Good morning, ladies and gentlemen. Welcome to the JP Morgan Chase third quarter 2010 earnings call. This call is being recorded. [Operator instructions.] At this time I would like to turn the call over to JP Morgan Chase's chairman and CEO Jamie Dimon and Chief Financial Officer Doug Braunstein. Mr. Braunstein, please go ahead.

Doug Braunstein

Thanks operator. It's Doug Braunstein. I'm going to be taking you through the earnings presentation, which is available on our website. We'll take questions after walking through the presentation. And one final note, there's a slide in the back of the presentation regarding forward-looking statements. Please read it.

With that, let me move to page one. We generated $4.4 billion in net income, $1.01 per share on revenues of $24.3 billion. We're highlighting three items here that relate to significant changes in our reserve positions in the quarter.

First, as you know, we released reserves in the card services, representing $0.22 a share of an increased earnings in the corporate sector. We increased our litigation expense through increasing our reserve, and that reduced earnings by $0.18 and in RFS we booked an increase in our mortgage repurchase reserves. That reduced earnings about $0.15, and that obviously runs through as a counter revenue item.

Broadly, as you look down, we had solid results in our businesses, but I'm going to cover those specifically when we talk about the specific businesses on the following pages. One final note, on page one, tier one, comment at the bottom of the page about a little under $111 billion in the quarter. That's up $3 billion quarter on quarter.

I've covered much of the important information on page two, so let's move to page 3, the investment bank. I've circled net income of $1.3 billion on revenues of $5.4 billion. IBCs in the quarter $1.5 billion. We continue to be ranked number one in fees but markets there remain highly competitive.

The results demonstrate some particular strength in our debt capital markets businesses as well as our Asian investment banking businesses. And you'll see in the back, on page 19, very strong lead table results.

Fixed income revenue was $3.1 billion for the quarter. That's down year on year on lower volumes and tighter spreads. However, if you look quarter on quarter and you exclude the negative impact of DBA, which was $150 million in this quarter, and that DBA reflects the credit spread tightening on our structured notes, versus the benefit of $400 million in second quarter, revenues are actually up modestly quarter on quarter, largely consistent volumes and spreads from our client businesses.

In equity markets, revenues were $1.1 billion, up year on year, and quarter on quarter, very solid client revenues in our global equities business. That was offset by declines in prime services as lower spreads continued to offset actually higher balances we had in the quarter. The quarter results for equities includes DBA impact of a negative $100 million this quarter versus the $200 million benefit we highlighted in Q2

A word on credit. You'll see credit costs were favorable $142 million benefit as we released reserves in the quarter. Net charge-offs, however, are at 25 basis points and that continues to reflect what we've talked about, which is strengthening corporate balance sheets across our client base.

Expenses in the quarter of $3.7 billion, that's down both quarter on quarter and year-over-year. That's largely a function of lower base performance-based comp as well as the impact of the UK bonus tax charges we took in the second quarter and comp-to-revenue was 38% in the quarter for the investment bank.

On page four, let's spend a moment on RFS. At the top of the page you'll see circled net income of $900 million. That's on $7.6 billion worth of revenue. I want to focus in on the three component businesses. Retail banking, which you know is our branch and deposit-taking businesses, had $848 million of net income in the quarter, $4.4 billion worth of revenue.

Revenues are down year-over-year. That's principally driven by the NSFOD fee changes in 2010. They're fully reflected in this quarter versus a 50% impact in second quarter. That reduction was offset by a number of positives in the quarter, including an improved deposit margin as well as we continue to increase our branch footprint, ATM footprint, an increase in the number of checking accounts in the quarter, and a number of other positive production metrics you can see on the next page.

Expenses are up in the quarter slightly. That's largely a function of our continuing investment in our sales force and our distribution business as we continue to add bankers and specialists in the branches.

Mortgage banking and other consumer lending, which is in the middle of the page, which reports our mortgage loan origination or servicing activity. Auto and our other consumer lending businesses earned $200 million in net income for the quarter. $1.9 billion of total revenues, and that really included very strong mortgage banking revenue of $2.5 billion in the quarter.

That's before considering repurchase reserves, which I'll talk about in a moment. That was largely driven by higher mortgage origination, $41 billion in the quarter, up 27% quarter over quarter.

Loan repurchase expense was $1.5 billion in the quarter, and that negatively impacts the revenue line as a counter-revenue item as you recall. We increased reserves in the quarter $1 billion, and that's largely based on the continuation of a high level of requests for loan files from the GSEs as well as repurchase demands.

And as a result of that increase, total reserves are now at $3 billion for this category. In addition, our realized losses for settled claims rose in the quarter as well, and that's largely because we're working on working down our aged claim inventory.

Going forward, we think our realized repurchase losses, what would be the functional equivalent of charge-offs, are going to remain high in 2011, and we've guided you to a $1 billion plus or minus. But eventually, as we work through bad vintages, we would expect those actual costs to come down.

Other expenses in this category are up 21% year-over-year, and that largely reflects higher default related costs. And one other note here, our auto business had very strong earnings. Credit improvement, lower delinquencies, and a continued strength in our used car values all contributed to that.

Finally, at the bottom of the page, real estate portfolios experienced a loss of $148 million in the quarter. Revenues are to principally NII are down 18%, and that's largely consistent with the runoff in our balances quarter on quarter and year-over-year. And credit costs, which I'll spend time on page six, really a function of net charge-offs this quarter, declined to $1.2 billion.

So what I'd like to do is skip page five - I've covered much of that information - and talk a little bit about home lending on page six. And let's focus first on the circled numbers. Reduction in our total home lending net charge-offs in the quarter, we went to $1.2 billion from $1.34 billion in 2Q, and if you look at appendix slide 17, which is our normal chart showing our delinquency trends, you'll see that the curve has essentially remained flat across the categories through the third quarter, and that's the same trend we talked about in May and June of 2Q. In addition to that, HPI, home prices remained stable and as a result loss severities remained stable in the quarter as well.

So, if you look at these numbers, and you remember that losses lagged new delinquencies by approximately five months, that what you see reflected in this quarter really is the benefit of the delinquency reductions that we saw in the first four months of 2010. And if delinquencies remain flattish, which they have for the past five months, you'd expect to see our losses going forward flatten out as well.

Now bearing that in mind, if you look at the right side of the page you'll see that our loss guidance for the quarter remains unchanged at $1.8 billion. Now if you take our run rate of the last two quarters, and you were to annualize that, you'd have a run rate of about $5 billion to $5.2 billion. We have reserves, as you know, in this category, of $11.3 billion.

Those remained unchanged during the quarter. And the reason we're keeping both our reserves and our guidance where they are is that there is continuing economic and housing market uncertainty and we want to reflect that in those two numbers.

Finally, the WaMu PCI position, which is at the bottom right of the page, you'll notice we haven't changed our allowances or our existing marks. Remember these are lifetime estimates and so they include some assumptions about the future improvements in both our trends for delinquencies and severities, and we do note at the bottom here that if delinquencies and severities remain flat for a two-year period, that we would have to add incrementally $3 billion plus or minus to our reserves.

