In part, we had lower cash, we had some redeployment in Treasury and we also had some lower rates on the deposit businesses. So that's what we saw. I'd say, for the outlook for the first quarter, we expect to see some downward pressure on NIM in the first quarter and that would be -- well, as we continue this mix in our portfolio on the Loan side, greater growth in the Wholesale side and some runoff in the Consumer side, we'll also see a little lower yielding loans that we add on. And the other piece I'd say is we've got a lower-yield investment securities, I think, expected in this rate environment.

John E. McDonald - Sanford C. Bernstein & Co., LLC., Research Division

Okay. And just as a follow-up, what kind of regulatory event is necessary for you to be able to redeem that $10 billion in TruPS that you've talked about and when do you anticipate that might happen?

Douglas L. Braunstein

Well, we talked about that and I think clarification on the Basel III rules we would expect will be the regulatory event. We're hopeful that that'll happen sometime in the first quarter, but that's really up to the regulators.

Operator

Your next question comes from the line of Glenn Schorr with Nomura.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

The other day, Jamie, you mentioned housing at or near a bottom. It's a little involved question, but curious to say: a, what you're seeing to give you that feeling; and then b, what needs to happen? In other words, I get that affordability metrics are okay, but there's a lot of inventory out there, underwriting standards are too tight, there is lack of agency securitization market. Just curious if you can expand on that.

James Dimon

Yes, so let me answer the first in part. I think what you need to see is employment. That's what you need to see because employment, in our opinion, will drive household formation. But if you look at the other factors, okay, we've been destroying more homes than we build in the last several years. We've added 10 million Americans. We're going to add 3 million Americans every year for the next 10 years, that's 30 million Americans who need 13 million in drawings or something like that. Household formation has been half what it normally is, and in most economy tell you that's going to come back with job creation. And the so-called shadow inventory is coming down, not going up. So for all the chatter about it, it is very high. Rental in half the markets in America is not cheaper to rent than to buy -- it's cheaper to buy than to rent. Housing is an all-time affordability and my guess is, is that mortgage underwriting will loosen, not tighten. So if we put all of those things together, you're going to have a turn at one point. Look, I don't know if it's 3 months, 6 months, 9 months. But it's getting closer.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

In the past, when we were going the other way, you were kind enough to give us some sensitivities around what happens if housing goes down x percent. Not sure if you've gotten that optimistic to calculate it, but how sensitive is the whole balance sheet and earnings to -- similar to that impediment?

James Dimon

It was much more sensitive to going down because we have to take capital losses than going up where we don't get appreciation. So to me, if you have housing get better, our charge-offs will just start to rapidly go down. And yes, it's a real improvement in mortgage portfolio and then we would need all the reserves, so you got both those things. Also we have, hopefully, active mortgage markets and healthy economy and that would be great.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

I hear you. And other question is on capital markets related. As we all sit here and struggle between determining the cyclical versus secular pressure, how do you go about sizing the IB and most specifically, between the capital charges and potential Volcker changes? How do you think about the inventory businesses which you are so good in and big in as we sit here and wait for the rules?

James Dimon

Well, I'm going to put Volcker aside, okay, because that's really hasn't been written yet. There are a lot of things coming out about it. You can come up with a scenario which is not good. I should write or ring the phone that we -- the United States has the widest and deepest and most transparent capital markets in the world. And you should repeat that over and over, particularly when you go to Washington. The widest, deepest and the most liquid, i.e. for buyers and sellers, very narrow spreads. That's a very good thing, okay? The beneficiary of very narrow spreads are the investors of the world. And so if you lose liquidity, you lose market-makers. It's going to cost retirees, pensioners, firemen, retired military more money to invest their money. So we need those things, I think we've got to be very careful we don't destroy that as we try to limit -- a fair limit, they want to put in proprietary trading. So at the end of the day, I think we'll deal with that later but -- well, I think it's -- secular is pretty much what it is and not permanent. I think that trading is right. If we have 16,000 clients around the world, the amount of money they're going to need to invest in the next 10 years is going to double. I think you have underlying growth, the same kind of underlying growth you had in the 2000s, the '90s, the '80s, the '70s, the '60s. And of course, gradual change and policy change and competition will change, that's pretty good. So we're going to be in the business, we make markets actively for people, we're very good at it. And those institutions, 16,000, which include pension plans and governments and corporations, those are required services. You need to have people making markets in that so people can move securities. So we're starting see a lot of people understand that. The volumes itself, in the marketplace obviously go up or down pretty dramatically not just by quarter, but sometimes by day.

Glenn Schorr - Nomura Securities Co. Ltd., Research Division

Last one, you saw a quick quote earlier, that you've felt as the pressures are increasing in Europe. I think there's a lot of people that feel like some of the liquidity metrics that have been put in place are a good thing. If you could just comment on that, that would be super.

James Dimon

I know the liquidity metrics you're talking about. I think, what I'm saying is that I think what the ECB did was a very, very powerful thing, okay? Which is extending the collateral in 3-year funding. So powerful, in fact, I think you could probably make the statement that eliminates bank liquidity or funding problems for at least next year. That's a pretty powerful statement. That was the biggest single risk of an uncontrollable surprise right there. So if that's taken on the tip, that's a good thing. Now the banks still have to increase capital, so therefore, they're still reducing RWA, i.e. by not rolling things over, you can see them selling aircraft loans, trade finance. They're not participating much in revolvers, there are certain conduits they're not doing anymore. So you see them, but that's now just to create capital, not because of a funding crisis in any way. So look, I think Europe is trying mightily to solve its problems. I still think the likely outcome is they will muddle through, but the longer you wait, the higher you run a risk of something disorderly that you can't really control. But I think the ECB took off the worst outcome, i.e. a bank failure. The other thing that I'd say and it's quite obvious, I just got back from Berlin yesterday, that regulatory policy is completely contradictory to government objectives. They just start talking to each other a little bit.

Operator

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

Betsy Graseck - Morgan Stanley, Research Division

A couple of questions. One, on the IB, can we just talk a little bit about how you're thinking about bidding for some of the assets that might be coming out of Europe? I guess I'm trying to understand where you're most interested in adding to your footprint.

James Dimon

Yes, so this is -- first of all, most of the assets we have are just I'm going to call ordinary course of business to maintain our trading books and credit for clients. So are we going to be aggressively bidding for assets from overseas? No, we've done some, we see that in the portfolio, it's up $10 billion, some of that came out of Europe. But again, going back to contradictory policy, most of us want to get our capital up and, therefore, we're not going to do it. And that's the outcome of all of these rules and that's life.

Betsy Graseck - Morgan Stanley, Research Division

Last quarter, you talked on the conference call about the fact that capital weren't really that clear. They obviously became a little bit clearer between in and out in that.

