Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third Quarter 2011 Earnings Conference Call. This call is being recorded. Your line will be placed on mute for the duration of the call.

We will now go live to the presentation. Please standby.

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. It's Doug. I'm going to take you through the earnings presentation. As you know, it's available on our website. We'll take questions after walking through the presentation, and then remember to refer to the disclaimer regarding forward-looking statements in the back of the presentation.

With that, if you turn to Page 1, for the quarter, we generated $4.3 billion in net income, $1.02 a share on revenues of $24.4 billion. There are a number of significant items for the quarter which we're highlighting upfront. I want to discuss each of those in more detail actually when we get to the businesses in the presentation.

At the bottom of the page, you'll see we ended the quarter Basel I and Basel III ratios of 9.9% and 7.7%, respectively. And that's after the impact of repurchasing $4.4 billion of JPM shares and warrants in the quarter and that completes our previously approved repurchase authority of $8 billion.

It's worth noting a number of items this quarter for credit. You see our loan loss coverage ratio is 3.74% on total loans. Firmwide reserves remained essentially unchanged quarter-on-quarter. From a loan growth standpoint, we saw loans grow across the Company's $7 billion and that's despite the run-off we see in our home lending portfolio.

We had meaningful year-to-date growth year-over-year in our small business originations up 71%, middle market balance is up 18%, trade finance up 70% year-over-year, just some examples of some of the strength in various categories. We also experienced significant deposit growth, $44 billion, quarter-on-quarter, total deposits up $1.1 billion and deposit growth year-over-year up 21%. Finally, return on tangible common equity is a circled number on the next page of 13%.

And with that, I'd ask you to turn to Page 3 in the Investment Bank. Results secured were clearly impacted by the challenging market this quarter. We have circled net income of $1.6 billion, that's on revenues of $6.4 billion.

IB fees in the quarter of $1 billion, down 31% year-over-year, largely driven by the challenging capital markets environment. On an absolute basis, it was our weakest IB fee quarter since the third quarter of 2005. But having said that, we did maintain our number one market share in terms of fees, and we also had very positive league table results, which you could see in the appendix on Page 21.

Markets and CPG results, as you know, from the upfront highlight include a $1.9 billion in DVA, and that largely resulted from the firm's credit spreads widening this quarter. They actually more than doubled in the quarter. Now if these spreads reversed themselves, we'd ultimately book losses, neither the gains nor the losses related to the underlying operations of the Company.

So if you remove $900 million in DVA, that's associated with structured notes, fixed income revenue would be $2.8 billion, down 34% quarter-on-quarter, that largely reflects lower results in our credit-related products and that was offset by solid results in our rates and our currency businesses.

Equity's revenue of $1 billion, down 9% quarter-on-quarter, that's driven largely by the volatility, I talked about lower volumes and the continued deleveraging of our prime service customers. $578 million you see in the credit portfolio, remember three parts here; NII and fees to retain loans. We had $1 billion DVA gain in the credit portfolio, and that was largely offset by a $700 million CVA loss after hedging, and that's again as credit spreads widen for our counterparties, CVA increases as well.

Expenses in the quarter of $3.8 billion, that's down 12% quarter-on-quarter, up 3% year-on-year, and you see the comp to revenue ratio of 29%. We continue to expect to remain full year in the range of 35% to 40% comp to revenue ratio. And before I talk about 4Q, I just want to step back. So if you – and everyone will adjust differently.

If you adjusted out the complete impact of DVA, net income in the quarter would be about $500 million. For those that adjust DVA and CVA, net income in the quarter would have been $900 million, and others are going to make different adjustments as you go through your analysis.

The final comment I'd make on the fourth quarter for the IB is, given current markets, it's not unreasonable to expect that the fourth quarter is going to look very similar to the third quarter.

With that, let me turn to Page 4, just a quick note here. This is consolidated RFS. Circled net income of $1.2 billion on $7.5 billion worth of revenues, and I want to dive into each of the businesses.

So, if you turn to Page 5, our Consumer & Business Banking business, that's the retail branch in Business Banking business recorded $1 billion in net income. That's up 22% year-on-year. Revenues were up 6% year-on-year, and if you want to focus on the highlights, deposit growth up 7%, Business Banking loan growth up 28% year-on-year, actually the pipeline there remains very solid. And all of that in revenues was offset by lower deposit spreads we saw year-on-year.

Expenses in the quarter up 2% year-on-year, and that really is the continuing investment spend. We opened 60 branches, 123 chase private client branches this quarter, and we’re going to continue that investment.

And then the final comment is the impact of Durbin, which as you know took effect October 1st. We continue to expect revenues on an annualized basis from Durbin to be $1 billion plus or minus. We expect $300 million in the fourth quarter versus the third quarter run rate, and that’s an elevated amount due to the timing of when we ended some of our debit reward programs.

Page 6, Mortgage Production and Servicing, you see net income of $200 million. That’s compares to $25 million in the prior year. Production revenues, we’ve broken out Production and Servicing, so if you go to top Production revenues excluding repurchases were $1.3 billion. It’s down year-over-year but up quarter-on-quarter largely on the back of $37 billion of originations and the improved margins sequentially. Repurchase losses in the quarter you see $314 million. That was below our expected run rate, but we do expect losses to remain at $350 million plus or minus a quarter, but they are going to vary due to timing differences around settlements and the like.

Servicing revenues of $1.2 billion, down 10% year-over-year, and that’s been driven by the decline in third-party loan service and that’s been partially offset by reduced amortization year-on-year and that reflects the revaluation of the MSR asset we took in the first quarter.

Servicing expense $866 million this quarter, up almost $300 million year-on-year. Approximately, two-thirds of that expense is default related and we expect that number to continue remain elevated, likely to be up actually slightly in the next several quarters.

Page 7, the real estate portfolios, a loss of $70 million on lower revenues of $1.2 billion, that is a function of the decline in NII and that's a function of our portfolio run-off. We talked about that, $27 billion loan declines year-over-year, $6 billion quarter-on-quarter. The expenses are also down 7% year-on-year and you'll see the note, that's due to a temporary delay in foreclosure activity. We do expect FAE expense to increase $20 million to $30 million per quarter as that activity resumes.

Page 8, the Mortgage Banking portfolios, just a little deeper dive on credit. You see circled net charge-offs for the quarter of $900 million, and that's a modest decline versus the prior quarter, but delinquency trends really flattened at the end of the third quarter. We've got, as you know, the additional detail on delinquencies on Page 19 in the appendix.

And given that flattening and the ongoing uncertainty in the environment relative to HPI and other items, you'll see we made no changes in our allowances either for our non-credit impaired portfolio, which remains at $9.7 billion or our PCI. You'll also see our guidance remains unchanged at $1.2 billion few plus or minus, but it's fair to say that if the current environment remains stable, those losses could clearly be modestly better next quarter.

And then just a quick update on sensitivity for the portfolio. So, if you had a 10% decline in housing prices from today. For the NCI portfolio, that would imply a modeled loss of $700 million over the next year. For PCI, given that's a life of loan, it could add $1.5 billion to existing reserves, and you should note that the current mark on that portfolio already assumes a 4% decline, so that would be an additional 6% decline beyond that. Obviously, given where current conditions are, we feel our reserve levels are appropriate.

Page 9 Card Services & Auto. This now reflects the combination of auto and student lending that we transferred from RFS and you'll see in the supplement the restatement of all of that information. Circled net income of $850 million, that's on revenues of $4.8 billion. Credit costs in the quarter were again the story, of $1.3 billion. That included a $500 million reserve release in card that was offset by $130 million build in student lending. At the end of the quarter, total allowances for card are $7.5 billion.

So if you're focusing on the Card Services number and you look at Chase portfolio drivers of performance, I'd start with credit. You see the circled number at the bottom of the page, 4.34% charge-off rate in the Chase portfolio, that's an improvement of almost 100 basis points over the last quarter. We also think net charge-offs could modestly improve again next quarter from the current quarter, but after that, you shouldn't expect much additional improvement.

Sales volume, you see, is up 10% in the portfolio year-over-year, 2% quarter-on-quarter. Outstandings, while they declined 6% year-over-year, actually leveled off quarter-on-quarter and that's a positive trend, but I will caution that payment rates for the portfolio still remain very high. And if you add all that up on card, pre-tax pre-reserve is up almost $1 billion year-over-year, $700 million for this quarter, and that includes significant growth in our marketing expenses that you see running through the expense line in this quarter.