Page 7, credit card business, the top of the page net income of $735 million on revenues of $4.3 billion. Credit cost is a big story for the business this quarter. Total cost of $1.6 billion in 3Q, we had a $1.5 billion pre-tax reduction in our loan loss reserves. That largely reflects a lower estimate of future losses and it's really based on the two numbers circled at the bottom of the page.

Our charge-off rate went to 8.06 for the Chase portfolios, excluding WaMu. That's down almost 100 basis points quarter over quarter. 30-plus-day delinquencies declined 35 bps to 413.

One final note, our absolute dollar of charge-offs continued to remain very high at $3.1 billion in the quarter versus $3.7 in Q2.

I want to spend a moment here on outlook for where we are on net charge-off rates. We gave you prior guidance this past month that we believe net charge-off rates will decline in 4Q another 50 basis points to 7.5% plus or minus, and we're maintaining that guidance.

The revenue line, just to spend one more moment there, $4.3 billion in revenues is down quarter on quarter, and year on year. That's largely a function of lower outstandings. That includes our WaMu portfolio runoff as well as lower balance transfers, which we talked about last month.

EOP balances for the quarter are down $7 billion and almost $29 billion year-over-year. Revenues are also down because of the impact of the CARD Act. The run rate this quarter is about 65% of the total guidance we gave you of $750 million in net income. That's up from a 25% run rate in 2Q.

On the positive side, I would note that sales volume for our Chase portfolio was up almost 8% year-over-year, 2% quarter on quarter. It means people are taking their Chase cards out of their wallet and using them.

Net interest margin - at the bottom of the page - up 50 basis points quarter on quarter. That largely reflects a lower level of fee reversals as our credit trends continue to improve. Some runoff of some introductory balances and then a favorable mix in our loan balances.

One other word here on balances and outlook. We're guiding towards year-end balances of $123 billion for the Chase portfolio. That's down 15% year-over-year, and that's a function of both charge-offs as well as our pullback in our balance transfer business. Receivables in this category we'd expect a [unintelligible] amount in Q3 2011, and end the year in 2011 plus or minus $120 billion. The WaMu portfolio we'd expect to decline at the end of 2011 to $10 billion. It began 2010 at $20 billion, and we're down to $14.5 billion as of Q3.

Page 8 - the commercial bank - overall a strong result for the commercial bank. Net income of $470 million, up a little under 40% year-over-year. Revenues of $1.5 billion is a record for the commercial bank this quarter and it reflects a number of very positive outcomes. Gross investment banking fees in the quarter were a record revenue.

We acquired a $3.5 billion CTL, commercial term lending, portfolio in the quarter. We continue to build out our footprint of bankers in the WaMu states and that's developed into attractive business with new customers. And our liability balances ended the quarter at $138 billion.

The other circled numbers here on the page are loan balances of $98.1 billion. If you exclude the acquisition impact, they're essentially flat, but we do see some signs of activity. We've had an increase, actually, in our loan balances in the middle market, up $900 million quarter on quarter.

And that's the first time in many quarters we have seen growth there. Some of that is our existing customers. Much is new customers. We added almost 500 customers in the quarter in the middle market. And our utilization rates, however, still remain in the low 30s.

Credit costs of $166 million in the quarter largely reflect an increase in charge-offs in our commercial real estate segment. You'll see net charge-off rate here of a little under 90 basis points, 89 basis points.

Commercial real estate represents about 80% of the net charge-off rate. That's versus 62% in 2Q, and we would expect to see continued pressure going forward from commercial real estate, but remember our commercial real estate balances are not a significant component of the total portfolio.

Page 9, treasury and security services, circled net income here of $250 million in the quarter. That's down slightly from last year and last quarter. I would say that the store for TFS remains essentially the same to the second quarter. We have this low rate environment. It continues to pressure our revenues across both WSFs and TS, and that's coupled with some incremental investments we've been making, and that's reducing our margin over the near term.

Revenues of $1.8 billion were up modestly year-over-year, down modestly quarter on quarter. And expenses, you'll note, are up $130 million year-over-year, and so just a moment to remind everyone we continue to make investments in this platform in our global corporate bank, our international branch network, our international product capabilities, incremental product expansions, and other platform spending.

One other final note, TSFs here had $1 trillion increase in assets under custody quarter over quarter.

Asset management, on page 10, circled net income of $420 million. Revenues in the quarter $2.2 billion, up both year-over-year and quarter on quarter. And that's based on a number of factors. We had a continuing increase in fund slows in the quarter, almost $38 billion. That included $27 billion into liquidity products, which is our first positive quarter in a year.

We had $11 billion of flows into long-term products, which are higher margin, and that's the sixth consecutive quarter of positive inflows there. And largely all of that is based on continued strong investment performance. We also had revenues up on higher market levels and we also in the quarter saw significant increase in our mortgage production in asset management.

Expense growth here, if you look year-over-year, was up $137 million, again a story of continued investment for long-term growth. We're hiring front office folks so our private banking advisors were up 17% year-over-year, and a larger percentage of that internationally. We continue to invest in technology here, particularly in the private bank, to improve both the speed and the efficiency of those platforms.

Page 11 is corporate and private equity. You'll note here we had very strong private equity this quarter, $344 million of net income impact after all the expenses. And just a word of caution, the results here can be volatile quarter on quarter. They vary both based on timing of realizations, the market values of our public positions, and so that number will move quarter on quarter.

Corporate net income, $4 million, is down significantly quarter over quarter, down significantly year-over-year, and that really reflects three things: 1) reduced net interest income in the quarter, 2) lower security gains in the quarter and then 3) we increased our expenses in the quarter and that includes a $1.3 billion pre-tax increase in our litigation reserve. And that litigation reserve includes items related to mortgages. We aren't going to spend a lot more time discussing that particular topic on the call.

The final note of guidance here is that there will be periodic items that affect the corporate line. We still believe that net income number should be trending over time plus or minus $300 million when you exclude private equity.

Page 12, focus on the balance sheet for a moment, strong results here. Tier one capital, tier one common both grew $39 billion and $11 billion respectively. RWA total assets were actually up modestly in the quarter. And our tier one ratios continued to remain very strong. The absolute levels are higher in both tier one capital and tier one common but there's a modest decline in the ratio this quarter, and that largely reflects the increased level of repurchase activity. We bought back approximately $2.2 billion, and we continue to buy back shares to offset our equity issuance to employees.

Credit reserves remain very strong at $35 billion and there's details in the back on that. And then just one comment, we've added a new disclosure item here - the global liquidity reserve, which is $272 billion, the details of that are in a footnote, but I would just note that outside of the details in the footnote the firm has a number of other significant highly marketable liquidity positions in marketable securities, corporates, equities, that aren't included in that number. And all in all we continue to think we've got very strong balance sheet position.

Page 13, outlook, I think I've covered all of that. So what I'd like to do finally is spend a moment and comment on the mortgage affidavit issue. We're not going to say too much about this today other than the comments that we're giving you here, because we're really at the beginning of this process.