James Dimon

No, they're clear bad. And I'll give you a very specific example, because there's one security we looked at, that if you look at -- we believe we've had a 10% cash return and that really required some economic capital. Basel III statutory requirements was 1,200% capital, that's an 8% pretax return, 5.5% after-tax. We're not going to do it. That's all, life. Not a big deal for us, it's not great for the recovery of the global market. Because remember, that's not just one security, that filters through what people are doing everywhere.

Betsy Graseck - Morgan Stanley, Research Division

But then on the flip side, interest in low RWA assets, relatively high?

James Dimon

Right. Well, listen, we're doing RWA in the budgets at a very detailed level in LCR and all that. So yes, we're going to have to manage, really micromanage RWA. And so yes, there are assets we're going to put on, that we think are very good RWA returns and we're probably much more sensitive to that, for now, than we would be in the past.

Betsy Graseck - Morgan Stanley, Research Division

Okay. Can we talk a little bit about headcount? Because you're one of the few companies where headcount is growing. Revenue environment is still on the tougher side given the rate environment. Can you give us a sense as to how much longer or what your expectations are for headcount? And in addition to that, just where your reinvestment spending is and do you have to pull back at all, at this stage, just now?

James Dimon

No, we're not pulling back. In the overhead number, I think we already mentioned the $50 billion is, I believe, going to be pretty consistent so far for next year. And the headcount, let me split it 3 things. We are always gaining efficiencies which you don't see. In tech, ops, overhead, a whole bunch of stuff. And we've added and we break it out, and you've got to do it by business, with branches. So we've added 3,000 salespeople in branches in Consumer, some of that is in the new branches, some of that is in existing branches. We're adding private bankers, we're adding branches overseas. We opened 20 branches overseas, mostly for TS&S. So all those things add people. And for the biggest add, which we'll not be adding any more, was to handle default. So there's -- I've got the total number, we've added 15,000 people the last 2 years, maybe more, just to handle default mortgage, in mortgage. That number has probably peaked and I think you'll see it coming down in the next couple of years.

Betsy Graseck - Morgan Stanley, Research Division

Are you talking about you'll be dealing with OREO?

James Dimon

No, no, not OREO -- well, also OREO but it's 15 -- yes, it's 15,000 to 20,000 just to deal with default servicing, OREO, foreclosed assets and all that kind of stuff. So those numbers will -- I think is now running, we'll break it out to you.

Douglas L. Braunstein

Yes, that's the $925 million in servicing expense in that business.

James Dimon

Of which 2/3 is default now. And that default number is going to come down over the next couple of years and the headcount related to that too.

Betsy Graseck - Morgan Stanley, Research Division

Right. So that's tied to transaction volume in housing and how you get down, bringing down your OREO and the delinquencies. So my last question just has to do with the outlook for home prices and transactions. And I'm just ask -- I mean, I know the question already asked but I wanted to ask, in conjunction to the PCI impairment that you talked and the reduction in the portfolio there.

James Dimon

Let's just keep it simple, all right? We're still assuming another 1% or 2% drop across the foreign home prices. We do it by region and stuff like that. If they dropped another...

Douglas L. Braunstein

Yes. So if they dropped another 8 -- remember, we said last quarter it's 10%. 80% more and you get $1.5 billion incremental impact in PCI reserves.

James Dimon

All things being equal.

Betsy Graseck - Morgan Stanley, Research Division

Right, and so -- but you've made a change in your PCI reserves this quarter...

James Dimon

That's just forecasting lifetime losses. Remember, there's little adjustments that change that quite a bit so...

Betsy Graseck - Morgan Stanley, Research Division

Okay. So your outlook hasn't, this doesn't reflect...

James Dimon

My guess, I'd go the other way. We have almost $9 billion of reserves for mortgages. We've got $3 billion in reserves for repurchase. Charge-offs are coming down. It's more likely than not we're going to have excess reserves and this will be reversing at one point. To me, it' will be when the economy gets stronger.

Operator

Your next question comes from the line of Richard Ramsden with Goldman Sachs.

Richard Ramsden - Goldman Sachs Group Inc., Research Division

So I've got a couple of questions. If we could go back to the LTRO. A couple of questions. First is, does this, in any way, change your willingness to engage in interbank transactions, i.e. compared to where we were a month ago? Are you more willing to engage in transactions with European banks? Would you say it's unchanged?

James Dimon

Again, you're talking about contradictory regulatory policy. When I was in Berlin, they were complaining that no banks were lending to other banks. Well, of course not. If you look at the -- the banks are being penalized for lending to banks. The G-SIFI charged specifically penalizing lending their banks and the FDIC charge of 10 basis points is on interbank lending. There will be no interbank lending ever again. Now maybe that's a wise policy in the future, that perfectly reasonable, if not reasonable now. But that's what we did.

Richard Ramsden - Goldman Sachs Group Inc., Research Division

The second link to this. Do you think this will change the policy...

James Dimon

We do finance banks. We do have some credit at the banks and we do, do some secured funding. So we do deal with banks. It's very different with interbank placing when you get to it's [ph] short-term funds.

Richard Ramsden - Goldman Sachs Group Inc., Research Division

The second thing is, do you think this will meaningfully change the speed of de-levering of assets coming out of Europe as a result of European banks having such a significant amount of 3-year funding?

James Dimon

I think it reduces the pressure on them, but they have this 9% capital target they have to do by June. So I think you've got ask them. I think that's what's pushing them to shed risk-weighted assets to get that 9%. Most of them are not going to issue equity, nor would I if I were them.

Richard Ramsden - Goldman Sachs Group Inc., Research Division

Okay. And then my last question is...

James Dimon

But I would say we have not seen a huge -- I mean, some people are expecting a roll of sales and this wave of sales. We have not seen that. We see a more orderly -- particularly in trade finance, aircraft, some CMBS, and some RBS, some condo-related businesses, it's not a wave. It's just a kind of orderly movement of assets from some banks to others.

Richard Ramsden - Goldman Sachs Group Inc., Research Division

Okay. And then back in early December, you talked about the possibility of getting Basel III-compliant early, i.e. at the end of 2012, which was a change to what you I think what you've said before. Can you just give us an update, both in terms of your thinking on that? And second, what benefits you think you would get to getting Basel III-compliant early?

James Dimon

You see, I think what I said, originally, I know we've flip-flopped things a little bit. Originally we said there's no reason to get there early and then at the Europe Conference, I said maybe by '09, the near 2012. We're going to drive it up, okay? We've just finished CCAR, the Fed is giving out more guidance that they'd like to see people, the way I'm going to word, is make little progress on getting to, [indiscernible] 9.5% of course by 2018. We're going to do that, so it may not be quite 9%, so we do we like our stock and we don't mind buying back stock. But I just think you're going to have people getting there quicker rather than slower. People want to get out of the yoke of this thing at one point. I mean, we've got to get this behind us. The good news about the CCAR, in my opinion, is it should, I hope, definitively get rid of this capital issue once and for all. I mean, if banks can demonstrate that a 13% unemployment, a market down 50%, home prices down 20%, a catastrophe in the U.S. market sales and trading, a catastrophe in European credit in sales and trading, and with all that, you're still way above Basel 1.5. It makes 2 points: we've got plenty of capital and we don't need more. And we're going to -- I think that points can be quite openly and politely when people release the results of the CCAR.