Auto, the performance of auto again was solid this quarter. We had almost $6 billion of originations, and we do believe we're going to continue to grow and invest and manage this business for what are very attractive returns.

Page 10, commercial bank, circled net income of $570 million. That's on revenues of a little under $1.6 billion. Revenues were up 4% year-on-year, that's the same story we've been talking about the commercial bank, which is growth in loan balances, growth in liability balances, in fact, the $180 billion in liability balances is a record this quarter, and that growth is offset by the spread compression we continue to see in our liability products.

On the loan balance side, you see $107 billion circled. That's up $5 billion quarter-on-quarter, $9 billion year-on-year. It's our fifth consecutive quarter of loan growth. Middle market balances, which I said were up 18%, that's our sixth consecutive quarter of loan growth in the middle market, and that's been a combination we think of modest demand increases, as well as market share gains. Just, I will note that utilization rates still do remain reasonably constant and low relative to history. A part of that is that those cash balances reflect very healthy balance sheets on the part of those customers.

Expenses were up slightly this quarter. That reflects the build-out of our WaMu footprint states. Just as a measure of performance, loan balances and liability balances are each at about $2 billion, up almost 100% year-on-year, respectively. And then you see credit trends continue to be favorable, declining net charge-offs this quarter and declining non-accrual loans.

Page 11, Treasury & Securities Services, you see circled net income of $300 million. That's up 22% year-on-year, but down quarter-on-quarter. Revenue growth of 4% year-on-year, that was 7% growth if you exclude the impact of the transfer of the Commercial Card business to credit card, we did. And the quarter-on-quarter decrease in revenue is a function of the seasonality we see in our dividend seasons in 2Q and 4Q.

If you drill into the revenue growth, really it's driven by a number of factors. You see the circled liability balances. Those are up 40% year-on-year, almost $100 billion. Very solid non-U.S. revenue growth in this business, up

16% year-on-year. We continue as a function of that growth to build out our GCB Banco footprint and our product capabilities. Trade loan balances were up almost 70% year-on-year to $30 billion, and all of that continues to be offset by the same spread compression I talked about in the Commercial Bank. Expenses here were up 4% year-on-year, and that’s driven primarily by non-comp related expenses, as well as the expansion I talked about before.

Asset Management, Page 12. This is a business that was clearly also affected by volatile markets this quarter. You see circled net income of $385 million. That’s down 8% year-on-year, 12% quarter-on-quarter. Revenues of $2.3 billion while up 7% year-on-year are down 9% quarter-on-quarter, up related to those market conditions, and again, this is a business that we’d expect to see continued pressure on revenue in the fourth quarter if the current market conditions persist. Long-term flows here also slowed materially this quarter, and that reduced the benefit of that mix shift we’ve experienced over the last several quarters. We also continue to see outflows in liquidity products as well this quarter.

Expenses were up 21% year-on-year, and that's due to a non-client related litigation matter as well as the continued investments we’ve talked about before. And you see that impacting our pre-tax margin reported 21% in the quarter. If you excluded the impact of litigation, margins would be 26% this quarter, but still down quarter-on-quarter and year-on-year.

Page 13, corporate and private equity. These results were also affected by market volatility. Private equity, you see a loss in the quarter of $350 million. Majority of that's driven by mark-to-market losses in portfolio positions, but we also reduced valuations for companies that were experiencing operating performance weakness, and that contributed to the result as well. Remember, going forward, these results are going to continue to be lumpy and they’re also going to continue to be impacted by markets and market levels.

Corporate, there was a loss of $300 million. It was a function of three things, the challenging trading environment impacted our mark-to-market positions and that was partially offset by higher security gains. We had lower NII, and that's really a result of the repositioning of the portfolio. We’ve talked about that for a number of quarters, but the security gains we took last quarter lowered NII this quarter. And then we also took $1 billion in litigation expense predominantly related to mortgage matters, and you see that in corporate for the quarter.

The other comment I’ll make here is that, given the current environment and given our positioning, and given reinvestment opportunities, we do expect corporate excluding private equity to basically be zero plus or minus in the fourth quarter, and I think Jamie will talk a little bit about '12 guidance later. I think I've covered much of Page 14, in fact all of 14, all of 15.

So with that, maybe, Jamie, I can turn it over to you?

James Dimon

Thanks, Doug. So hello, everybody. Let me just cover a couple of quick things, and then we'll open up to questions and comments. Page 16 has a page called Comments on 2012. I just want to point out to you, as usual, we focus on the negatives and the issues and not the positives. We have great franchises. Doug mentioned some really outstanding numbers.

Small business loans up 71%. Middle market loans up 18%. Trade finance up 71%. Deposits, retail up 7%. Deposits, commercial bank up something like 30% or 40%. I won't include TSS because some of that maybe a little a flight to quality, but up $100 billion, unbelievable liquidity. So we feel very good about all the things. But having said that, just a couple of quick comments.

Investment Bank, we say hard not to be cautious. I'd say that right now, nobody knows what's going to happen tomorrow. So, I've seen markets like this where things stabilized, Europe does some big and things take off. There are fairly large backlogs. We'd pointed that our backlogs are very deceptive, but you can't look at these things and not expect maybe go a little bit longer.

We have no major layout programs. Obviously, the Investment Bank will be trimming its sales a little bit, getting it tied and there are some benefits we are getting from, rolling in some new products or systems. So we expect to see the headcount going down, but no major layout programs. Asset Management, obviously, dependent on market levels, but we continue to build the business and even this quarter had net inflow. We don't know about the people yet, but I think that's probably pretty good.

Consumer & Business Banking, Doug has already mentioned Durbin. This $600 million is the same as the other $1 billion you saw, this is just after-tax. This is the actual revenue effect minus what we've already done, but not including what we might do. So, we're looking at product, services, how we want to do it, how we're going to price it, and try to be little creative and smart and do something really neat.

So, we're just saying that that one thing alone is that, there may be other size to that one. There's a little bit of spread compression given low interest rates, but if all things adjusted for now, which is kind of reinvest at the same duration, et cetera, it would impact net income by $400 million. I just want to point out that's purely up to us. We can do that or not do that, it's really longer-term rates, and this is the effect of and we can wait or not wait, and so this is part of our decision.

Commercial Banking and Treasury & Securities Services, their margins just below kind of as long as rates stay low. So, they're kind of positioned to benefit from rising rates when if that happens. Our quarterly net income, Doug already mentioned, I would say, Private Equity, if things stay like this, we shouldn't expect any profit this quarter. So just to point out, we haven't really spoken about it before, part of Private Equity is mark-to-market, part of it is mark-to-model, which means mark that PEs and stuff, so that you can think of it. Several billion dollars are in effect mark-to-market pretty much.

And then obviously, in corporate also, these are firm decisions, depending how long we go in duration, depending on how much risk we take, depending on how much the rest of the balance sheet, we will decide when and how to use some of our firepower to create more income. We're just talking about the negative part right now.

Reserve release, I mean, I think it's been pointed out by several people already that we didn't take reserves down. We're fighting not to take them down. We may not be able to not take them down, but obviously we operate over a bunch of accounting rules, but our predilection right now is, with delinquencies kind of flattening out, there are some good signs and some bad signs there; it's all over the place. We would rather just leave them up until we have to take them down. So, don't read anything inside other than we're just trying to be conservative here.

We are going to spend a lot time literally in next six and nine months particularly to build our budgets, dealing with regulatory issues. So what we want to do is build in at the product level and legal level, liquidity, capital, G-SIFI, whatever we have to deal with, so we can properly price and manage our businesses going forward. I do think it will have effects on our whole budget areas, and we haven't calculated yet, now but if I had to guess it's going to have $0.5 billion overhead over time as we put all these systems reporting in. I want to point out that I think some of that's a waste of money, but that's life, we simply have to do it.

And the last point on the other, I gave one issue on business issues about branch build. I think we have built 250 branches this year. We indicate we might do more, it's possibly not now. But we'd be looking; we look at lot of business issues. Take branches, for example, with NSFOD changing, with

Durbin changing, with FDIC charges changing, some branches the margin are no longer great. So we probably will reduce a little bit of the branch build strategy.

We still need to build branches in certain cities and particularly California, Florida to build out our footprint, but we will modify that and we'll report back to you when we have that, but I would say the same thing about lots of products and services and issues, we are going to be taking a look at them. I am not expecting anything dramatic, but obviously there are a lot of issues there, we are making so many changes all at once.