But I can share some information with you. So let's turn to page 14. We've identified issues related to the mortgage foreclosure affidavits, and those include signers not having personally reviewed the underlying loan files, but instead having relied upon the work of others. Those others, Chase employees, did conduct reviews of the underlying loan files, and there are certain instances where affidavits have not been properly notarized.

So I want to just step back and have you understand what the nature of some of the information in this affidavit relates to. They obviously differ by jurisdiction, but in general the types of content that we're attesting to includes the name of the borrower, property address, date, whether or not the borrowers actually defaulted and if they've cured the default, and the total amount of indebtedness.

As a result of these actions, we're reviewing 115,000 plus or minus loan files that are currently in the foreclosure process and we'll do the following based on that review: either re-file the affidavits where appropriate, as you know we've delayed our foreclosure sales, and so to the extent we can we'll reinitiate those when appropriate.

We're also in the process of putting additional processes in place to make sure on a go-forward basis we fulfill all the procedural requirements. Obviously the company takes these matters very seriously and we're devoting substantial resources to the issue.

On page 15 what you'll see at the top headline is really all of these processes are really designed to avoid foreclosure if possible. And what we would say today is based on the processes, which I'll describe in a moment, and the reviews we've done to date, that we believe the underlying foreclosure decisions were justified by the facts and circumstances. But let me give you a little more color on the actual processes we employed and why we're comfortable.

If you see the first sub bullet point, 15 days after delinquency is when we first reach out to a customer. Following that, we will send numerous letters. We'll make numerous phone calls. In fact, the frequency of those contacts are likely to increase as we head towards the possibility of taking foreclosure action.

In addition to that, we added in 2009 a separate group outside of our processes to review these loans before we take specific foreclosure actions. So that group, and you'll see an appendix slide on this, goes through a series of questions including have we made contact? Have we pursued mitigation strategies if appropriate? And you'll see those questions listed on page 20 of the appendix.

As a result of all those actions since January 2009, we prevented 429,000 foreclosures through either modifications, short sales, or other loss mitigation actions. And just to remind everyone, this is a very lengthy process, and so from the initial default to the actual foreclosure sale, for our serviced mortgages, that's on average 14 months in the process, or 448 days. Mortgages in the state of Florida, for us that process is 678 days. In New York it is 792 days, more than two years. And in most, if not all, instances, over that period of time no principal or interest payments have been made on the mortgage.

So what I think we'd like to conclude by saying is that we really believe the proper approach and response here is to go loan by loan, file by file, customer by customer, and if mistakes have been made then we need to address them individually, which we absolutely do. And just stepping back, obviously the housing market, in the position that it's in, we'd hope that we'd be in a position to move briskly here to avoid further damage and further pressure on the housing market and ultimately further pressure on the economy.

With that I'd like to at this point open it up for questions for Jamie and I. Operator, would you please open the line?

Question-and-Answer Session

Operator

[Operator instructions.] Your first question comes from the line of Glenn Shore with Nomura.

Glenn Shore - Nomura

First, an easy one. The balance sheet went up 6% sequentially, all on the security side. Not a big deal, your leverage numbers are not high. I'm just curious on if you have - how much wiggle room, or how much appetite do you have to continue that trend on the modest uptick in leverage? Or are you just kind of growing that as equity builds?

Jamie Dimon

That decision is made all the time. It changes all the time [unintelligible] trade exposures and what securities you like and the timing of sales and stuff like that, so I would just assume it would bounce around. It's not a deliberate growth strategy in securities.

Glenn Shore

Okay. Next one is a little different. You talked a little bit about the conference the other day, Jamie, but mitigation techniques. In other words we know the negative side of the impact on returns and risk-weighted assets, but on the mitigation side you talked a little bit about re-pricing, but I wanted to ask you what impact can, what I'll just sum up under reg arp opportunities, are there and then meaning there are asset managers, mutual hedge funds, private equity funds that don't have the same increase in those requirements? So are they more natural owners of some of the assets? And then part B of the question is what about the long-dated trades and contracts you might have on with the rest of the street where both sides have the willingness to maybe tear up contracts and net things out? How much of an impact can that have on the mitigation front?

Jamie Dimon

I think on the risk-weighted asset side we talk about natural mitigations. Things are just going to run off over time, actually not really actions we're taking to just securitizations or retail loans, something that's going to run off over time. There will be - and remember we're economic animals. We're not going to sell something that we think is a good asset at a good return because the RWA is too high relative to capital. So no one should look at us and say well we're going to have to sell something cheap to somebody else because we can't hold it. We have plenty of capital. We can hold whatever we want, and we're going to make economic decisions not Basel III weighted decisions. Having said that, I do think that you're going to find people, some other natural owners of certain assets, that don't have the same kind of regulatory or capital stuff. I don't think that's going to be an unbelievable material thing for us. I think if you're in a different kind of business it might be more material. And I do agree with you there are going to be a lot of ways that when people really go through this they're going to be able to manage CGA, DVA, contract, clearinghouses, which will diminish the RWA effect pretty dramatically over time. People will really learn how to manage it better, and we haven't tried to do all that and we're not worried about it because we don't really need the capital.

Glenn Shore

Okay, so between those comments, that confidence, and the confidence on the ability to re-price - obvious statement, but you seem reasonably confident that you're able to earn pretty good returns in the new world?

Jamie Dimon

We're pretty confident in the new world we'll earn good returns for shareholders. And when you talk about re-price, if you're referring to retail, it's going to take a while to design the exact products, the exact fees, exactly the way to do it, so there may be a little timing difference when it's costing us more money as we design those products and roll them out. But eventually we'll have to re-price it, yes.

Operator

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

John McDonald – Sanford Bernstein

Doug, I was wondering if you could clarify the outlook on rep and warranty that you gave on the losses for 2010 and '11. And then in terms of the income statement impact, just wondering since this is a lifetime reserve methodology when would you expect to start consuming some of the reserves that you've built for the rep and warranty, or at least matching instead of building reserves here?

Doug Braunstein

On outlook, what we said is for 2010 I think our outlook was plus or minus $1.2 billion of expense. Obviously you'll take a look at our third quarter numbers are a little higher. And so we're likely to come in at the high end of that range. For 2011 what we've said is $1 billion of realized repurchase losses. And what we've done is we've taken, based on what we know, we've gone back and increased our reserves by $1 billion based on the higher file requests as well as higher settlement demands. And where we are today we believe we're adequately reserved based on what we know and we'll go back periodically and review that.

John McDonald

Okay, so the idea is you're probably not going to start consuming the reserves? Is it analogous to the way you do credit reserves? Don't you have visibility that this is ending and you have a better line of sight to the end? Is that the idea?

Jamie Dimon

The way to look at it - first of all it's not lifetime losses exactly. It's kind of more known inestimable, which extends beyond a year in this particular case. Think of it as repurchase losses will be at $1 billion. That may go on more than a year. At one point you won't need the reserves and you'll start to hit the billion against reserves. We just don't know whether that's going to be near the end of 2011 or 2012. But it will be some time in that period.