Operator

Your next question comes from the line of Ed Najarian with ISI Group.

Edward R. Najarian - ISI Group Inc., Research Division

We've talked little bit about some of the potential impact or the strong loan growth impact that you've gotten from some of the euro de-leveraging. But I guess I was just looking at the very strong commercial loan growth, Wholesale loan growth, and trying to get some idea of how much of that was coming, excluding any euro impact, just from core customers, either using more on working capital lines or investing in capital expenditures and what your outlook for that continuing.

James Dimon

The Commercial Bank is 100% U.S. and has nothing to do with European banks. And from what we can see, it is continuing and it's very broad-based in terms of clientele, et cetera. It's not utilization, it's actually just new lines of credits for the most part. I think in the Investment Bank, the loan portfolio of $10 billion, that was about half.

Douglas L. Braunstein

Some of that is...

James Dimon

They're got half of that related to...

Douglas L. Braunstein

Conduits and...

James Dimon

Coming out of Europe.

Douglas L. Braunstein

That's right.

Edward R. Najarian - ISI Group Inc., Research Division

So it sounds like you see a lot of momentum there, just on the core commercial side continuing this year.

James Dimon

Yes, yes.

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Edward R. Najarian - ISI Group Inc., Research Division

Nevertheless, you're saying -- maybe you're gaining share in terms of lines of credit, but you're saying you're not seeing an uptick in utilization on the lines of credit.

James Dimon

Modest uptick in utilization but the reason we don't really know is, remember, we had a lot of bankers, particularly in Florida and California, which is new to us. So we know -- and we've added -- I think it was $2 billion of total loans came out of those areas. So we know some of our growth is, with new areas, to have obviously got some market share issues as opposed to -- but I think when other banks report, you're going to see some good loan growth numbers in Commercial Bank in the U.S. And okay, again, if you look at our numbers, Small Business up 52%, Trade Finance up 73%, Investment Banking. I mean they're all -- we were starting to see pretty good growth.

Edward R. Najarian - ISI Group Inc., Research Division

And that's not any sort of just 1 quarter bounce back or 2 quarter bounce back kind of thing? You might decelerate a little bit I guess, but it's something that you feel pretty good about commercial banking as well.

James Dimon

The Commercial Bank has been for 6 quarters now.

Douglas L. Braunstein

6 quarters, 7 quarters in middle-market. This is really a trend we've been seeing. And by the way, the same thing in the small business side. It's been a little slow this quarter, yes, but it's been up significantly across the businesses all year.

Edward R. Najarian - ISI Group Inc., Research Division

So other than sort of the recovery of the business cycle in general. Do you put any of that into sort of this idea that -- you read some of the stories about that reindustrialization of the United States and more manufacturing facilities going in the United States than before and more decisions being made that maybe we shouldn't but that plant in China or Mexico, but if we can eliminate the shipping costs back and we'll put it in the United States, is there something like that going on?

James Dimon

As I said, we're not macroeconomists, okay? If you want to know about that you should seek that out yourself.

Operator

The next question comes from the line of Mike Mayo with CLSA.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

First, I like to follow-up on the last question. When you look at Wholesale loan growth, it was up 37% annualized in the fourth quarter. So it just seems as though there must be some sort of re-intermediation by your bank from the capital markets back to traditional banking. I mean, how can 37% annualized loan growth be sustainable? So my question is...

James Dimon

It's not, it's not. The big chunk of that, if you take the Investment Bank loans, which I think that went from $60 billion to $70 billion or something like that...

Douglas L. Braunstein

That's right.

James Dimon

That bounces all over the place. That includes bridge loans and it does include like $5 billion or $6 billion of conduits we put in there. We don't expect to see that kind of loan growth every quarter in that portfolio.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

But it's still 20% annualized loan growth. So I'm just trying to understand the flight to quality benefit, are people moving business out of the capital markets back to the banks?

Douglas L. Braunstein

I would say though, Mike, the other...

James Dimon

No, we're not.

Douglas L. Braunstein

No. And -- but we had syndicated -- we had record syndicated loan fees, so there is a lot of that activity going on. But you also saw a lot of activity in the capital markets. So people are, I think, are doing both and we did see some real fundamental growth in the Investment Bank in terms of year-over-year stuff. But quarter-over-quarter, I wouldn't draw a conclusion.

James Dimon

The Wholesale line, you're looking at the consolidated Wholesale, right?

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Right, yes.

James Dimon

Which I don't -- that include that?

Douglas L. Braunstein

That's TSS. That includes...

James Dimon

That includes trade financing and it's up...

Douglas L. Braunstein

And CB and, I think, actually AM is also included in that number. So I mean we did see growth across every single one of those businesses quarter-on-quarter.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Well, still the more general question, the impact from capital markets to traditional banking. I mean, look at noninterest-bearing deposits, they're up $40 billion in 3 months. That's a 50% annualized growth rate. So it seems like something's happening in terms of people moving at least their money to you, if not Wholesale loans. So...

James Dimon

Right. The Wholesale loans, no, other than, we've mentioned, 5 maybe just a little bit more billion relating to European loans that we bought or conduits. I don't expect that to continue. It might. That's not a flight to quality. That's just -- so other people are trying to get rid of their assets. There's no question in the liability side, particularly in large corporate. So TSS, you're right, it was up 100...

Douglas L. Braunstein

$100 billion year-over-year.

James Dimon

More than $100 billion year-over-year. My guess is, a lot of that was flight to quality. It's very hard for us to distinguish because some of it was just big -- money sitting there, companies are flushed with cash and their cash balances are growing, some are new accounts. So we estimate that a chunk of that might be that, but we don't make a lot of money in that. So the part that whatever you call the flight to quality or something like that, I mean, we're making very little on it. We almost do that more to accommodate the client.

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

And then one last unrelated question. It seems like RFS keeps having negative operating leverage. I know you're investing a lot and I'm sure we'll hear about this at Investor Day. But it seems like an awful big branch build strategy that's not paying off yet and during a period of when deposits aren't worth as much in a low-rate environment. Does that really makes sense?

James Dimon

Yes, 3 completely different things. So obviously, our operating leverage has gone worse because of regulation, the Durbin, et cetera. That's a fact. That's number one. Number two, we opened branches and I said we're modifying that because a lot of these changes do affect branch profitability. But to the extent that we could open a branch and get a very good return, we're going to continue to do it. Remember, and a lot of this is in California, Florida, where there's a huge benefit to clustering, i.e. increasing the market share inside local markets. So we're going to modify the size of the branch, locations, the types of products and services and -- but we're going to continue to open branch. Well, we think every time you open a branch, you get a very good return. And the third one was...

Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division

Just the low-rate environment, the deposit is not worth as much?

James Dimon

And this is a very important thing. We have decided, you may decide differently I think we're wrong, but we have decided that the value of the deposits is more and we're not going to treat it like they're very low for the sake of our business. The vital deposits will come back and we will regret having not continued growing our business as normal. So, and the profits will go up because eventually margins will go back to more normal type of things over time. And that's a decision we made, open to comment or criticism. But as of now, unless they can prove otherwise, that's we're going to do.

Operator

Your next question comes from the line of Jason Goldberg with Barclays Capital.

Jason M. Goldberg - Barclays Capital, Research Division

The yield in 2011 and obviously first half trading results significantly stronger than the second half. I guess typically, we've seen a seasonal uptick particularly in the first quarter of the year over the last several years. I realized we're very early into the quarter, but just, I guess, given all the macro factors out there, is there anything that leads you to believe that seasonality won't reoccur or just how you're thinking about that?

James Dimon

Yes, honestly, your guess is as good as ours. Look, it's been -- we've had a pretty good start so far, but it's only so many trading days. And look, we could be surprised, the upside, the downside, who knows?

Jason M. Goldberg - Barclays Capital, Research Division

Got it. And then in the release, you point to the fourth quarter ROE that was modestly disappointing. When you think about that, is that -- I guess, do you mean driven by the macro factors or are there specific areas that you think underperformed given the macro environment?

James Dimon

Well, it was 11% return tangible common equity and we would like to be closer to 15%, so that's all we meant. So a big part of the difference is there's still a huge drag for mortgage. I mean you're talking about several billion dollars a year, just for mortgage alone. And that drag is going down but it's still a negative. Eventually, that will disappear.

Jason M. Goldberg - Barclays Capital, Research Division

Got it. And then just last thing, in the third quarter call, you talked a lot about this capital confusion. Then, I guess, and earlier in this week, you talked about, you want to buy back more -- equal to or more stock in 2012 versus the $9 billion you did in 2011, and then raise the dividends. So I guess, first, 2 parts: I guess, one, do you I guess feel you have more clarity on that front? And then secondly, it seems like your comments were more leaning towards buybacks and dividends than maybe they didn't previously, just maybe comment on that?

James Dimon

Well, okay. Dividends is a small decision from capital standpoint, so that raise a little bit here, that's not going to be material. We still -- we started the dividend again, we'd like to increase a little bit every year. It's a board decision. And the stock is very cheap and particularly below tangible book value, I'd like to buy a lot back which, of course, we can't do. By the time we're allowed to buy a lot of stock back, I'm sure it's going to be much higher priced and then we may change our decision about that. So you can get a little frustration in my -- in about how we've had to do our capital buyback. But we are getting more clarity from the Fed. The Fed has asked for these stress tests. The stress test, all the banks have put in their CCAR and we are going to tell you what that is when we get it back. So, but I'm not going to change the statement I made at the Goldman conference, which was, we hoped to be able to do a little more than we did in 2011.

Operator

Your next question comes from the line of Guy Moszkowski with Bank of America Merrill Lynch.

Guy Moszkowski - BofA Merrill Lynch, Research Division

I think I picked up when you were talking about RFS that you had some offset from the Durbin impact from increased deposit-related fees. Can you give us a little bit more color on...

James Dimon

No, no, no, they're unrelated. It's just that the deposit-related fees were up a little bit. Don't look at it as offset to Durbin.

Douglas L. Braunstein

That was year-over-year...

James Dimon

It's a factual statement.

Douglas L. Braunstein

Year-over-year, Guy.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got it. Okay. I wanted to ask a little bit about liquidity coverage and the ratios. The Fed has indicated that the U.S. banks are going to have to undergo a liquidity stress test on a regular basis. You've mentioned that you're concerned...

James Dimon

No, just so you know, most banks I know have already put themselves on a liquidity stress test. And so that you should do. I mean, that's just a normal course of thing. It's just that they're going to get more involved in how it's designed and stuff like that. And we believe that we should be able to handle a lot of stress in liquidity. I think it's...

Guy Moszkowski - BofA Merrill Lynch, Research Division

Fair enough. I mean, it's that you've mentioned when looking at the Basel liquidity rules that have been proposed, that it bothers you that they don't credit some of the advantages that U.S. banks have like, the guarantees on agency securities and the access to the Fed window. And I was just wondering if you believe that you've been hurt on those things, that the Fed will take those things appropriately into account.

James Dimon

So the LCR, you guys have all seen this, has huge amount of detail behind them, and we're in favor of good detail. And it got a lot of comments. Why are Ginnie Maes at a 15% discount? How come equities aren't in there? How come gold isn't in there? How come, for liquid assets? And they've got a lot of comments, is the drawdown on deposits just too high? And millions of comments. But they've acknowledged some of those comments. Let them come back and when we get the final stuff, we'll tell you.

Guy Moszkowski - BofA Merrill Lynch, Research Division

So the fact that you deployed liquidity...

James Dimon

Some of this stuff in this LCR was absurd, okay? So hopefully, they'll be responsive at least to the absurd parts.

Guy Moszkowski - BofA Merrill Lynch, Research Division

So the fact that you mentioned that you deployed liquidity during the quarter and that was one of the things that helped with the net interest margin, that's not that you're feeling more comfortable with this or what the Fed is saying. It's just that to. . .

James Dimon

No, no, no. It's normal balance sheet management.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got it. And from what you know of the Fed liquidity rules, if they were, in fact, if they were implementing their stress tests right now, do you think you'd be compliant with what they are looking for?

James Dimon

I don't know yet. But, Guy, I don't think it's going to be material to us any which way. But there's really, if we have to make some adjustments, we will make some adjustments.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Fair enough. The final question that I have is on the noncredit impaired portfolio and the reserve release there. In the mortgage delinquency trends that we can see, did continue to improve, but it seems like the improvement is kind of at a moderating pace. So I was hoping maybe you could give us a little bit more color on what drove the decision to release? And I guess sort of a longer-term question would be, how to think about. . .

James Dimon

It's very simple, okay? You see the numbers, they moderated and maybe they'll be a little bit prudent going forward and it made us change our mind, as we kind of said, we had to. I would have left the reserves up, if it was solely up to me.

Guy Moszkowski - BofA Merrill Lynch, Research Division

Got it. So in other words, if we were transitioning already into sort of an expected loss versus a sort of current incurred loss reserve model, you might not have done it?

James Dimon

Look, that's another question. I'd like having a -- look, eventually, we have a $9 billion reserves we don't need, okay? So until we get through all of this, I'm sure we'll just [ph] add them up. But basically, the numbers have gone too good over time to leave up that amount of reserves under current accounting. There's going to be a change in accounting. But that's not -- we'll worry about that when we get there.

Douglas L. Braunstein

And Guy, if you just do the math, and you say, $877 million, you multiply by 4, so call it $3.6 billion, we're still, after that, have $8.7 billion worth of reserves up for that portfolio.