Capital generation dividend, obviously our Board decision. Probably we will take that up at the turn of the year. I'd like we just see it do it kind of steady every year but not much more than that, but we are continuing to invest in organic growth. But there are a lot of issues, and a lot of analysts have raised it as, which ones might you rethink, let me back in that. So the areas we know that’s building out, they’re the areas that you look at how aggressive, what the price would be and whether it still makes pretty much sense before. But organic growth is an important thing, you can’t stop-start. High-end private banks are training people, build these systems. So we'll be certainly doing some of that. In the last box, which is kind of box that says meeting regulatory requirements and stock buyback.

We’ll have enormous capital generation, but we are trying to figure out, I'll call it, capital confusion. We have a lot – it's hard to tell what we’re supposed to do, how we’re supposed to do it and we'll be figuring it out having conversations with regulators. At one point that capital generation will be used totally to do what makes sense for shareholders.

The question is how quickly we want to get to where you need to be and there are other things like there are new rules coming, risk-related assets models, models versus European companies, what mitigations we wanted to – some mitigations will take place from run-off, some we can do more actively, but it would cost us a little bit of money. Why do it quickly if it would cost you money.

So we're going to be talking more about this as we go forward and obviously, if you want to make the point, we spent the whole $8 billion buying back stocks and yes, we’ve been why is there a wait, we’re sorry. And with that I will open the floor to questions or comments. I am sorry page 17.

Page 17, we try to make this simple. But I – Cramer, if you are on, Jim, I gather we didn't do a great job at it. So here is I'm going to take us into top. AFS securities, these are held by treasuries or by CIO, we’ll set deposits or other things we need to do, that’s a liability management. The $3.7 billion if you marked, it would be about $3.4 billion. It's mostly sovereign exposure in the five countries mostly obviously, Italy and Spain.

Let me go back to potential loss for a second. Trading $8.7 billion includes $14 billion of gross loan derivatives mainly offset to other side. We've got collateral, which is mostly cash $6.7 billion against that. Sovereigns do not post collaterals, so a lot of the remaining exposure is sovereign exposure, so think of it as 65% to sovereigns.

Lending, the $7.9 billion is almost all corporate or bank. It's 75% corporate and probably about a little more than maybe 80% corporate and 20% bank. Some of those banks by the way are very good banks. So we are not that worried about it. So, we actually look and a lot of us playing in corporate as a large global multinationals. So and this number obviously bounces around the true value change and mark-to-market change, and the collateral changes, but the $15 billion as we’ve been managing to (inaudible).

If you said, if everything goes terribly and these countries default and the loss given default is 10%, 20%, 30%, that’s when we came up with $3 billion after-taxes, its $5 billion pre-tax. So, you can do it yourself and go across the top, how much would you lose in the government security if they default and they got restructured. And by the way, there are other offsets and other positives not exactly on this page and we can manage these exposures. So the reason we’re doing this is because we do business with these countries.

And again, I mentioned capital confusion. I mentioned banking confusion. I mean obviously, we’ve been doing business in these countries for 100 years. A lot of these clients, you can’t say it will be your bank one day and the second thing is get tough for the way the next day.

So we think we’re earning some points. We’re helping some companies. We’re helping a few other banks, and we hope that countries appreciate it. And so we’ve decided to take the risk. Obviously, we can change and pretty quick notice if we wanted to, and we still think it’s the right thing to do. I still don’t expect the worse case in terms of our charge-offs in any event.

So, I will stop here and open the floor to questions and comments for Doug or myself.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from the line of Jason Goldberg with Barclays Capital.

Jason Goldberg – Barclays Capital

Jamie, I was hoping can we just flush out some of the buyback and capital commentary. I mean, as you mentioned confusion, you've obviously exhausted the buyback for this that you said for this year? Is there ability for you to do more and now are you going to wait and wait for probably next year or do you have to wait beyond that?

James Dimon

I think the way the fed had set it up is that you can request and as we go through our budgeted stuff, we are going to decide what to do. What we used and we usually already had permission for, and like I said, we have a lot of capital generation. The only question is, when and how you use it. And how quickly you want to get up to the higher Basel III numbers, and do you want to get up to there just by retaining capital or by waiting for mitigation and things like that. So, we'll be back to you on that as there are a lot of issues around them.

Jason Goldberg – Barclays Capital

I guess on last quarter's earnings call, it seemed like you are going to kind of leg into these new capital requirements and you're kind of continuing with the buyback, and now it seems like a change in tone. Just curious if there is anything in particular driving that?

James Dimon

I think that you are picking up a real change in tone. I think the fact is, we don't know what the rest of world is going to do. It's a little confusing about it, and I think the regulators need to give, not just JPMorgan, but the banking industry a little more guidance. Do they really mean you can leg into this over seven years or do they really mean they want you to do it right away? We could probably do it very quickly if you wanted to, I'm not sure it's the right think for the system.

Jason Goldberg – Barclays Capital

And then, just trying to Volcker we got some more guidance late last week and this week. I guess your initial interpretation of what Dave put out, the overall impact either in dollars or direction in terms of your businesses?

James Dimon

Yeah, so let me take you to the most important thing, the United States has the best, deepest, widest and most transplant capital markets in the world, which give you, the investor, the ability to buy and sell large amounts at very cheap prices. That's a good thing, and I wish Paul Volc understood that. Okay now, we understand why there's no proprietary trading, that was fine.

And these are like, well, I read them all like 178 rules or reporting and compliance around what's profitable market making. We have to be in the position to do profitable market making for our clients; most of our businesses are in market-making. And so this can be commentary, I think the commentary is going to come from the public, which includes you. I hope all of you in this call understand how important it's not just for your business but the future of the United States.

And we hope at the end of the day, we will be able to make mortgage freely. If American companies they have put a huge disadvantage to foreign companies, now this is just we were told that everyone is going to adopt this which we know is not true, but now we'll even bigger deal. So to me we got to keep all these things in mind and make sure it ends up in the right place. And we will be giving our comments to regulators and I assume a lot of you will too at one point.

Jason Goldberg – Barclays Capital

Any chance to kind of put a stab in terms of dollars or range in terms of what the impact would be kind of go forward if you implemented it today?

James Dimon

It's impossible to tell, because these are just comments and rules and requirements, and it cuts across all of our parts of our company. So they seem to be more prescriptive. I would have preferred to keep it simple, high capital it's a number of really double and triple capital and liquidity on trading and proper reporting and disclosure, but this is little more prescriptive and may make a little bit hard. Let's get to work through the process before we have too many comments about it.

Jason Goldberg – Barclays Capital

Fair enough. Thank you.

James Dimon

You're welcome.

Operator

Your next question comes from the line of Ed Najarian with ISI Group. Mr. Najarian Your line is open. Please go ahead with your question. The question has been with drawn. Your next question comes from the line of Glenn Schorr with Nomura.

Glenn Schorr – Nomura

Thanks very much. So, Jamie on your commentary around the Euro-5 is helpful, but lately whether it will be valid or not there has been some massive concerns around some of the other parts of the continent. What's the key message that we should come away with, A, your exposures to some of the other big areas such as France was a level of concern for people? And then, more importantly, how do we move forward here? What needs to happen in your view to gain confidence back that the banks that have enough capital that were not in a never-ending spiral here?

James Dimon

Okay so, we talk about other Europe – the big European countries, okay, obviously, the exposure to France, Germany, U.K. bigger than the ones in Italy and Spain. Large parts have also large corporate. So, keep that in mind, plus the sovereign credits are fine. It's a whole different issue. The real issue you're talking about is not separate. If you go to the bank, they obviously do business with the banks.

A lot of the global market counterparties, which we track and monitor very carefully those exposures. Most of our exposures, not all, but most of our exposures global market counterparties are collateralized, sometimes with a bucket and sometimes we have other treasury exposures, something like that. So, a couple of rather large, but not one of them would make me lose my and because of a direct layering we may (inaudible).

Most of them are in the couple of hundred million dollars, net, net, net, but remember, those bounce around, derivative exposures bounce around. We'd also think most of those banks are actually quite sound. They have capital, they've got liquidity, we think they'll get some kind of – if they needed some kind of support so which needed in Europe or are you talking about the United States?

Glenn Schorr – Nomura

Europe?