If you just look at vintages and aging and stuff like that eventually you won't need to - the reserves - and the expenses will go against the reserves.

John McDonald

And then Jamie on Basel, do you have any sense of timing of when the U.S. regulators will be deciding on the additional buffer to be required of systemically important institutions?

Jamie Dimon

Not specifically. They're waiting for this thing in Korea on November 20, and then at one point we hope to get some guidance. In any event we think we're in very good shape.

John McDonald

And do you have a sense that - do you have a regulatory green light for capital management? Do you think that banks might be given that before Basel is implemented? Or is there a risk that capital return gets delayed while they debate?

Jamie Dimon

I think that everybody's been waiting for final Basel III guidance. Remember the regulators have put us through an additional stress test. And everyone's waiting to get done. I'll make the same statement I've made before. I think it's reasonably hopeful that sometime in the first quarter we can reinstall a dividend or something like that. I think it makes sense to do. I think some banks will start retaining far too much excess capital at one point next year.

John McDonald

And the regulators are open to those discussions?

Jamie Dimon

Yeah, they are, but they are going through their own calculations and they obviously want to look at the global issues I think before they make any final determinations.

John McDonald

Okay, last thing here. The net interest margin was down 5 basis points, a lot less of a decline than last quarter. Do you think you've maybe seen the worst of NIM pressure and what are going to be the key drivers for the top of the house, NII going forward?

Doug Braunstein

I would say we're - it was down 5 basis points, there are a number of factors that impact that. We're going to continue to see some pressure in corporate for NIM and it's hard to predict at this point where rates are going to be and what the impact is going to be, and where loan demand is going to be on the other side of the equation from an asset standpoint -

Jamie Dimon

Most of it's in corporate. And if you look at absolute dollars we have [unintelligible] portfolios.

John McDonald

And your card NIM was up a lot this quarter. Did you comment on that, Doug, why that went up so much this quarter?

Doug Braunstein

I did. That's largely a function of lower fee reversals in the quarter and then better mix.

Operator

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

Guy Moszkowski – Banc of America/Merrill Lynch

First question is with regard to the net interest margin in the corporate sector where you added about $30 billion in securities. Based on the comments you've made should we assume that that is extremely liquid stuff with very low net interest margins, very low margins, low duration stuff?

Jamie Dimon

I would assume mostly very liquid. I wouldn't assume it's all very low margin.

Guy Moszkowski

And durations probably pretty short, or not so much?

Jamie Dimon

Yeah, I would say fairly short. But that moves around a lot. It may not be the same thing next time we talk to you.

Doug Braunstein

And I would just add, remember that as we reposition the portfolio we're doing that through our quarter so second quarter sales we had at full NIM impact in the third quarter, for example.

Guy Moszkowski

Got it. And then just following up on the Basel III discussion. You've spoken recently at length about your capital position with that approaching, but since then we certainly have heard quite a bit from the Swiss on the Swiss finish issue. [unintelligible] was out raising capital yesterday and just wondering even though you did obviously buy back a couple billion dollars' worth of stock whether you are quite as optimistic about the potential for capital [unintelligible] going forward in light of all of that.

Jamie Dimon

I would say the same thing. We're already very close to the 7% Basel III requirement, which includes that buffer. I know that the Swiss finish came in at 10, which I think is too high. And remember if you go back to the - and remember this should be consistent with the stress test. When the American government did the stress test at 4% Basel I if you made the adjustments to cap at RWA, 7% is close to 12% Basel I. It's almost a triple of what the banks were able to survive under the worst recession of all time under the stress test. So we think the 7 is a very strong number and I personally don't think there's going to be a market for - then the Swiss finish add another 9% for CoCos. I think that's extremely optimistic and almost impossible to occur. So I think they have different issues. The size of the banks versus the size of their country, so they've got to do what they think is right for them. I would put those numbers in the extreme category.

Guy Moszkowski

Those are fair points. Thanks. I just wanted to dig in a bit more on the foreclosure issues. I know you can't talk too much more than what you said, but I was wondering if you could give us any sense for timing of resolution in terms of reopening these 115,000 cases.

Jamie Dimon

It's going to take several weeks to go through the files and make sure and correct any errors that are in there. Remember we believe the underlying stuff is all accurate. So that's the key substance. And obviously we know there's a lot of state AGs - we've had conversations with them. We're hoping that the normal process can tell us the sooner the better for everybody involved. We don't think there are cases where people have been evicted out of homes where they shouldn't have been. These foreclosures go through multiple processes and so we're hoping it will be sooner rather than later and those conversations are starting to take place.

Guy Moszkowski

Is it fair to assume that at least a fair portion of that litigation reserve that you added to is specifically for this topic within -

Jamie Dimon

No. There's nothing in it for this topic. I think the way you should look at this topic is that we're bearing today $7 billion of charge-offs, foreclosure, repurchase costs - this affects reserves. That $7 billion will go up or down based upon the economy and stuff like this. I'm not sure stuff like this is going to dramatically change that number. It may extend it a little bit longer and stuff like that but - and remember we have in total, between repurchase reserves and the $11 billion, we have $14 billion of reserves for repurchases or loan losses. And look, the mortgage thing is - we're halfway through all this. We think we should continue and get done and make sure we do the right things for the consumers, the investors, and the country. And so obviously it will increase our costs a little bit and maybe we'll have to pay penalties eventually to some of the AGs, but we really think we should just continue.

Operator

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

Matt O’Connor – Deutsche Bank

I realize you guys don't want to talk in too much detail on the litigation reserve, but just conceptually, you've taken a little bit greater than $4 billion reserves for litigation so far this year and I guess a lot of us are just having a hard time understanding what it might be for and are you getting ahead of it or are still trying to catch up and -

Jamie Dimon

You know our society, right? You know how many lawsuits go on, and class action suits, and stock drop suits, and [unintelligible] suits and WaMu suits and Morgan suits and it ain't going away. It's becoming a cost of doing business. So yes, we always try to get ahead of it. We're not going to give you specific detail. When we're wrong we're going to settle. When we're right we're going to fight. Not all those reserves were mortgage related, they were related to other items we have to deal with as a company, and we do try to be ahead of it. We try to be very ahead of it, because we think it's the right thing to do.

Matt O'Connor

Okay. And then just separately, sorry to be a little nitpicky on this question, if we look at some of the drivers of your net interest margin there's some of these dollar financing rolls, basically causing a negative funding cost for about $280 billion of liabilities -

Jamie Dimon

No. [For some of the liabilities.] Go ahead.

Matt O'Connor

Well, just overall it's minus 28 bps for like $280 billion and just trying to understand what that is and what the risks are associated with that.

Jamie Dimon

Well, that's one of the reasons we tell you it's going to come down next quarter, because we don't necessarily expect all of those stable rolls to continue the way they've continued. We're pretty creative in finding ways to do NII, so there are other things to buy and other things to do. But we position the company more and more for raising rates [unintelligible] rates, those portfolios may come down. The benefits to rolls may go away. We don't have to buy low duration mortgage assets. We could buy other things too.