James Dimon

But one of the things in this stress test, not just for us but for a lot of banks is, the portfolios are smaller, they've got a lot of more reserves up and a lot of the bad stuff has run through, so loss rates won't go up as much, I'm talking about in the real stress tests, and you won't need to add as much to reserves, from where we were a couple of years ago.

Operator

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

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Following up on the earlier comment that the NIM percent might be down a little bit in the first quarter, if we think about the net interest income dollars, should we see continued growth off of this level?

Douglas L. Braunstein

Yes. I mean, it should be flat to up. Again, that's a function of deposits and it's a function of loans and we expect both of those to continue to trend, if the world stays the same.

James Dimon

By the way, I just got a note that one of the newspapers out there thinks that we haven't done a full disclosure on Europe. The reason we didn't add our European business, it's pretty much like it was last quarter, not much has changed, so if anyone's interested.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then just a flat to up comment, is that for the first quarter or just -- if you're growing loans consistently throughout next year, it seems like you could have an upward trajectory throughout the year.

Douglas L. Braunstein

Matt, if that's the case, we should have an upward trajectory throughout the year. Now, remember, again, the one other thing, that's net loan growth. We did tell you we're going to have portfolio runoff in Home Lending, so that's going to impact NII on an absolute dollar basis by about $500 million. So the mix will change, but if trends continue where they are, yes.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then separate topic. Mortgage putback continues to grab some headlines here. Can you just clarify, remind us what portions the FDIC is covering related to WaMu? I think there was some debate whether the private label is covered, the GSE is covered. Can you just clarify that?

James Dimon

You're confusing 2 things. The GSE putbacks number, that's the $350 million that we had, those numbers are basically timing differences. It was like $3 billion of reserves, we don't expect a real change in that. And some of that, there were pieces of that, that was settled relating to WaMu. I forgot which one, it was Fannie or Freddie.

Douglas L. Braunstein

And that number, Matt, that $6 amount and we're working through that, and we'd expect to be through that in 2012. And so, and then on the private label side, there's not confusion in our part, we do not believe we have repurchase liability for the private label claims from WaMu.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

And then from the outside though, how do we know what the verdict on that is? What should we be following?

Douglas L. Braunstein

That's going to be -- that's going to work its way out on the courts.

James Dimon

Litigation. So we put up a lot of reserves for litigation, so.

Matthew D. O'Connor - Deutsche Bank AG, Research Division

Okay. And then just lastly, sticking with the litigation theme. The merchant suit against Visa and MasterCard and the banks, there's the court date scheduled for September. It seems like there'll be potentially some sort of settlement and any thoughts you have on how it might impact credit card interchange or an upfront settlement charge?

James Dimon

We have no comment on that.

Operator

Your next question comes from the line of Matt Burnell with Wells Fargo Securities.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Jamie, I just wanted to follow up on the comment I thought you made in terms of capital, in terms of perhaps not aggressively trying to move towards the 9% Basel III number by the end of 2012. Is that. . .

James Dimon

I'm sorry, what was the question?

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

I'm just wondering if your, if what you said before focused on maybe not trying to aggressively reach that 9% Basel III Tier 1 Common number by the end of this year.

James Dimon

If I wanted to give you quite a number yet, but it won't -- it may not be 9%, but it will be 8.5% or something like that. We're going to make a lot of progress towards getting to the 9.5%. And my guess is it will be at the 9%. And we can get to 9% here right away. It wouldn't be that hard to do, we're happy to do it. And it won't be -- I don't think it would be good policy that's helping in economic recovery, then my guess is we will be at 9.5% by the end of 2013.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Okay, that's fair. And then just following up on your comment on the no material change in your European exposures. I'm just curious if you have any thoughts on some of the commentary that, that the regulators have made about potentially seeking greater clarity across the U.S. banks in terms of their disclosure and whether or not that might change some of the disclosure that comes out of the regulators as well.

James Dimon

No. I think we already disclosed a lot of what they, what the SEC said people are going to disclose, right? There's very little add. So for us, it's not a lot different than what we showed. I think other people didn't show that kind of detail, you're going to get more detail.

Douglas L. Braunstein

But, Matt, you should expect to see, that slide that Jamie put up at the conference in December, that will be in our filings.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Okay, great.

James Dimon

With a little more detail.

Douglas L. Braunstein

With a little more detail and we may add some additional countries to that, but that's sort of the level of the disclosure we're expecting for others to have as well.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

That would be helpful. And then just one final question on the Investment Bank. It looked like Asian revenues were down about 47% quarter-over-quarter even though loans were up about 14%. Doug, was there anything going on there? Was there anything particularly especially to this quarter or last quarter that drove that decline?

Douglas L. Braunstein

No, there really wasn't. I mean, the capital markets are a big part, equity in particular of our Asian business and those were very challenging in the quarter. If you look at x DVA, which actually had an impact there, it was a little smaller decline. And year-over-year, revenues internationally for the bank were up a couple of billion dollars and a much larger percentage, almost 24% of the total revenue up from about 21%.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

And has your outlook for Asian contribution to overall IB revenues in 2012 changed materially over the last quarter or so?

Douglas L. Braunstein

I don't think our outlook has changed. But again, it's going to be, in part, a function of the markets and how open they are for business. Pipeline is great. What you're going to execute -- that's why pipeline is so deceptive because what you can actually execute is a different question.

Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division

Okay. And that's the Asian pipeline or overall Investment Banking?

Douglas L. Braunstein

Yes, overall. Unfortunately, the pipeline gets bigger as you can't execute and the stuff gets delayed.

James Dimon

We're not building Asia for next quarter. So we'll cover a lot of clients and the buyers will go up or down. And we've built there, we've opened branches there, we're building the global core bank there, we're covering more clients there. That's going to continue. The volumes themselves will be volatile.

Operator

Your next question comes from the line of Gerard Cassidy with RBC.

Gerard S. Cassidy - RBC Capital Markets, LLC, Research Division

Can you give us some color around your branch expansion strategy. I know you've outlined it last February, you'll probably update it for us this February, but then you changed it in the third quarter. What is the stand now in terms of branches?

James Dimon

It's exactly I said in the third quarter. There's a page and you go get them at presentation I made at Goldman that it's about 175 branches. And we're looking at things like size and technology and locations, but we're still going to be opening branches, particularly in California and Florida, we need more share. There's nothing mystical about it. Just we have to adjust it. Some of the regulatory changes made certain branches less profitable, et cetera, that's all.

Gerard S. Cassidy - RBC Capital Markets, LLC, Research Division

Is there a possibility -- since your deposit market share doesn't exceed 10% of the total U.S. deposits, which would prevent somebody from buying another bank, but the too-big-to-fail doctrine seems to be weighing on your bank and then a few others. Do you think you could if M&A comes back, could you guys buy depositories in the U.S.?