James Dimon

Okay, Greece eventually has been ring fenced and restructured, but you don't want to do that disorderly. So you don't cause a problem elsewhere. Eventually, you go by using ECB, ECFS and statements that Italy and Spain are solvent, they just need a liquidity help, which is by the way is true. We believe they're quite solvent. If they had their own central bank and they could print euro, we wouldn't be having this conversation at all.

As you know, they can't print euro, so they have central banks, but they can't print in the euro currency, so, it affects ECB or someone else who is standing as the central bank's private liquidity. I think to do that you want other countries, France and Germany, be very comfortable about, I guess the final point is that is some kind of restructuring of the treaty so people feel that they are not continuing that no one is continuing to take advantage of a system that is flawed, I think it's all reasonable.

And finally, I think it's some kind of national programs for TARP that support banks to need help, that's kind of build to suspend this with other stuff, but you obviously might see that too. If you need all those things, this crisis will be over. It's complex to get 17 nations involved in it, so I am not saying it's simple and when I was the politician, it sounds me to have the will just as hard to find the way.

Glenn Schorr – Nomura

Yeah, understood and then maybe Doug one for you more technical one. On Page 42 of the supplement, we've seen a big jump up this quarter in some of the repurchase demand buckets by certain vintages in '05 and what was surprising is even the post '08 stuff. And I guess my question in there is, is that the same GSE monoline stuff that we've seen, or is new player in town with the FHA, any color around that would be great?

Douglas L. Braunstein

It's the same that we've seen, but remember Glenn, it's just going to be lumpy and that's in part what you are seeing, but you did see both demands as well as unresolved demands go up quarter-on-quarter.

Glenn Schorr – Nomura

Is the FHA going with the GSE playbook, and do they have the same rep and warranty?

Douglas L. Braunstein

The FHA issue, is it different issue, and that really that relates only to our Chase activity because that was really the only, Chase was the only real counterparty with FHA on that, and that issue is one we're going to continue to watch. We don't think we have issues there, but you don't see that reflected in these numbers here.

Glenn Schorr – Nomura

Okay, thanks very much.

Operator

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

James Dimon

Ed is back.

Edward Najarian – ISI Group

Can you hear me?

James Dimon

Good morning Ed.

Operator

Ed your line is open. Please go ahead.

Edward Najarian – ISI Group

Can you here me.

James Dimon

Yes.

Edward Najarian – ISI Group

Okay thanks. Okay sorry about that I apologize. Yeah so my question has to do with your trust preferred securities. I think you have nearly $20 billion of callable TruPS, and just wondered what your thoughts are about calling them and the timing of calling them?

James Dimon

Go ahead, Doug?

Douglas L. Braunstein

So there are number of those that would make economic sense for us to call, they are callable as a function of a regulatory event, and we would expect to see that regulatory event clarified, and to the extent that it makes economic sense for us to do so, we'd then call them.

Edward Najarian – ISI Group

So, should we potentially think about you calling those sometime next year, perhaps?

Douglas L. Braunstein

I think the ones that make economic sense for us, there are some that are very attractive financing over the long run for those that make sense for us to call, because they are not attractive. Well, we expect to have the ability to do so.

Edward Najarian – ISI Group

But as we read, what you referred to as the regulatory event that, you know it looks like it makes them callable, you agreed that that makes them callable I hear there is a correction?

Douglas L. Braunstein

Yes.

Edward Najarian – ISI Group

Okay, thanks.

James Dimon

Different people have different things in their notes. So that’s why some people were able to do it in a different way.

Edward Najarian – ISI Group

Okay, thank you very much. That was it.

Operator

Your next question comes from the line of John McDonald with Sanford Bernstein.

John McDonald – Sanford Bernstein

Yeah. Hi, Doug, question on the net interest income and spread compression. Could you remind us of that repositioning that you've been doing that you talked about in the last several quarters in the investment portfolio? And then just kind of at the top of the house, your outlook for net interest income and maybe the margin?

Douglas L. Braunstein

Yeah. So on margin, we saw it again this quarter, there were kind of three factors hitting NIM. You've got the increase in deposits and a lot of that is being kept short-term and so that lowers NIM, but it does increase NII. You've got a switch in our loan portfolio. We've got more corporate client loans and that changes the mix and as a result, the yield. And then the third and the most important is this repositioning and that's we have taken security gains that lowers our NII on a go-forward basis, and that's really repositioned ourselves, as Jamie talked about, for reinvestment when and if there is a rise in rate environment. In the interim, those reinvestment opportunities are short-term and low yielding.

John McDonald – Sanford Bernstein

What about any offsets on that cost of funding side in terms of lowering your deposit rates, your CDs, paying off longer-term debt? Is that kind of embedded into your outlook and just kind of a reminder, when you net all that together, how are you thinking about NII in the next couple of quarters?

Douglas L. Braunstein

Well, again, you will have offsets that you've seen from that. Let's start with how we're thinking about NIM. We continue to expect those things I just talked about to continue to play through. So you'll see more pressure on NIM. NII is in part a function of what balances do, what loan growth does and generally speaking, there are some pieces of the portfolio that we've told you all along continue to run-off, and so it's a function of what happens next to NII.

John McDonald – Sanford Bernstein

Okay. And then a follow-up on Glenn's question on the mortgage putbacks, it seems like you've slightly tweaked your outlook to maybe $350 million per quarter from $300 million on the putbacks. Just a broader – are you seeing a change in behavior from the GSEs in terms of their request where they're increasingly looking to putback loans that have been paying for one, two or three years and then go back? Is there a noticeable change in their behavior there?

James Dimon

I think that we have changed the forecast. It's about $300 million, $350 million. There has been a huge change in how they're doing it, but obviously, we're paying attention just like you are, a little bit. We've remodeled into our numbers to some of these factors anyway. So you really got to look in a different than what we modeled in. We've built $3.6 billion of reserves. At one point, those reserves have not been accessed while we started taking those down too.

John McDonald – Sanford Bernstein

And in terms of the WaMu, GSE exposure, you feel like you've substantially done covered in terms of putbacks for WaMu or GSE claims?

Douglas L. Braunstein

Yes.

James Dimon

We settled some of those upfronts.

Douglas L. Braunstein

Yes.

John McDonald – Sanford Bernstein

Some of its settled, Doug or its settled plus reserved right now?

Douglas L. Braunstein

That's right. For just the simple GSE putback exposure, yes.

John McDonald – Sanford Bernstein

For WaMu?

Douglas L. Braunstein

WaMu.

John McDonald – Sanford Bernstein

Okay. Last thing on the AG settlement talks. I understand this isn't done, but have you been taking reserves for potential financial penalties that might come out of that? And then on the other side, in terms of changes to servicing, have you been trying to get ahead of that in terms of adding costs to your servicing base and reflecting that in evaluation of the MSR even though that's not done on the AG side yet?

James Dimon

Let me give you a broad bend. First of all, we would love to have some kind of settlement. We think it's actually good for everybody to get some of that move on if it's reasonable, but there are 50 state AGs. It looks like its getting bogged down, so we'll see. We're here. We're available. We would like to work it out. But last quarter, we did take higher servicing costs, the MSRs. If you go back to last quarter's number, we've talked about it relating to the consent order and some of the default cost and what was the other question?

John McDonald – Sanford Bernstein

Just in terms of financial penalties, are you able to – you're building a lot of litigation reserves, I was just kind of wondering like what are the kind of – are you getting some of that in there?

James Dimon

Last quarter we put up $1 billion for a bunch of various items relating to a bunch of various items that we didn't disclose, okay, but separate from the litigation reserves.

John McDonald – Sanford Bernstein

Last quarter, and this quarter you did $1 billion of litigation reserves and that's for a host of things?

James Dimon

No, no. I'm saying separate in litigation reserves. We put up some reserves for a whole bunch of other items related to potential settlements.

John McDonald – Sanford Bernstein

This quarter?

James Dimon

Last quarter.

John McDonald – Sanford Bernstein

Right, last quarter, okay.

Douglas L. Braunstein

Last quarter and several previous quarters before that, so this quarter it's just litigation reserves.

John McDonald – Sanford Bernstein

Okay, okay. Thanks very much.

Operator

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

Matthew Burnell – Wells Fargo Securities, LLC

Good morning. Just, Doug an administrative question in terms of the CVA. When you're referencing the spreads that have doubled or slightly more than doubled over the quarter, is it correct to say that those are five years CDS spreads?

Douglas L. Braunstein

Yes.

Matthew Burnell – Wells Fargo Securities, LLC

Okay. And then, Jamie, you made a comment about.