Matt O'Connor

Okay. And obviously there's not going to be the type of extension risk on this funding side that you would have on the asset side.

Jamie Dimon

That's correct.

Doug Braunstein

- go away one day.

Matt O'Connor

Yep. And then just separately a bigger picture question. The credit card lawsuits for you guys and I think for the industry overall continue to march down at a very nice pace despite very high unemployment. Once we get to that 7.5% in the fourth quarter, do losses just flatten out at some point unless unemployment gets better, or do you still get a continued trend down?

Jamie Dimon

I think the likely outcome is for continued trend down and remember, in the credit card business those losses tend to relate more to new unemployment claims and new unemployment, not just the absolute level, if you look through history. And also, after two and a half years you charge up 20%, so you really have [unintelligible] a lot of the bad accounts.

Doug Braunstein

And I would add the accounts we're obviously taking on because we continue to grow the business have different characteristics than the accounts that were rolling off. So the net of the entire portfolio is a better quality portfolio.

Matt O'Connor

Okay, and it seems like you'll probably have some more reserve release at some point. It seems like you're still -

Jamie Dimon

Well not at some point, and this is very important. We don't release reserves because we [want an earnings target] or something like that. We release them because we have to. We're conservative. We fight the other way - keep them up not take them down. As charge-offs come down in - if they come down in credit cards, we will have to release those reserves. Now I think it's a really silly post-cyclical thing we all go through, putting them all up and taking them all down, and you all have to guess what the earnings are going to be, and is it real earnings, or not earnings, or normalized earnings? But they are going to have to come down. So you could think of that right now when losses normalize eventually, you call it 4.5% in credit card, we will have to take down another $4 billion, $5 billion, $6 billion in reserves. That isn't a choice. That is an absolute accounting rule. There's underlying assumptions that go into it. It's your judgment call, but - and my guess is that will be happening slowly over the next six quarters and you'll see more rapid change if and when the economy starts to improve. The same will relate also to mortgage losses by the way. And all other losses for that matter. So the $35 billion of reserves you go through your own numbers, but that's going to normalize a lot lower than $35 billion.

Operator

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

Jeff Harte - Sandler O'Neill

A couple of things. One, capital markets. Kind of just as far as client risk attitude, corporate clients' interest in raising capital, performing M&A, things like that. What kind of trends are you seeing coming out of the summer?

Doug Braunstein

It continues to be, I'd say - the big trend is you've had a lot of companies extend maturities, reduce their cost of borrowing, by going into the public markets, and so that's been a very positive thing, and balance sheets continue to be very very healthy. You're starting to see a pick-up in the appetite for M&A and I think part of that is a function of people getting their balance sheet prepared and ready to go and looking for growth. There continues to be a little more uncertainty out there about both the economy and what the political landscape entails, and so we haven't seen a rush towards activity, but you would expect as you get clarity there to get some real momentum behind it.

Jamie Dimon

And the trading desk, you know, has been - you all look at one month it got slow or one month that's fast but there's been pretty good client activity. I don't see any reason why there wouldn't be pretty good client activity.

Doug Braunstein

And I would just add across - particularly for example in equities - we continue to invest in systems and platforms and adding to our capabilities as well, so that's been very positive for us in this quarter.

Jeff Harte

Okay. And non-sufficient funds are kind of the overdraft opt-in. How successful have efforts to get people to opt into that then?

Jamie Dimon

I don't know if we've disclosed the numbers -

Doug Braunstein

No, I don't think we have -

Jamie Dimon

- very close to what we've told you and more than 50% opted in, but we're not going to be disclosing those numbers all the time. It's going to change as people change their mind. Remember they can at any point in time pretty much opt in or opt out.

Doug Braunstein

And what I would say is the $700 million of guidance that we gave you on net income, that's going to be - that's in the run rate and an accurate reflection of that.

Jamie Dimon

The number we gave you is right for the wrong reasons. [Laughter.]

Jeff Harte

And the foreclosure stuff - outside of how it directly may impact you or somebody else, how do you look at the drag it may have on the housing market, kind of the macro impact. What do you think about that?

Jamie Dimon

Well, you know, again I hope - this is a hope - this is not a knowledge - is that when people take a deep sigh breath, go back to the right look at the substance underlying the files, and go back to modifying, foreclosing, and doing the right thing, all told - and it could be a blip. You know, if you're talking about three or four weeks it will be a blip in the housing market. If it went on for a long period of time it will have a lot of consequences, most of which would be adverse on everybody.\

Operator

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

Betsy Graseck – Morgan Stanley

Jamie, just wanted to follow up on the Basel III comments you made earlier. And I know you kept your comments [unintelligible] pretty much flat in the quarter, and you indicated you're not going to be making Basel III-related decisions. I guess I'm just wondering are you managing capital - you're comfortable obviously with where it is today - is that what we should be expecting going forward, and when Basel III starts to kick in you start to -

Jamie Dimon

We're completely comfortable with capital. I think we showed you a number that in 2013, when Basel III starts to roll in, we will have, even under adverse circumstances, like 11 - it's a huge number -

Doug Braunstein

It was 11.

Jamie Dimon

And it rolls in over five years or something like that, so we have lots of capital and so we're really not managing capital or RWA as much as we're just trying to build the business - client business, branches, brokers, traders, salesmen - and we've got plenty of capital to grow the business in an intelligent way. A lot of those numbers we showed at the [Barclays] presentation - they were not [heroic]. They were just kind of run off with basic stuff we know about. I do think people will do a much tighter job of managing those things if and when it becomes important.

Doug Braunstein

I would just add - we raised year to date, between our new loans, re-ups, capital markets, we've raised almost a trillion dollars for our clients across all of these platforms. And we continue to put our balance sheet to work for our clients and we're anxious to do so. We've got plenty of capacity there.

Betsy Graseck

The Basel III-related decisions don't kick in until it actually comes into effect in '13?

Doug Braunstein

That's correct.

Jamie Dimon

Well, '13 would be the first year of phase-in and it would phase in between 2013 in full phase and by '18 -

Doug Braunstein

My instinct is we're going to start reporting in [unintelligible] at one point just so you see what the number would be when we know what the final rules are. And my guess is that we'll be compliant with whatever the number is sometime next year.

Betsy Graseck

And nothing you had in the mitigation was actual, proactive, [cancelled]?

Jamie Dimon

Well, a teeny bit, but nothing - I'd say nothing heroic, just basic stuff.

Betsy Graseck

And then just a follow up on capital usage -

Jamie Dimon

If it had to be done next year we could get it done next year. Even if it's 10% next year if we wanted to.

Betsy Graseck

10% on -

Jamie Dimon

We can get to 10% Basel III next year if we desired. We'd have to make some tougher decisions and sell things and stop doing a bunch of stuff, but if that's what we wanted to do we could do it.

Betsy Graseck

Basel III common tier one? 10%? By the end of next year, without raising any equity?