James Dimon

No. First of all, we have to get rid of the too-big-to-fail things. Because I think companies have be allowed to fail and, therefore, I think we need to help show people that resolution is real. And so you're going to see us be making a little bit of effort in that, but how can you dismantle a big bank in a way it doesn't damage the taxpayer or the economy in any material way. We are still under the 10% cap. Look, I think there probably be a political firestorm if we try to buy someone in the United States. I mean, if we feel it's really, really good for shareholders, we'd want to do it and we'd be willing to have [indiscernible] among our place. But we need regulatory approval. So if we can't get regulatory approval, then we're not going to try. In the United States, it's still -- well, accounting to all this chatter about too big to fail, the United States is the least consolidated banking market in the world and there are still too many banks. And unfortunately, some of the -- all these regulatory things are tougher on smaller banks than on bigger banks. So you're going to see a lot of them wanting to sell or merge.

Gerard S. Cassidy - RBC Capital Markets, LLC, Research Division

And then finally, on your outlook for Durbin, the $600 million, the impact, is that the incremental impact from the fourth quarter? Or is that the total impact that's already reflected in the run rate in the fourth quarter?

James Dimon

It's reflected in the run rate in the fourth quarter.

Operator

Your next question comes from the line of Andrew Marquardt with Evercore Partners.

Andrew Marquardt - Evercore Partners Inc., Research Division

I just wanted to circle back on Guy's question earlier on asset quality. Just want to understand how we should think about kind of remaining credit leverage, as things seem to be turning, Credit Card has been a big driver in terms of the reserve at least nearer-term, but that seems like it's going to start moving higher in terms of losses. How do we think about the degree of reserve release that might be able to come out?

James Dimon

I think in Credit Card, we're near the end of reserve release, if that's what you're referring to. Credit's very good and I mean, I hope it will stay good and they get a little better. But I think we're near the end. In terms of mortgage, I think we already mentioned that the $9 billion, one day, you won't need all that. But you need more, far more improvement in charge-offs, delinquencies, all that before that reserve will come down.

Douglas L. Braunstein

And, Jamie, I would add, on the repurchase reserve front, I've got $3.6 billion there. That's another number that, over time, should come down materially.

Andrew Marquardt - Evercore Partners Inc., Research Division

Got it. And then on commercial Wholesale, should we expect incremental build for the growth that you're seeing or how should we think about that?

James Dimon

Yes. But we're in a kind of close steady state now in most Wholesale areas. Strong reserve but steady state. And to grow, you're going to have a little build, yes. All things being equal, which they're not, but yes.

Andrew Marquardt - Evercore Partners Inc., Research Division

And just a ticky-tack question, in the Investment Banking detail, you had mentioned that part of the credit portfolio results of the loss of 31 this quarter were due to the DVA losses, but they were offset by NII and some fees but also CVA. How much was the CVA this quarter?

James Dimon

The net CVA was very small. So at steady-state, that line called Credit Portfolio would be a couple of million dollar positive. But of course, if you look at it, it bounces all over the place because of CVA and DVA effects.

Operator

Your next question comes from the line of Brennan Hawken with UBS.

Brennan Hawken - UBS Investment Bank, Research Division

Most of my questions have been touched on, just a quick one here. On the $569 million headwind from the change in MSR valuation, can you discuss the impact that HARP 2.0 had on that?

James Dimon

Not much, there's a little bit. There are a lot of things in there, okay? Home prices, paydown rates, how we look at, what kind of required returns we need on the MSR itself, the option-adjusted return. So there are large model updates with a lot of pluses and minuses.

Operator

Your next question comes from the line of James Mitchell with Buckingham Research.

James F. Mitchell - Buckingham Research Group, Inc.

Maybe a follow-up on the market share story out of Europe as the banks, which you've mentioned quite a bit about lending and trade finance. Have you seen anything yet as we hear about some of the European banks pulling out of, whether it's trading or Investment Banking, have you seen any impact or benefit there in market share or what do you expect in 2012, any pickups?

James Dimon

Well, what I've seen, not really, okay? There've been more announcements than actions. And today, I guess, that was RBS who said M&A in equity is going to stay in fixed income. So we haven't really seen it. Maybe -- if I went, walk through, ask the traders, they might have seen a little bit. But eventually, there will be some people exiting some of the things and those who remain will probably pick up a little share because of it.

James F. Mitchell - Buckingham Research Group, Inc.

Right. And just one other question, on the long-term debt, it was down $17 billion in the quarter after being pretty stable for the prior 3, is that just a function of the markets weren't conducive to rolling over debt? Or are you looking to actively reduce that over time?

James Dimon

No, it's just a function of our funding needs.

James F. Mitchell - Buckingham Research Group, Inc.

So should we expect that to go down or it's just going to bounce around your balance sheet?

James Dimon

I think you should not really expect it to go down.

Operator

Your next question comes from the line of Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch - Crédit Suisse AG, Research Division

Jamie, you talked about the regulatory response being different once you get to 9.5%. Could you talk a little bit about how you would see that relationship kind of once you got to the level that you thought that you should be at?

James Dimon

Yes. I guess my point is, I think a lot of people want to get passed all this and go back to -- look, we always have stress test in liquidity and stuff like that when the rules are known. We should be sure guessing about what we're going to retain in capital and how fast you want to get there and what the requirements are, what the phase-in is. So all that uncertainties should be eliminated. Here are the rules that banks have lived by, that's all.

Moshe Orenbuch - Crédit Suisse AG, Research Division

And just on the mortgage front, given we've had yet another one of these ideas that the settlement with the AGs [ph] is imminent. Could you talk a little bit about how you see things kind of developing then and could that be a trigger for some of that reserve release that you talked about, or what would it take you think, other than this?

James Dimon

Unrelated, okay? So it's still imminent. It'd be nice to get it done, but there's still open issues and we've been working mightily to try to get it done, but I think it would be better. I think it will be good for the mortgage markets to move up. I think that anything than can get resolved is better for the mortgage markets, and but it has nothing to do with the reserves. And though it will affect numbers, you have to account for whatever the agreement is and we've already done some of that, so there'll be some adjustments because of that, but it won't really affect reserves that much.

Moshe Orenbuch - Crédit Suisse AG, Research Division

Right. And I guess given your kind of...

James Dimon

I should mention, it's embedded in the reserves but it will probably have no major net effect.

Moshe Orenbuch - Crédit Suisse AG, Research Division

Got it. And given your relative optimism on housing, are there things that could be done to help the down payment piece because that seems to be just the last piece that's really hard to kind of bring to the table?

James Dimon

I don't -- look, if it were up to me, okay, I think that someone in authority should convene all the people involved in the mortgage businesses and -- because this could be fixed. It's 3 years after the crisis, virtually no RMBS, we don't know the scheme of the rule -- in rule games, foreclosure being held up everywhere, just damaging the economy. I mean, you can blame the banks for most of that, it's okay. These things can be fixed. We have much more mortgage markets and underwriting is still tight. I think underwriting probably will loosen over time and it's tight for a whole bunch of different reasons. And obviously GSE policy is critical, as we talked to and all these things. But there's no really in-charge of all of this. It's just kind of sitting there.