James Dimon

Wait, it's not really. DVA and CVA are done by trades, so some are 1-year, 2-year, 5year, 10-year, but they are all – you may using averages of whatever the maturity of the derivative is the loan or whatever.

Matthew Burnell – Wells Fargo Securities, LLC

Right, but fair enough on a portfolio basis from the outside looking in, is the 5-year CDS spread a reasonable proxy for looking forward on those movements?

James Dimon

I think so.

Douglas L. Braunstein

Yes, it is a reasonable proxy.

Matthew Burnell – Wells Fargo Securities, LLC

Okay.

Douglas L. Braunstein

Certainly for DVA.

Matthew Burnell – Wells Fargo Securities, LLC

Right, just for DVA, correct.

Douglas L. Braunstein

For DVA.

Matthew Burnell – Wells Fargo Securities, LLC

Okay. And then Jamie, you made a comment about a branch growth, and if looking at the branch numbers in RFS, it looks like those are up about 128 year-to-date. You've talked about maybe not quite getting to the 225 number that you laid out in the Investor Day earlier this year. I'm just – is that really being driven not only by just the reduced fees that you mentioned, but also somewhat more cautious view of the retail banking environment, and does that mean that you might reduce your overall branch growth going into '12 and '13?

James Dimon

That's what I was referring to, because we obviously can't stop the fourth quarter, but if you look at the business, and you say okay, well, Durbin and as that student account is no longer profitable, you might modify where you build branches, how you build branches. We're still going to build them in certain parts of the country, because there's a lot of value in having market shares in certain parts of the country, but going forward, we're going to modify that branch when we've had a chance to look at the effect of all those things on new branch profitability.

Matthew Burnell – Wells Fargo Securities, LLC

Doug, a final question on the – you mentioned the payments rates on the cards business is up. It looks like at least from the trust data that that's up about 200 basis points year-over-year in September. Are you expecting continued increases of that type in terms of the payment rates going forward or just what's your expectation for payment rates going forward in the card portfolio?

Douglas L. Braunstein

I would expect it to go up. I mean, if we think – some of what we had is mix. If you look at the other people, they had it all go up a little bit too, but we don't expect it to go up from here, and then it looks like products. Some product is 90%, some product is quite a bit less.

Matthew Burnell – Wells Fargo Securities, LLC

Right, Okay. Thanks very much.

Operator

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

Guy Moszkowski – Bank of America Merrill Lynch

Good morning. One of the questions that investors have been asking a lot is with respect to the sovereign or European exposures, how can we get comfortable with the management of counterparty risk when a big part of the reduction in risks that you've got is by having essentially purchase protection from other parties, especially in light of what happened during the subprime crisis to a lot of people. So maybe you can refresh us a little bit on how you manage your counterparty risk in terms of diversification, developing more information on the creditworthiness, your counterparties, and maybe you can also tie that into the CVA charge that you had this quarter?

James Dimon

When its relating to the five nations, Greece, Italy, Ireland, Portugal and Spain, the 6.7, whatever the counterparty risk is, that is financial institutions to most part out, but it is not in those five countries. So it is on the counterparts, okay. And we do it name-by-name and person-by-person, yes, it's diversified and it's already in the numbers I gave you about the other banks. So we said that we have $100 million net exposure to X bank in Germany, it would include that counterpart exposure and for the most part, collateralized. So we feel pretty good about that, but obviously in a financial crisis these things (inaudible) down. You've got to look at your primary risk, your secondary and tertiary and all that, but it's done name-by-name, date-by-date and the CVA is just the mark-to-market on the receivable. So if we did our CDS to someone and they owed us $50 million, they're supposed to post collateral next day. So we take the $50 million receivable, we market it as the spreads go up to $55 million or something like that and getting more collateral. And so it goes every day. A lot of the counterparts or names you know, they are global market counterparties, some obviously reside in France and Germany, but plenty don't. I said, resides (inaudible) already in the exposures of those banks we're getting pretty much mark-to-market collateral everyday. We do have some exposures of banks aren't that way. So, with that particular thing, we do have mark-to-market everyday.

Guy Moszkowski – Bank of America Merrill Lynch

And can you give us a sense for how much of that CVA this quarter came from European issues as opposed to like monoline stuff?

James Dimon

It's the CVA – the CVA is every single derivative credit exposure. We have in the United States, Overseas, Europe, Asia, of any type of derivative. Okay. So I would get 30 percentage Europe and you can go country-by-country and so much is Asia, so much is the US, and if you go by ratings, a lot of those are highly rated counterparties. We also look at derivatives exposure not given any credit exposure, we go to USA. We're going to give Bank of America Merrill Lynch $100 million revolver, that's $100 million. We may give you a trade finance value of $100 million, which you use or don't use, and we may give you a derivative line, which is not just, what you all want it's also a stressed amount of what you all want.. All these things will be going to separate clearing houses soon or some of them will be over time.

Guy Moszkowski – Bank of America Merrill Lynch

That's helpful, thanks.

James Dimon

The world went through this huge crisis at these counterparties, and it was really a very select few we had failures. Most of the major brokers and dealers were able to manage their counterpart exposure rather well.

Guy Moszkowski – Bank of America Merrill Lynch

That's fair. Let me ask you just a question on cards. Obviously, we've seen solid growth across volume, metric, sales, and balances, but the marketing spend is up quite a lot both quarter-on-quarter and year-over-year, and obviously, we are seeing more competition in that space emerging, and everybody seems to want the same affluent client base. Do you think you are going to have to sustain this level of spending in order to sustain the level of growth you are seeing?

James Dimon

No. We look marketing as big as an investment, so there is a lot of analysis takes place, you can get a return on it. And it's not all don't think of that as all direct mail. That's online marketing, and we have a lot of partners like United Continental, Southwest Airlines, Hyatt, and so they have requirements, and so you see our ads in the paper all the time and stuff like that. So, it really is a wide variety of stuff and it's obviously a lumpy number. If you look at it year-over-year, it'd probably go up 10%, not like you've seen the 20% or 30% that was this quarter.

Guy Moszkowski – Bank of America Merrill Lynch

Got it, that helps. Thanks very much.

Operator

Your next question comes from the line of Paul Miller with FBR.

Paul Miller – FBR Capital Markets

Yes, thank you very much. Jamie, I think you talked about regulatory confusion. I think you guys are confused and we are confused, and moving back to the Volcker rule, there is a huge political process that has to take place before we get the final rule. But we keep on hearing that some companies including yourself are starting to implement some of these rules. Can you address when you think you have to implement it? Are they going to accelerate this stuff like they are accelerating some of the capital rules?

James Dimon

I don't know if they are accelerating things. We want to be prepared for the rules are and we are going to do the best job we can meeting all those regulatory requirements. So, we are getting prepared to like some things like LCR you know will be implemented, the calibrations may change over time, but the detail by type of deposit, by type of counterparty is something we have to do. So, some will start to build just to get ahead of it, Volcker rules, we've not started to build, because it just came out, but some of the requirements, like we already do. We're going to do exactly what they want, but we already do it, and we look at trading desks and all the Greeks and bars and age inventory and stuff like that.

So, they may have reported requirements, compliance requirements that'd be heavier, so we'll start to build some of that that we know is going to happen, and I think the Volcker rules are meant to be done by January, [congress] driven by January. And then, I guess there'll be some time after that. I think, by the end of this year, we're going to have a lot more guidance on a lot of these various rules and regulations and the coordination among them. We want to try to embed it in and how we run the business. So, we've not chasing our tails. We know exact what these things mean for our clients, our profitability, our trading desk, our loans et cetera.

Paul Miller – FBR Capital Markets

Then, on the Mortgage Banking side, the MSR dropped drastically. Now, rates dropped almost 100 basis points, and it looks like you had a net hedging gain to offset all that MSR loss. Can you just address that a little bit?

James Dimon

Well, the MSR, when rates go down and things refi, it’s like an (inaudible) drops dramatically in value. So, there's no surprise there. So, all in essence, we hedged it well. The drop in value was offset by the hedging we did, and the other thing is that the total value is writing off because of higher amortization and that $1 billion write-down from the last quarter, which we relate to higher servicing costs dropped by the MSR too, okay. So, rates went up 100 basis points. The MSR gross value go back to 7 to 10, and hopefully the hedge would – we're actually going to hedge at that point to take the gain, but that's all that is the constant adjustments to those models.

Paul Miller – FBR Capital Markets

Okay. Thank you very much Jamie.