Jamie Dimon

Yeah, we can do a lot of different stuff. People are going to make decisions to get compliant quicker than people think. That's what's going to happen in the marketplace.

Betsy Graseck

So just one other question on capital usage. We talked about the divvy, what about the possibility for M&A? And kind of tough long into the curve environment are you more incented to do M&A?

Jamie Dimon

I always feel good that we don't have to do M&A. That we can just grow our businesses and do a good job for our shareholders. We're going to generate a lot of excess capital, and of course we can grow the businesses, or buy back stock to do M&A. We're open minded to M&A, if there's something that made sense. And we're always looking for bolt-ons and adds in all of the businesses and so we'd be open.

Betsy Graseck

And what would make sense now?

Jamie Dimon

Well I can't tell you that. Think about the other Morgan. [Laughter.]

Doug Braunstein

We're going to obviously just - we're going to remain disciplined about doing things that make sense both short-term and long-term for our shareholders.

Jamie Dimon

We look all the time at -

Doug Braunstein

And there'll be plenty of opportunities.

Operator

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

Ed Najarian – ISI Group

Most of my questions have been answered, but just two more quick ones. Jamie or Doug, do you have any - want to provide any color on the pace of the buyback over the next couple of quarters? Should we expect around 2 billion in near term quarters to be sort of a consistent trend? I guess that's question number one and then I'll ask the second one.

Jamie Dimon

I think - I'm not going to give you an answer about next quarter, but I think at one point going forward, when everything clarifies around Basel, we could be an aggressive buyer of our own stock if we think the price is cheap. We're not going to do it at any price. We're not like everybody else. At a low price we'd do it, at the high price we don't. And as you know we have plenty of capital generation, so if that makes the most sense for shareholders you can assume that's what we're going to do. At a minimum, as a discipline we like to buy back reissue. That does not mean every week we buy reissue that week. It means generally within the course of the year we like to do that at a minimum.

Doug Braunstein

And that number is plus or minus around $3 billion for 2010.

Ed Najarian

And with your stock in the low $40s should we think about fully diluted shares outstanding shrinking by some amount in 2011?

Jamie Dimon

We're just not going to tell you what we're going to do with our stock. We look out, looking a couple of years, how much capital, what the options are, what makes the most sense for shareholders.

Ed Najarian

Okay, and then in prior conferences, in presentations you've talked a lot about different pieces of the loan portfolio that will shrink and we don't need to go through all that again but I guess could you give some kind of an outlook three quarters out, four quarters out? When do you think we'll get to that crossover point where the loan portfolio - loans outstanding stabilizes and then maybe starts to grow a little bit? When do you sort of hit that inflection point that -

Jamie Dimon

I think it bounces all over the place. Commercial bank - you know we're starting to see signs of life, and maybe we start to see growth the next three to six months. Credit card, it will bottom out we think in the third quarter of next year. That includes the runoff and all the other stuff. Treasury and asset management we've actually had loan growth. Trade finance, expect maybe to see both and then consumer - auto generally we expect to see growth. And the big one is the $200 billion runoff of stuff, a lot of which was acquired from WaMu. That will be running off for years.

Ed Najarian

Right, so it seems like that runoff of that big piece for years could have a pretty significant impact on where the loan portfolio goes.

Jamie Dimon

Yeah, but you've got to remember - this is an important thing - when it runs off, first of all some of it's losing money - when it runs off it frees up capital. So we're not losing potential earnings, because we can go do something else with it. It's not like on some other types of businesses. So you're right, it leads to negative revenues but it does not necessarily lead to [unintelligible] profits.

Doug Braunstein

And again, just to reiterate, what's happening in our credit card portfolio, we're shifting the balance and the mix of customers and the need for that business. So it's a much more attractive business. We added $41 billion in mortgage origination activity in the quarter and that was a very attractive business for us.

Jamie Dimon

And that went to - you know most of that goes to Fannie Mae and Freddie Mac, but we can change that too, and retain more if we thought that made more sense for our shareholders.

Operator

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

Paul Miller - FBR Capital Markets

Mortgage banking. We've been hearing a lot of anecdotal stuff that the mortgage banking business is really really strong with spreads being almost four points on you know giving cash and servicing relief. Can you add some color? Do you continue to see that going into the second quarter? You saw your production up 27%?

Jamie Dimon

The volumes are high. Spread are high, and unfortunately that's offset by that repurchase cost, because that's a revenue item in that and I think so far volumes are still good and spreads are still fairly high.

Paul Miller

And there's a lot of criticism out there that the big banks are not dropping rates as fast as the 10-year and keeping rates too high relative to keep refinancing. I don't agree with that, but can you add some color to what you think about that?

Jamie Dimon

You know, markets set rates, okay? There are a lot of people who can buy or sell mortgages around the world, and that's usually what determines rates. Sometimes it's how much the system can handle. Sometimes it's people's views of credit spreads. It's a whole bunch of different stuff. No bank sets the rate.

Paul Miller

And we saw Bank of America get rid of their brokerage channel. I guess that's becoming a less and less part of the business. That used to be half of the business years ago for the industry. Do you see yourself doing the same thing - it's just not that profitable, not that big of a deal anymore?

Jamie Dimon

I've confessed multiple times that one of the biggest professional mistakes I've ever made was not to get rid of that channel sooner. We did it a while back. I guess you just weren't paying attention. [Laughter.]

Paul Miller

Oh, I'm sorry about that. But it wasn't a very big part, but thanks a lot guys.

Operator

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

Moshe Orenbuch – Credit Suisse

Doug or Jamie, could you maybe talk a little bit about whether you think the model going forward on the mortgage side changes as a result of this? Whether it's expectations of servicing costs, how the MSR is valued. Is there something structural that's going to change as you go through these processes and everybody else is doing the same thing?

Jamie Dimon

No. The spreads will go up and down, the volumes go up and down. It's still such a critical product for the American consumer. We don't know how the GSE is going to be redone or the mortgage markets. And we do think a lot of work needs to be done on both. At the end of the day, servicing mortgages and originating mortgages for clients will still be a good business with we think a good return. And the MSR, I think the only material change in the MSR is when we all decide the rates are low and low forever, and [unintelligible] are low and mortgage rates are low and low forever, MSR is one big I/O. How we handle that MSR might be a little bit different.

Moshe Orenbuch

And just following up on that loan growth question, it just would seem that at some point you would start to get a higher retention of mortgages, at least adjustables and maybe even some of the shorter dated fixed. Do you see that as something that could happen during 2011?

Jamie Dimon

Yes, but remember every portfolio decision is almost a discrete decision, so whether we retain a Fannie Mae or Freddie Mack [ho-loan], which is conforming, or buy an adjustable rate security in the securities portfolio, those are almost the same kinds of decisions. So you have seen some of that taking place, but it's in the securities portfolio, not in the balance sheet or retail.

Doug Braunstein

We also, just by the way, we do generate - and it was a very strong quarter on a relative basis, in asset management for mortgages, and that also - we retain much of that from the balance sheet. I think a billion and a half this quarter.