Moshe Orenbuch - Crédit Suisse AG, Research Division

That was correct. That was coordinated, yes.

James Dimon

Right. If someone's going to hold that together and make some good decisions, I think you'd have a much more rapid recovery in housing.

Operator

Your next question comes from the line of Richard Bove with Rochdale Securities.

Richard X. Bove - Rochdale Securities LLC, Research Division

In looking at what's going on in Europe, it's really hard to understand how these European banks who ever meet the Basel III requirements in the short run. So I'm wondering if there's a real possibility that this is going to be pushed out in the United States also a year or 2 years. And whether definitions are going to be changed to make it a lot easier to deal with these rules. In other words, I simply cannot conceive of how this thinking go into effect in Europe, and I'm wondering how it could go into the effect in the United States if it doesn't go into effect in Europe.

James Dimon

Let me answer your confusion here a second, okay? We're running Basel I, Basel II, Basel 2.5 and Basel III. Remember, the European banks early on in effect of Basel 2.5. So they just have to go from 2.5 to 3, where the American banks had to go from 1 to 3. And so when they say it has to get to 9%, it's not Tier 1 Common, it's Tier 1 Core, which is slightly different, by June of 2012, that's an accelerated, getting there already. And they've already got, I'd say most of Basel III in there, maybe a little longer than that. But I think most of Basel III is already incorporated in Basel 2.5. So it's put a lot of pressure on these banks in Europe who, look, I think in the past, have allowed too much unsecured funding but they operate under that scheme for a long time sanctioned by the states. And this is why I'd say it's completely pro-cyclical what is being caused in Europe right now. And so will it change? I don't know. Will that change what American regulators want to do? I don't think so.

Richard X. Bove - Rochdale Securities LLC, Research Division

The risk-weighted asset definition seemed to be a lot different in Europe than they are here. I mean companies like Credit Suisse have a 20% risk-weighted asset to total asset ratio. In addition to which, in looking at liquidity, is Nestlé [ph] really a worse credit than Greece? I mean, doesn't all that stuff have to be resolved before they go forward with any implementation of Basel III?

James Dimon

Yes, but I'm going to leave that to them. We've got to run our business here and I do think it causes a lot of confusion. If you speak to banks in Europe, okay, they are, they may think a lot get done now, they're most pro-cyclical and they think some of this stuff is silly. But I -- let them tell you what they need to do about it.

Operator

Your next question comes from the line of Ron Mandle with GIC.

Ron Mandle

I was just wondering about the tax rate in the quarter, the rates seemed considerably lower than you've had in earlier quarters and the full year, if they were [indiscernible], I think we can talk about that.

Douglas L. Braunstein

Ron, it was just some true-ups, some state and local benefits. And you should expect low 30s for 2012.

James Dimon

I just mentioned our Europe, by the way, because like I said, I was in Berlin yesterday that it's quite clear when you speak to like the ECB and they did the 3-year funding, why aren't banks making loans and buying sovereign debt. So it's got a huge arbitrage where you can earn 4%, 5%, 6%, in financial, 1%. Yet, if you ask the banks, they're saying, I can't buy sovereign debt because I'm already being criticized heavily by other regulators about my sovereign debt, my exposure. I got to get all these numbers down. So over there, it's quite clear that regulatory policy, government policy, Central Bank policy, it's not coordinated and it's making the situation worse, not better.

Ron Mandle

I just...

James Dimon

Basically, no one is in-charge of the global financial system. I mean, if you look to the inconsistencies and the counter-cyclical things we're doing, the process, it's crazy. It's not the way to get a recovery going. And I don't expect it to change by the way, so that we can run our business as best as we can.

Ron Mandle

Well. Jamie, I guess in that regard, I'm just wondering, you see these things to be constantly easing its collateral standards. What are the risks that you might worry about in that regard as they keep using their standards to provide liquidity as the banks have to meet the requirements that you referred to?

James Dimon

Well, look, I think, the ECB did the right thing because when the banks or whenever there's question in sovereign debt, whenever there's question on unsecured debt, whenever there's question on wholesale debt, whenever there's question -- the banks have to get funding. What's the ECB supposed to do, let them not get funding?

Ron Mandle

No, I agree with you. They're doing the right things so far but that brings its own risk possibly at some point down the road, I guess, that's what I'm wondering on.

James Dimon

Look, I've been very consistent. I think we'll shoot ourselves in the foot everywhere around the world. And I don't know how to say it, I'd say it 100 times. I'm not complaining. JPMorgan will be fine. But that's what we're doing. No one is really in charge in putting these things together and realizing what the negative effect it's causing. We can get through it all just because it's going to take -- it's going to make it more painful to swallow. No one job, this is not job creating.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer & Co.

Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division

Oh my goodness, after Jamie's exegesis on regulators, my questions there are going to seem so mundane. But you gave us a nice disclosure on the breakout of the mortgage servicing expense between core and the default expense, and I'm looking at that $3.8 billion default-related expense. And is there a way to gain what that number would be if -- when delinquency rates ultimately return to 50 or 100 basis points?

James Dimon

The default fees will be close to 0.

Douglas L. Braunstein

Chris, the ongoing servicing number is, call it, a couple of hundred million bucks a quarter that will stay.

Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division

Right. Okay.

James Dimon

I think we put a slide out somewhere else that should show what will remain. So it will come down quite a bit but not all the way.

Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division

All right. And then just a clarification on your dividend buybacks -- share buybacks. Last March, you announced the $15 billion multiyear repurchase program, of which $8 billion was for '11. That was subsequently bumped up to $9 billion, theoretically, $6 billion remains. Do you have clearance do that in the early part of this year or do you have to wait for the CCAR?

James Dimon

Well, the CCAR is what will allow us, we're going to be told what we can buy back in terms of stock or not. We've applied. So we're going to response in March 15. So you'll know on March 15 what we know, to get what's opened.

Douglas L. Braunstein

That's a board authorization, and obviously, we'll...

Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division

Not Fed. The board, not Fed..

Douglas L. Braunstein

Right. That's a board authorization. We'll adjust it to whatever we're announcing in March.

Christoph M. Kotowski - Oppenheimer & Co. Inc., Research Division

All right. And then I'd just to turn it back to Jamie to see if he has any, if he wants to share any other thoughts about the regulators.

James Dimon

Please, don't say that. I'm not mad [ph] some of the regulators, more of the inconsistent policy to certain regulatory policies, certain government policy and the so-called objective to get the economies of the world going again. Those are inconsistent. You guys should write about that. So they are inconsistent and it's too bad.

Operator

Your next question comes from the line of Nancy Bush with NAB Research, LLC.