James Dimon

Thank you.

Operator

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

Gerard Cassidy – RBC Capital Markets

Thank you, good morning. When you look at your net interest margin, your cost of deposits are about 63 basis points and you have been having an outstanding deposit growth. Your loan-to-deposit ratio continues to fall. How low do you think you can take those deposit rates down to, especially in line of the fact that Bernanke has said that he is going to keep short-end rates low until sometime in 2013?

James Dimon

You've got to look it by business because some businesses had results like you have to price certain deposits around the country retail competitively, some of the large GSF deposits are already gaining zero. They would not – waiting for them, they are coming to us and then we have got to pay the FDIC 10 basis points or something (inaudible). So it's really a little bit of everything, but yeah it is hard to go below zero, so that might get a little bit of margin compression here.

Gerard Cassidy – RBC Capital Markets

Shifting over now to the loan loss provision and your credit metrics obviously improved in the quarter, the net charge-off ratio declined, non-performing assets declined, but the loan loss reserve release in the provision being less than the charge-offs wasn't as large as it was in the prior three or four quarters. Is it more due to either loan growth? Or do you guys have a more cautious outlook now on credit?

James Dimon

(Inaudible) of course they are more cautious outlook category.

Gerard Cassidy – RBC Capital Markets

Is it more on the consumer side or are you seeing them on the commercial side?

James Dimon

I think it was both. If you go through the details in fiscal supplement, there loans to NPLs and loans to charge-offs delinquencies are very strong. I think it might be hard to keep them up here if it stays here, but it's hard I guess we said we have to be cautious now.

Gerard Cassidy – RBC Capital Markets

And then finally, just circling back to the European exposure. Do you guys have the gross euro exposure or is it just the net number that you have for us?

James Dimon

We showed you on that page. You can go to page 17, it shows us gross derivatives and net derivatives, Gerry. Is that what you are referring to? There are other exposures, which were fully collateralized and I have been through them before I want to go through right here.

Gerard Cassidy – RBC Capital Markets

Okay. All right thank you.

James Dimon

You’re welcome.

Operator

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

Betsy Graseck – Morgan Stanley

Right, thanks good morning. I just want to follow up on two things, one is the capital usage where you were discussing after say increasing dividends. If we're thinking about the dividend payout ratio, you have been hovering somewhere between 20% and 30% for the last couple of quarters, and 30% seems to be what the regulators are allowing at this stage. So are we talking about having an expectation where dividends are going to be going up in line with what you think your earnings growth is going to be able to generate? Is that how we should be thinking about the dividends? Then on the timing, do you think you are going to be able to make a change in dividend before the SICAR process, which is what January through March?

James Dimon

Betsy, honestly, we've asked that question, too, because the way the regulatory thing got upset, that is a little gap issue. So we're waiting for guidance on that one. I'll just wait until we find out. The Board will take it up. I think we are going to be consistent I don’t know it can be 30% to 40%, I think 30% was consistent growth, but based upon what we think the real earnings power of the Company is, not based upon just earnings.

Betsy Graseck – Morgan Stanley

Got it, okay so Board will make their decision in December, but then you have to submit to the Fed when as you as you?

James Dimon

I didn’t say December. I said at the turn of the year. We started the dividend in June, right, or April, before April.

Betsy Graseck – Morgan Stanley

Okay, got it. And then on the topic of expenses, you outlined a couple of different areas where obviously your overhead is going to have to go up probably $1 million or so if we took a guess. At the same time you are running through each of the business lines, with regard to what they can generate over time. I mean are you trying to – I am asking the question is, how you thread the needle, because you've been increasing expenses to take share, which you've been doing. Are you at the point where you need to tilt back towards profitability in line with what you outlined at Investor Day last year?

James Dimon

There is no change in strategy at all. We are still going to grow where we think we can gain share, build the very good business. There is always your expenses come before your revenues, but like in GCB, for example, we think it's working. And we are probably going to spend there.

Other things where I feel we have to modify, and there are whole products that we may not be in anymore, if we look at exactly how they function with capital and liquidity charges so, but we are going to be pretty tight expensive. We are not being relaxed. We are just adding where we need to add, and then we always expect to get improvements in sort of expense ratios as systems come on board, efficiencies, operational efficiencies. Doug mentioned the big one, we are spending, I think it was $800 million a quarter on servicing now with 65% is default servicing, that number is not going to stay up there for ever, but eventually that default servicing number may take couple of years but close to zero. And we also expect to make the front-end mortgage far more efficient too. So, we are always working in a more efficiency to help pay for some of these other things.

Betsy Graseck – Morgan Stanley

And then on the top line side, you talked about pricing, pricing for liquidity for G-SIFI buffer et cetera, can you talk through how you think you need to reposition the business in order to do that, if any, because some of your competitors will say, you are carrying a higher G-SIFI charge that you are not charging for today, but when you do, you are going to become uncompetitive, so how you deal with that challenge?

James Dimon

See here is the problem with the G-SIFI, okay. There are certain things we are not going to be uncompetitive, because we are going to be price in the market and get the business. If you're going to leave your money with us or them or processing business, then you're going to leave with us and then they are going to claim us unfair. We own more capital, we're going to win the business, because we are more sound, and which I agree with them, but I am not arguing their point. In other businesses, yes, we probably want to shut the assets, because some of those could hold it with things like, take consumer assets. If you can hold them with 7% and I have to hold it for 9.5%, I still might service, originate, hold the strip, I got the skin in the game ship, but syndicate the rest.

So, it will be product-by-product, it would be certain things, and some of these things like, one of the things in G-SIFI was reduced interconnectedness. So, they don't like inter-bank lending. I think inter-bank lenders are going to go away. They don't like certain type, of course their business distinguished in secured and unsecured, but I think they have much higher charges for exposures to financial companies and non-financial companies, and that's not a terrible objective. That might not happen in a productive way, but you'll see that people price lines of credit to financial companies is much higher than lines of credit to non-financial companies, and so that can go on and on, that was really related to specific rules, and that's kind of work we're doing now. Some will close unintended consequences that helped JPMorgan and some may very well cause (inaudible). But in no event, are we going to price it higher and get price out of a market because of a G-SIFI charge, because that's not going to happen. Whatever competitor told you that probably should have been not thinking clearly.

Betsy Graseck – Morgan Stanley

Got it.

James Dimon

Okay.

Operator

Your next question comes from the line of David Konrad with KBW.

David Konrad – KBW

Hi, good morning, couple of quick questions. One, just kind of another follow-up on expenses, specifically in Investment Banking. It looked like if I net up the DVA and CVA, the comp ratio was around 36%, which is in line with your guidance. But non-comp expense was up a couple of $100 million despite lower revenues. So I just wonder if there is any litigation expense in the Investment Banking number as well.

James Dimon

Little bit, yeah.

David Konrad – KBW

Okay. And then also maybe Doug, the tax rate came in, I think, around 27%, usually around the low 30s. How should we think about that this quarter and then kind of a run rate over the next couple of quarters?

Douglas L. Braunstein

I think run rate will be in the low 30s and we had some benefits this quarter, nothing more than that.

David Konrad – KBW

Okay. Thank you.

Operator

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

Chris Kotowski – Oppenheimer

I would like to flesh out your comment that it's not unreasonable to expect markets to be in the fourth quarter like they were in the third quarter. And just when Jefferies reported earlier this month or last month, and I realize it's a much smaller different platform from you, but their commentary was like June, July and September were all kind of slow (inaudible), but the real damage all occurred in August when the spreads flew out, and that it was the movement in spreads that really did the damage to their P&L. I was wondering was that your experience as well? And, I guess, let me see if there is any question there.

James Dimon

We are not going to break out our monthly numbers for you, but my experience mostly is as spreads gap out, credit products including mortgage and stuff like that get hurt, but yes I believe that happened in August, but every business is different. We have a very broad visibility. We have got rates steady, commodities, loans to equity, you name it, a lot of flow business and derivative businesses, so you really got to look at the mixes and not just one company. I don't know Jefferies business that well.

Chris Kotowski – Oppenheimer

Okay. And then looking at the Basel III risk weighted assets on Page 14, I guess, I think it's interesting that the Basel III risk weighted assets keep on ticking down when loans and Basel I risk weighted assets are ticking up. And I wonder, I mean is that the mitigation and can we expect to see that kind of decrease in the Basel III risk weighted assets continue over the next year or two?