Jamie Dimon

Remember when you look at the jumbo mortgage, by the way, because the agencies increased their loan limits, a lot more of the jumbo stuff was going to them. So eventually that jumbo stuff may be done as on the balance sheet of banks.

Moshe Orenbuch

And then just in terms of the process with respect to Basel. You talked a little bit about it. Are you going to be reporting your Basel II to the public? And what are we going to see from a regulatory standpoint during the next couple of quarters?

Jamie Dimon

Well, look, we just told you all our Basel numbers and since they're not effective for years, I think we'll probably be updating you all on what we think - remember Basel II was 10 years in the making, and it was never done. When we get the final - what we think might be close to the final rules, by the end of November, we'll probably start telling you roughly, not specifically, what the Basel III numbers would be, or when we'll be there, and stuff like that. Just so you're aware.

Doug Braunstein

But again, I would go back to a comment that you made before. We can adjust our balance sheet, but it is not our intent to do things that don't make sense as an economic matter to improve over the short term what our Basel III numbers might look like. Because we do have until 2013 for the initial implementation of Basel III.

Operator

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

Mike Mayo – CLSA

Loan demand. I mean the utilization rate you said is still in the low 30s. Is that -

Doug Braunstein

That's in the commercial bank.

Mike Mayo

Right, so you're not seeing any improvement in demand in the commercial bank?

Jamie Dimon

No, actually, I think the way to look at it is that the utilization - [unintelligible] just through middle markets I think it's probably more representative than mid-corporate, because they can go to the marketplace too, but middle market that use their revolvers to grow and expand. That utilization is about the same. But actual loan demand including unused is actually up a little bit.

Doug Braunstein

About $900 million.

Jamie Dimon

And actual balances are up a little bit versus last quarter. So that's the first time in I'm going to say two years.

Doug Braunstein

Now some of it is customer growth, Mike, but we're starting to see some positive signals out there. And I would add, just in that middle market, we've got a healthy pipeline of things that we're looking at.

Jamie Dimon

I hear generally some of the same stuff anecdotally from other banks too.

Mike Mayo

All right, so these are early indicators of accelerating loan growth? It's just that we've heard this for the past year. Is this the real deal?

Jamie Dimon

No, I'd say instead of it going down, it may actually be going up a little bit, but I wouldn't call it accelerating yet.

Mike Mayo

Okay. And then as far as Asia, the investment banking business in Asia is growing nice double digits and Europe's flat, the U.S. is down. What's going on in Asian investment banking, and more generally, how do you think about the build or buy decision when it comes to the Asia consumer?

Jamie Dimon

Okay, so I think the investment banking is doing really well in Asia, and remember Asia is doing well. So we grow with the markets and the economy and we've added bankers and clients and so we're obviously [unintelligible] up there. And I think on the consumer side, there will be no build. There will be no build on the consumer side in Asia. It's too hard to do. We're not going to try. Sometime in the future, that could be two years, one year, or 20, a buy is - I'd put it as a pretty high likelihood.

Mike Mayo

And as far as what sort of prices you think you can afford with the cost of capital being lower with the current interest rate environment, has it gone up?

Jamie Dimon

Yeah, but that's what I'm saying. I wouldn't pick the timetable here. If it doesn't make sense to [unintelligible] we're not going to do it. I think we create the most opportunity for JP Morgan really buying - and remember you don't buy weak consumer. You basically buy a bank, and it comes with all the attendant businesses with it. I think the time will be when JP Morgan is doing well, the dollar is doing well, financing costs are low, and maybe Asia's not doing quite as well. I would say now is not the time. We may do something now, but I don't think it will be of the nature you're talking about.

Mike Mayo

And then a clarification - the foreclosure suspension, it's a matter of weeks instead of months? Did I hear you say that?

Jamie Dimon

No, [unintelligible] weeks to clean up the files. But we actually have to have real in-depth conversations with regulators and AGs and stuff like that, so I don't know exactly when. I'm hopeful that it all starts to move at one point. I don't know if it's going to be three weeks or five, but I think it would be a real shame if we don't get this resolved and moving again.

Mike Mayo

So in all likelihood you should be allowed to foreclose as we go into next year?

Jamie Dimon

Yes, I hope so, but it's not up to me.

Mike Mayo

Okay, and then lastly, just clarification. So you're guiding toward $1 billion of realized repurchase losses per quarter in 2011?

Doug Braunstein

No, that's all of 2011.

Mike Mayo

So $250 million a quarter? And you expect to continue to build reserves above that $250 million a quarter -

Jamie Dimon

No. It's $250 million a quarter of expense. It's not clear we're going to get any additional reserve. If we do we'll add some. We'll move pretty quickly. But at one point the $3 billion will be excess. So there's a good chance that it will be $1 billion expense for four quarters to six quarters, and then that expense will be going against the reserve, which we'll no longer need.

Mike Mayo

So this quarter is really an exception, then, as far as your reserving?

Jamie Dimon

You know, Mike, I hope so, but we can't promise that. It could be the end of it but there's a chance that things deteriorate in a way we don't understand. And maybe we also look at a lot of underlying assumptions, you know, requests, aging, vintages, loss rates, etc. and if those change, obviously we'll have to change the reserves a little bit.

Operator

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

Chris Kotowski – Oppenheimer

On page 17 of the handout it looks like there's a discrepancy between the upper and the lower parts of the table with credit card and subprime, the early delinquencies continuing to trend down substantially. And that's kind of what I would expect from - given the month to month numbers that you can get out of Fannie or Freddie or LBS. They all show the delinquencies trending down. But we don't see that in the upper part of the graph - the home equity or the prime mortgage, and I wonder what accounts for that discrepancy and how long do you think those two patterns diverge?

Jamie Dimon

We don't know any better than you do, with one comment. Home equity will lag. Because home equity, by its nature, we find lags the underlying prime and the underlying real estate and lags more than most other things. We try to account for that in our reserving, so we actually adjust for it in how we reserve.

Doug Braunstein

And I'd add the bottom right, that card delinquency trend, we're guiding you to towards a charge-off rate down 50 basis points for next quarter. So based on what we've seen near term that's the direction we'd expect that to head.

Chris Kotowski

Okay. And then on a separate issue, can you comment with how comfortable you are about the robustness of the MERS system. People have raised issues about MERS being both principal and agent and the separation of -

Jamie Dimon

We stopped a while back using them for that purpose. And so I don't think it's as relevant to us as to other people. And we're not going to comment on all the other underlying things. I think one of the things you've got to remember - you know there are, we've known, there are issues in the mortgage business. But for the most part by the time you get to the end of the process we're not evicting people who deserve to stay in their house.