Nancy A. Bush - NAB Research, LLC, Research Division

A little bit about regulatory inconsistency. Jamie, would you just speak to the Fed's sort of white paper on the mortgage market that came out a couple of weeks ago? And then Governor Rankin came out and blasted the mortgage servicers and said that principal write-downs remain on the table, et cetera, et cetera. I mean, what's going on with the Fed?

James Dimon

Look, I don't know. Look, everyone wants to get the mortgage market healthier, and I think the Fed in that white paper also showed that costs are higher than they should be, the mortgage costs. If you reduce the mortgage costs, it spreads over 10 years and stuff like that could be, I've got the number 30 or 40 basis points cheaper and I agree with them. It's not going to happen, if you can't foreclose on homes, it's not going to happen if you don't have RMBS. So it's more of a -- you need a holistic approach to get it all done. So I'm not -- and I think the Fed is right that there should be a holistic approach and we put in the press release that we put up 1.2 million mortgage modifications, okay? And that we've actually completed 400,000, and that we're making 765,000 mortgages a year. So with all due respect, we're making mortgages all day long, which sounds that [ph] GSEs, we want to be in the business and the servicing side, mistakes were made, they're being fixed, we're paying for them and we should. I'm not -- we should pay for the mistakes we made. But let's keep the mortgage market active. I mean, we did see Ally say, they're not going to do mortgages in Massachusetts any more because of certain litigation there and stuff like that, that's not a good thing.

Nancy A. Bush - NAB Research, LLC, Research Division

My second question would be, you mentioned share repurchase quite a bit in your comments.

James Dimon

But I also don't agree with some of that principal forgiveness would be, end all to be all, okay? There are 75 million homes, 25 million don't have mortgages. Of the 45 million still with mortgages, 4 million more of those mortgages are having problems. And we're working through those. Those who can't afford to stay in their home, the loans in effect could be written off and forgiven, okay? And millions of mods are being offered. All the banks do as aggressive as they can, and all the key [ph] banks are geared up trying to handle just the raw amount of defaults and stuff like that. We support HARP 1, we support HARP 2, we supported HAMP and we're doing our own mortgage modification on top of that, right? I think -- I mean, we want to see a recovery in the housing markets. We will do anything we can to get a recovery in the housing markets.

Nancy A. Bush - NAB Research, LLC, Research Division

Well, did you regard the white paper as helpful or, I mean the commentary that came after it seemed distinctly unhelpful to me.

James Dimon

Look, I don't remember the commentary that came after. I think some of the things in white paper were interesting. If I was the powers that be, I've already said this, I would convene all the people involved in the business, I will close the door, I'd stay there until we resolve a bunch of these issues, so we could have a more healthy mortgage market. I think if you had RMBS, if you finish scheming the game, if you changed reps and warranties, if we made -- if we figure out how you deal with seconds and firsts, you could fix all this if someone was in charge. No one is in charge.

Nancy A. Bush - NAB Research, LLC, Research Division

Okay. I want to ask about -- you've mentioned share repurchase several times today, but not, you haven't mentioned dividend so much. So I mean, is this -- do you see extraordinary situation right now in your stock price where this year, dividend would take a backseat to share repurchase because of the stock price?

James Dimon

Look, I don't know. When the board -- look, when we started them, I'm very consistent that we hope to do a little bit of increase every year, that's what we hope to do. When the board talks about it, they're going to decide what that number is. I don't think it's that critical to our company. You're talking about small numbers relative to all these other things.

Operator

Your next question comes from the line of Brian Foran with Nomura. It seems that question has been withdrawn.

Your next question comes from the line of Christopher Wheeler.

Christopher Wheeler - Mediobanca Securities, Research Division

It's Chris Wheeler from Mediobanca here. A question on risk-weighted assets, on the Basel III if I might. I think if I remember rightly, you were talking about uplift of about $180 billion from Basel I to Basel III. Out of that

$180 billion, I wondered if you could give me some flavor as to -- of actual mitigation, sorry. How much of that mitigation has already been achieved? Because obviously we can't see that given you're still reporting on Basel I. Perhaps a flavor for what the nominal asset value is behind that. And then also perhaps what timetable you set yourselves in terms of running that off as you move towards obviously getting there sooner rather than later. And then finally, perhaps how much of that is going to be active and how much of that is going to be passive mitigation.

Douglas L. Braunstein

Okay. So the numbers today, about $300 billion in uplift and what we've said is we're going to bring that number down. It's really going to be 2 things. One is we just have natural portfolio runoff across the businesses and that's going to reduce RWA.

James Dimon

After we ended things.

Douglas L. Braunstein

And the second is, there's just model implementation, and that's again, we're just literally inputting the data that's required in order to have a somewhat different treatment than the standard, that's going to just take time. We're going to do that over the next 2 years and you'll see that roll through the numbers over the next 2 years.

James Dimon

It's normal modeling, it's nothing special. It's normal modeling that was expected of the Basel III but we just haven't built yet.

Christopher Wheeler - Mediobanca Securities, Research Division

But sorry, I'm getting a bit confused here. You're saying $300 billion of uplift is your expectation.

Douglas L. Braunstein

No. There is $300 billion of difference today, the Basel I numbers.

James Dimon

Just start Basel III. Basel III is $1.5 trillion. It's going to come down how much?

Douglas L. Braunstein

It'll come down over time another $100-ish billion.

James Dimon

Right. Per his model and per his runoff.

Christopher Wheeler - Mediobanca Securities, Research Division

You're saying virtually none of that is going to be active, it's by model and it's by...

James Dimon

No. We will then we will actively do stuff, too. Believe me, we'll very actively do stuff. It's just not...

Christopher Wheeler - Mediobanca Securities, Research Division

What is the -- give me a rough idea what the number behind that because that's one of the sleeking factors here, you touched on that earlier.

James Dimon

Behind which one?

Christopher Wheeler - Mediobanca Securities, Research Division

The nominal behind that $100 billion of runoff of risk-weighted assets as you were talking earlier about 1,000% uplift, so some of the RWAs or some of the assets you were looking at earlier. I wondered what the nominal was behind that $100 billion of mitigation.

James Dimon

Okay. Let's do this again. Let me do this the last time. We are running off of 100 -- there's a $100 billion of RWA loans or high RWA asset that we're not going to regenerate again, that are going to run off the books. There's nothing we need to do. That includes high RWA loans and includes all these mortgage loans that's running off. Then there are models, which we're just building which are normal modeling and stuff like that, that we're allowed into Basel III, which we'll do another whole chunk of reduction RWA. Do you have any chart right there?

Douglas L. Braunstein

The total of those 2 is about $100 billion.

James Dimon

Okay. $100 billion.

Douglas L. Braunstein

I don't know the exact -- we can get back to you on the exact nominal dollar amount, but a lot of it is in the mortgage portfolio. So it's pretty close to that number.

Operator

Your final question comes from the line of Brian Foran with Nomura.

Brian Foran - Nomura Securities Co. Ltd., Research Division

I apologize, I don't have a question. I don't know why that keeps happening.