Douglas L. Braunstein

That benefit is going to be model driven and you're going to expect to see model applications and improvement in RWA as a result of that, and that's what happened this quarter.

James Dimon

There'll be run-off and there'll be decisions we make about what we want to do. The way Basel III is set up, certain products have much higher capital charges than others. And so we have choices and options to make. Over the next couple of years, certain things run-off, or we can just sell things or hedge them differently and that could make a difference. So yes, we're going to manage the hell out of RWA.

Chris Kotowski – Oppenheimer

Okay. All right, thank you.

Operator

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

Mike Mayo – CLSA

Hi, what was the $500 million of additional overhead cost for? You said it's regulatory related?

James Dimon

It's my guess, Mike. I just think that when you look at G-SIFI, LCR, I'm not going to conclude in a concept to what are mortgages this year. I think we have to build a lot of additional systems binding with around the world to accommodate hundreds of new rules, regulations, reporting, and I'm just telling you that that would be my guess right now, that's all.

We have real professional teams working today in 75 projects, and these are pretty large projects. They've got risk credit, legal systems, HR, sales traders, globally by legal entities sometimes trying to do it, as liquidity reporting, credit reporting, new model building, and we’re going to do it all well, we are going to do it all well. This is the new world that we live within, but it’s hard to say it’s not going to cost money. By the way, I think it’s going to be, again, a small unintended benefit for JPMorgan, whatever it costs us maybe harder to smaller people.

Mike Mayo – CLSA

And you said some of that regulatory cost you wish you didn't have to do, you don't see the benefit, but that's life?

James Dimon

Yes, that's exactly right.

Mike Mayo – CLSA

And perhaps the root cause you can disagree with my premise, but perhaps the root cause is the perception of the industry and a negative perception leads to all sorts of things, protests and everything else, which in turn leads to regulation, which leads to some of these higher costs. So the question is, what can you do or should you do to help change the image of the industry? And a related question, you've been out there defending the industry a lot, but don't you want to disassociate yourself from some of the bad actors?

James Dimon

Like I put, a lot of the bad actors are gone, okay. So let's be fair here and you have to talk to most clients, (inaudible) JPMorgan, most of our clients like us, a little more clients like us to build our small business, our consumer client, even our mortgage clients, but we have issues and obviously, I think they get way, we should be responsive to that, I'm not playing light of them. But if you travel around, it's both the clients everywhere, we try to do best we can like any other business and it's hard to make up for and you say change the image. If you have any great ideas on the phone, you guys provide them (inaudible).

Mike Mayo – CLSA

Let me just follow-up. I mean 12 of 13 largest banks would have failed, I think you would be the one bank that wouldn't have failed during the crisis. Is that correct? And if that's the case, what's that?

James Dimon

I don't know if that statement is completely true. So I don't want to comment because I'm not sure about.

Mike Mayo – CLSA

These are all leading to just revenue growth versus expense growth. I mean, revenues are down $3 billion, linked quarter expenses are only down $1 billion, and it sounds like you're just kind of tweaking around the edges.

Then you have this extra $0.5 billion of expenses coming at you. Are you going to be able to grow revenues faster than expenses, and if not, at what point, do you say, hey, we need to be aggressive with expenses?

James Dimon

Mike, it's going to back DVA (inaudible), which I think you should do. I completely understand you normalize. You should back it out of revenues, too. So $2 billion of that is DVA, okay. So we look at, and again, it's not, I think it's pretty good, look at the underlying numbers, number of accounts, number of deposits, number of branches, number of clients, number of bankers are keeping some kind of good trading flow with a terrible, what seems to be a terrible environment, market shares, that's what I look at in terms of building the business.

The revenues itself are going to be lumpy. You and I have been in this business more time, we know that, and obviously we trim our sales where we think there are products or areas or branches that we can't make money at all. But obviously, we adjust to that, and there are a lot that's going on right now, we acknowledge that.

Mike Mayo – CLSA

All right. Thank you.

Operator

Your next question comes from the line of Jeff Harte with Sandler O'Neill.

Jeffery Harte – Sandler O'Neill

Good morning, guys, a few more questions. One, looking at the real estate portfolio, portfolio continues to decline, loan loss reserve kind of stays where it was. Can you talk a little bit about how much of that maintaining reserves is just macro caution versus is there actually something you're seeing in the numbers to give you concern? We see the delinquency chart to kind show delinquencies 30 to 150 days flat lining, but what else, are you seeing other things in that portfolio giving you concern?

James Dimon

It really is macro conservatism. If you look at delinquencies roll rates, the first time delinquent all that kind of stuff, they are kind of mixed. So you could very well start to improve them, but it spreads out, it's just presence of caution on our part. And the fact that they will question them anyway about how these, are the reserves sufficient. Obviously, the multiple years coverage charge-off today, I think they cover pretty adverse scenario at this point.

Jeffery Harte – Sandler O'Neill

Okay. Within mortgage origination, Doug, up 35% sequentially is a big revenue number. Were there pipeline hedging benefits to that? Is it kind of a delay? Should we maybe expect some revenue strengths spill over into the fourth quarter from the refi boom? How should we think going forward do you think?

James Dimon

They are crediting very well. I think it was pretty much just all spread in volume that pipeline hedging profitability. In fact the pipeline is going to get you in a quarter like this when rates are dropping like that.

Jeffery Harte – Sandler O'Neill

Okay. And tax rate, it looks like it declined versus last quarter and this quarter. Any kind of benefits or stuff we should know about we haven't seen? And then how we should we think of the tax rate going forward?

Douglas L. Braunstein

So I think we've addressed that. There were some benefits we had this quarter and I think you'd expect it going forward to be back to a more normalized rate.

Jeffery Harte – Sandler O'Neill

So look like year-to-date being normalized?

Douglas L. Braunstein

Yes, there are always going to be ins and outs every quarter, so it's going to move around, but right low 30s kind of normalized rate.

James Dimon

Also when profits go down, remember the rate goes down a little bit because the margin will exempt income slightly.

Jeffery Harte – Sandler O'Neill

Okay. Thanks.

Operator

Your next question comes from the line of Meredith Whitney with Meredith Whitney Advisory.

Meredith Whitney – Meredith Whitney Advisory

Hi, good morning. I have a couple of questions. If the stock stays below tangible book value, how do you look at compensation when stock is a component of compensation year end set for bonuses? That's my first question.

James Dimon

Of course, I'll just pass it on to Doug.

Douglas L. Braunstein

I look at it as a very attractive component of compensation in that regard.

James Dimon

I think our employees will get very upset if we said, when the stock is high, we'll give you a lot of stock, and when we think it's low, we'll give you no stock.

Meredith Whitney – Meredith Whitney Advisory

Okay, fair enough. Just one more on tax rate comment and I have a broader question. On home price values, have you altered your home price expectation in any of your models this quarter and can you remind us what that is?

James Dimon

Generally, we've got, it's by product, by area, by everything. But general, it was modeled into our reserves and our purchase credit impaired is another drop of 1% to 4% depending what it is. It still seems that that may actually be what ends up happening, but as you know as well as we know, we don't know that exactly.

Meredith Whitney – Meredith Whitney Advisory

So my last question is, there is a lot that's coming in the market in terms of assets for sale, I would call an asset flush. What would be your ideal product type of assets to look at, given the fact that you almost have an unprecedented opportunity to pick up a lot?

James Dimon

Beth, that's a very good question. I should refer to that buying back capital thing, I talked about capital confusion, that's another one. So there are some wonderful things you can buy now that we could probably get a 10% or 11% cash-on-cash return for probably a duration of three or four years as being dumped by other people, but we've got those very, very high RWA, that's like 100%, like 1200% type charges, but it's kind of mouthwatering. And that's why I am saying when we reinvest in our portfolio, we do options, but it all comes down to how we wanted to make those decisions and we're kind of making them right now as we go along, we want think it's a little bit better, but there will be opportunities and we are going to use our capital to do that.

Meredith Whitney – Meredith Whitney Advisory

Do you think this all happens within the fourth quarter?

James Dimon

No. It won't happen in the fourth, I am talking about we expected maybe over, I'd say over the next six to nine months. But you would ask the next question, which is, which you're going to ask, but it's okay, would you rather buy 11% RWA, 11% cash on cash assets (inaudible) get back, but buying stocks back much cheaper.

Meredith Whitney – Meredith Whitney Advisory

The answer is?

James Dimon

I am not going to tell you, but there obviously is a little bit of dilemma, and then it relates to what you can or not. We know we can buy the assets; we're not sure we can buy back the stock.