Operator

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

Jim Mitchell – Buckingham Research

Maybe just a quick follow up on Basel, and more the impact from a competitive standpoint. You alluded to this at the conference, Jamie, but we've done some work and dug into it and it really seems to be a big difference between on the market risk calculation between the European banks and the U.S. banks, and you can see that in the leverage difference. If the incremental returns of the foreign banks - if that persists and the incremental returns of the foreign banks on, say, fixed income trading is much higher, can they undercut you? Is there a competitive issue here? Or how do you think about the risk-weighting calculations and sort of normalizing the amount of -

Jamie Dimon

Let me make a couple of - First of all, it's been this way for a long time, and it didn't undercut us. Number two, the regulators have said that they're going to try to make sure that they understand that these things may not have been equally applied in jurisdictions around the world. And it is incumbent on them to make sure there's a level playing field. Because you've noted the same thing that we've all noted. So I'm not going to worry about it particularly much right now.

Jim Mitchell

So you think it's doable? Okay. And maybe just one question on the repurchase stuff. It's all been kind of lumped in but can you give any color on the non-agency stuff? I think that's a big question out there. I think some people have gotten - we've all gotten a little bit more comfortable around the agency side, but the non-agency side's a little tougher to get our hands around.

Jamie Dimon

I'm willing to say one thing about it, okay?

Jim Mitchell

Sure.

Jamie Dimon

In repurchase reserves and litigation, it's unclear exactly how or where it's going to show up, but we do think there will be some of that. And when we make the statement that some of these costs may go on for a while it relates also to that. That while we're burning through the vintages or the GSEs there are other vintages where there may have been more of a time lag than that. And I think it's also important to note that they're fundamentally different, because a lot of the private label stuff didn't have the same rules, requirements, disclosures. So they're all different, but loan by loan it's going to have some of the same characteristics that people are right. You're going to have to make them [unintelligible]. Hopefully if they're going to sue just to win they're making a huge mistake.

Jim Mitchell

Right, but you're already contemplating some of those issues in your current reserving?

Jamie Dimon

To the extent we can, you know? Reserves are - you can't guess and put up numbers, but to the extent we can. I think the question is, between the reserves we have is how long losses relating to repurchase, whether it's GSE or private label, and whether it shows up on the litigation or repurchase, how long they go on for. We don't expect it to be a blowup kind of number. We expect it will be they'll just drag out these losses as these things play themselves out.

Operator

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

Matt Burnell – Wells Fargo Securities

Most of my questions have been asked and answered but I guess one specific question and one general question. In terms of the commercial lending, and you've noted there's some life in that portfolio for the first time in a couple of years, you also mentioned there's been some improvement in your sales capacity on the commercial side in the WaMu franchise. I'm just wondering if those two trends are simultaneous, if you're seeing more demand or more growth out of the former Washington Mutual business opportunities, or are you still just harvesting what you had in the Chase business.

Doug Braunstein

Well, I think it's a little bit of both, but more the latter, which is I think we've been putting bankers on the ground, and building customer relationships in those states where WaMu did business. We're using the branch networks there very effectively and the result of that is as I said we added 500 new customers in the quarter in our middle market business, and that's a very positive trend. We'd expect that to continue.

Jamie Dimon

Charge-offs were what in the middle market?

Doug Braunstein

Charge-offs were 89 bps.

Jamie Dimon

In middle market.

Doug Braunstein

Oh, in middle market they were 20% of that.

Jamie Dimon

So middle market charge-offs were very good. And I think we should point out that deposits in this commercial bank are up dramatically, so we actually think the balance sheet of these companies are in very good shape.

Matt Burnell

So that implies that we shouldn’t necessarily assume that there would be deposit decreases before we start seeing loan increases in commercial?

Jamie Dimon

I think you might see that, because they might use deposits before they take down loans. I'm just saying we think they're in good - like corporate America's in good financial shape. We think the middle market commercial banking in America is in good shape too and they're just waiting for orders.

Matt Burnell

And Jamie just a big picture question. I just wonder if you have any thoughts or color on the recent FDIC rule-making paper talking about potentially providing preferential treatment for short-dated obligations relative to long-dated obligations in a wind-down and how that might affect your fixed income business.

Jamie Dimon

I don't think it's going to affect our fixed income business at all. I think that all this resolution activity is - it's important that it be done right and I think you see a lot of toing and froing as people figure out what the right part is. It's going to be some [unintelligible] coordination. It really does need to be done right. The devil's in the details, but it's not - as of yet I don't see a change in our fixed income business at all.

Operator

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

Nancy Bush - NAB Research

Two questions. The first related to the foreclosure issues, and whether there are going to be any extraordinary expenses associated with that. And is the level of expense in that whole activity now going to be higher going forward?

Jamie Dimon

I think I already mentioned that the way I look at it we're bearing $5 billion of charge-offs a year, $1 billion in repurchase reserves a year, a lot of re-owned foreclosure, which I forget off hand, but it's big numbers. Those numbers may bounce up and down and probably will go up a little bit because of this, but I'm not sure they're going to materially change because of this. And there will be litigation, I put to the side, I don't know how it's all going to be sorted out.

Nancy Bush

Secondly, Jamie, this is more a question for you. The head of the Boston Fed, Eric Rosengren, made some comments a couple of days ago about the need for banks to proactively cut their dividends in times of stress and that the banking industry had not moved swiftly enough to cut dividends, etc., etc. It seemed to indicate an extraordinary amount of hostility toward banks paying dividends. Can you just give us your commentary on that? You seem to be the only person in the industry who is still confident that you will be able to raise your dividend in the first quarter of 2011. Could you just give us your thinking on the Fed's attitude right now?

Jamie Dimon

I didn't say confident. I said hopeful. But I think people make a good point. The banks going into this crisis, not all of them, I don't want to paint them all with the same brush, some of them kept their dividends really high for a real long period of time when they should have been retaining the capital. And with real low capital ratios. So I think actually some of those complaints are legitimate, but they're not legitimate for everyone involved. The new 7% Basel III incorporates that as you go below the buffer, the first 2.5%, that there will be restrictions on dividends and comp. And personally, I think that's perfectly reasonable. Now it's where they set the limits, and how they set it, but to me that's fine. The lower the number you get the less you can raise dividends and may have to cut dividends, have to cut comp and that's not unreasonable. That's the way a company should be run. So I think that's probably what he was referring to, that we build it into the regulatory regime as opposed to not. But the other thing about dividends, it's really just the - it's so much uncertainty. It's clarifying now around Basel III, capital requirements, systemically important firm requirements, resolution - the people are being a little hesitant on capital. They do want to have more clarity around it. I think we have more confidence because there's so much damn capital.

Operator

Your next question comes from the line of Carole Berger with Soleil Securities.

Carole Berger – Soleil Securities

I was just curious what you - Jamie - what do you think it's going to take to get the industry out of the doghouse and no longer a member of the evil empire of this administration? And secondarily, is it possible that you're actually benefitting from the fact that the industry is under so much pressure?

Jamie Dimon

I don't think we're benefitting from the fact the industry's under pressure. You're not going to see a big turnaround in sentiment until we have a healthy and growing economy. And I also think you're going to see a lot of rules and regulations. It could take a year or more to go through and that's just our lot in life, and we've just got to deal with it.

Operator

And you have no further questions.

Jamie Dimon

Folks, thank you very much. And Doug, congratulations on your first time.