Meredith Whitney – Meredith Whitney Advisory

Okay, got it. Thank you very much.

James Dimon

And we know we can buy the assets and also have a huge lift in Basel III when we want it, because it will disappear by that point. That's why I am saying it's little bit around this capital confusion.

Operator

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

Ron Mandel – GIC

Hi, thanks. Most of my questions have been answered, but just on the reserves, the reserve versus charge-offs, last year there was about 100 basis point gap between the reserve and annualized charge-offs and now it's like 250. As you say, you're being cautious, but I am just wondering what the discussion is that you are having with your accountants that they are comfortable with having such a large gap and whether this may be signs that the accountants are more comfortable with less quite cyclical reserving?

James Dimon

Okay. I think you are going too far here. First of all, I would simply say that obviously we would do these things after talking to accountants and they are judgment calls and analysis and facts always updating when we do these things. For example, I pointed out before, our second behind a delinquent first, we are much different how we look at that and that does not behind going to first. So, we do much more sophisticated reserving in that, but I made it very clear we're going to be as conservative as possible and maybe next quarter, I'm going to be saying, we had to take this down because we were forced to.

Ron Mandel – GIC

Okay. That's the point I'm getting at, what the accountants don't seem to be forcing you now, if there was to change on their part?

James Dimon

I don't think so. I think it's just the facts are constantly changing and you guys talk to the accountants (inaudible) I think they're stretching to say it'd be that.

Ron Mandel – GIC

Okay. Thank you.

Operator

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

Matt O'Connor – Deutsche Bank

Thanks for squeezing me in here. Two questions. One, how sensitive is net interest income to changes in long-term rates? So for example, rates have popped about 50 basis points here, if Europe gets resolved and we grow up another 50, how meaningful will that be?

James Dimon

Doug may know the number. Did we disclose the numbers last time?

Douglas L. Braunstein

So 100 basis point shift in the curve, right, would add a couple of billion dollars to pre-tax, but that's 100 basis point shift in the curve. A short-term move in the long-end and no move in the short-end, that you're not going to see – you won't see this short-term move materially affect NIM.

James Dimon

The curve went up today 100 basis point, I remember the last time I looked at it that is about 50-50 the short and long, both would benefit the company.

Matt O'Connor – Deutsche Bank

Okay. And obviously, if loan rates go up, then you might spend out your securities or things like that?

James Dimon

Excuse me?

Matt O'Connor – Deutsche Bank

If loan rates go up enough, that would make you change your strategy in your securities portfolio that could be additive as well?

James Dimon

Yes.

Douglas L. Braunstein

Yes.

Matt O'Connor – Deutsche Bank

Okay. And then just separately, as you talk about reviewing some of the businesses, churning some, you mentioned exiting some, the mortgage business is one that’s obviously been very frustrating because of some of the legacy issues, but one can make the argument that you’ve got a capital hit, a political hit, during most times it’s only so-so in terms of profitability. We don’t know what the GSE and the mortgage finance models are going to look like. Another big competitor I think was getting out about 40% or 50% of their production channels is closing down. How do you think about the mortgage business going forward in terms of the various channels and just the business overall as part of the company?

James Dimon

Okay. So first of all, the corresponding issue is not a big deal, so put that to aside, as we're basically buying servicing, which to me is a pure economic decision you’re buying at a good return on not. And some of them are clients, which we treat corresponding clients like banks who also have – their regulation is very differently regional banks, et cetera, but we are going to be obviously going to, again, I think a couple of years ago we cut the corresponding thing really a third of where it was.

And the way I'll look at the other way around, I think that we will have going forward one of the best mortgage businesses in the country, okay, because we tend to build the best front-end, middle office, back office systems, eventually our legacy problems will be gone. We think we know we made a lot of mistakes here, so we are not denying that we made them in other business, too every now and then, and we have real competitive distribution, 5,300 branches, salespeople, mortgage sales force. So we think there will still be a real important product which no matter whatever happens to GSEs, we will have embedded profit built into it, and all the legacy stuff will be some cost.

In fact, all the underwrite over the last three years is back to where it was like 30 years ago. In fact going forward, it's going to be a much better business cleaner. You won't have all these problems from the past. And so I were in favor of cleaning up the mortgage product, disclosures, national regulation, so that that will make it better, but I think it would be mistake. It's okay when you get out of it because of the legacy problems. Believe me it is temptation, okay, like we're still making $10 billion, $12 billion, $13 billion of mortgages a month, a lot from states who are being attacked by AGs, and we know we made mistakes. We want to resolve the mistakes and we're ready to be punished for the mistakes, but I think that's the wrong reason to do the business for. It's too important. It is still the most important financial product for the majority of Americans, and it will be through the rest of our lives.

Matt O'Connor – Deutsche Bank

Okay, thank you.

Operator

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

James Mitchell – Buckingham Research

Good morning. Couple of quick just clean-up questions. On the $400 million net income impact of spread compression next year in terms of an estimate, obviously I appreciate your comments about how you can move things around on the balance sheet, but does that also build in some expectations for the deposit and loan growth or should we look at that as additive if that were to occur?

James Dimon

Additive, this is just ecstatic analysis.

James Mitchell – Buckingham Research

Right, okay, great. And on the student loan reserves that you increased those, what's driving that, just curious?

Douglas L. Braunstein

We just extended the coverage from 12 to 15 months and performance net charge-offs are going up though.

James Mitchell – Buckingham Research

Okay. So somewhat of a catch-up, but also not great trends. And then lastly, any comment on the side of the Fed taking away the 25 bps on excess reserves, how that might impact you or the market? I mean, it seems it's hard to get a sense of how much you have parked there and if you had to go into the short-term treasury markets and get and buy up six months, one year at five to 10 basis points versus 25, is that a material impact or not and how you think that affects the curve overall?

James Dimon

I think they have been very clear about their policy and why they have a policy and all that. It is a real tool for them, and we do a lot of money parked there because there is a lot of money – switching around the world there is no place to go. We would have other alternatives that I might guess we get a lot of that back anyway, but you have to take some risk to do it.

You know some things will be 10 basis, you know the Fed is 25, some will be 10, some will be 15, there are options around the world at other central banks at higher rates. We can turn down deposits, we don't want to go negative on deposits, but we can do that till we have to.

James Mitchell – Buckingham Research

Okay, that's helpful. Thanks.

James Dimon

We're trying to accommodate our clients more than the reason it would take us all to be accommodated, not to make that spread. Remember our spread for most of these things is not, even for the Fed it's not 25 basis points, its the FDIC charge. Honestly, we're asking why you do it at all, we wouldn't want a business doing 15 basis points.

James Mitchell – Buckingham Research

Okay, thanks.

Operator

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

Brennan Hawken – UBS

Good morning, guys. First quick question on credit, I know Jamie that you had indicated you are cautious and you said that you are seeing both good things and bad things as far as trends when you commented before, but I was just curious whether I am sure given the size of your credit card portfolio, you have a great amount of data and I am curious whether or not you are seeing behaviors in that portfolio that usually lead to an up tick in delinquencies?

James Dimon

First of all, the wholesale credit is exceptionally good. I think it's better than – it's almost back to where – that's a large corporate middle market. So when we talk about consumer, we said delinquency trend is going to flatten out. At credit cards, there's a little bit of flattening out in their, 30, 60, 90-day delinquencies, but no other major things. So what we said about charge-offs, that'd probably tick down a little bit next quarter. It's very hard to tell they are going to be next year. We always have a lot of visibility to next quarter, but I think with 9% unemployment, it will be silly to assume dramatic improvement at this point.

Brennan Hawken – UBS

Okay, that's fair. And then on the peripheral European exposure, I know you've provided the $3 billion after-tax figure for impacts from the defaults there, but it seems as though from the comments out of Europe that Greek default and potentially triggering of CDS are no longer taboo issues, so could you walk us through how to think about maybe Greece specifically?

James Dimon

Almost none of that number is Greece.

Brennan Hawken – UBS

And then as far as the impact on the system, could you add any comments about what you think would happen there?

James Dimon

We already commented that, so I'm not going to do it again, but we're just talking about it extensively, actually there's some great research about it. So if you want, you can call Lauren (inaudible).

Brennan Hawken – UBS

Okay, thanks.

Operator

There are no further questions at this time. Are there any closing remarks?

James Dimon

Doug?

Douglas L. Braunstein

No, just thanks everybody.