Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's First Quarter 2012 Earnings Call. This call is being recorded. [Operator Instructions] At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Doug Braunstein. Mr. Braunstein, please go ahead.

**Douglas L. Braunstein**

Thanks, operator. I'm going to be taking you through the earnings presentation, which, as you know, is available on our website. And I'd also ask everyone to refer to the disclaimer regarding forward-looking statements at the back of the presentation.

And with that, if you all turn to Page 1, for the quarter we generated net income of $5.4 billion, $1.31 per share. That's on revenues, $27.4 billion, up 6% year-on-year, 24% quarter-on-quarter, return on tangible common equity of 16% for the quarter. And I'll characterize solid performance across most of our businesses, particularly strong results in the Investment Bank and a significant improvement year-over-year in Mortgage Banking.

There are a number of significant items that we're highlighting here on this page. We do that every quarter. It includes DVA, reserve releases, litigation build and WaMu settlement.

Every quarter, we also have some modest pluses and minuses. We don't put these upfront. But if you did total these significant items, they had an aggregate negative impact of $0.09 a share on our reported numbers this quarter. I'm going to discuss them in much more detail as we go through the financials.

Strong capital generation in the quarter. We ended with Tier 1 common of $128 billion. That's up 5-plus-billion dollars, strong Basel I and Basel III ratios of 10.4% and 8.4%, respectively.

And I wanted just to highlight a couple of trends for the quarter, and then we'll go into the businesses. First is if you look across our businesses, we have continuing signs of underlying fundamental growth. So 23% loan growth across Wholesale year-on-year. Record middle-market loans this quarter, up 19% year-on-year. $4 billion of credit provided to small businesses. That's up 35% year-on-year. Record retail channel mortgage originations, up 11% this year. Deposits and CBB, up 8% year-over-year. Sales volume in card, up 12% year-over-year, and so the underlying fundamentals year-on-year look strong.

On the credit side, we continue to have stable and good credit results in our Wholesale business. And on the Consumer side, real continuing improvement in Consumer. And I would say in aggregate, we're putting on better quality loans today from that loan growth. Just 2 quick statistics: in mortgage, net charge-offs are down 25% year-on-year; in card, net charge-offs are down 37% year-on-year.

So with that as sort of an underlying theme, let's turn to the Investment Bank on Page 3. And for the quarter, you see circled net income of $1.7 billion. That's on revenues of $7.3 billion, reported ROE of 17%. On Page 1, we did highlight $900 million in DVA losses pretax for the IB this quarter. And as we've mentioned consistently in the past, we don't consider the DVA as a part of our core business results. And in fact, after the changes from this quarter -- if you remember the spread widening we saw in the third quarter of 2011, where we booked a $1.9-billion gain on DVA, in the last 2 quarters we've now reversed $1.5 billion of that. And obviously, if spreads returned to the level they were last summer, we would have gone round-trip.

So I'm going to focus on the IB numbers, excluding all DVA. So in the first quarter, revenues were $8.2 billion, $2.2 billion in net income, and we had a 23% return on equity. And that -- those numbers are all very comparable to what was a very strong first quarter of 2011, but I do want to remind everyone that we tend to have a seasonally strong first quarter to start the year. IB fees in the quarter of $1.4 billion, that's down 23% year-on-year, up 23% quarter-on-quarter. And if you look on Appendix Page 9, you'll see we continue to maintain our #1 market-leading share in fees.

Markets revenues were relatively flat year-on-year. On a linked-quarter basis, revenues were up significantly. Fixed Income revenue was $5 billion, and that reflected continued solid client revenues across the products, particular strength this quarter in our global rates business. Equities revenue of $1.4 billion, really improved results across cash and derivatives and we continue to have improving performance from our prime services. We are seeing increased balances there, a little improved leverage in the markets and a modest uptick in spreads. Credit Portfolio revenue was a little over $400 million, up from the fourth quarter, and then expenses in the quarter of $4.7 billion were down 6% year-on-year. The comp-to-revenue ratio x DVA, which is the way we manage it, was 35% for the quarter.

If you go directly to Page 5, Consumer & Business Banking, you'll see circled net income of $775 million. That's down 13% year-on-year and an ROE for this business of 35% for the quarter. Revenue of $4.3 billion, that's relatively flat quarter-on-quarter, but down 4% year-on-year. And that reduction year-over-year is generally consistent with our guidance on the impact of the Durbin Amendment, which we had this quarter and didn't come through in the first quarter of last year.

We continue to see solid year-over-year underlying performance trends in the business. So the deposits, up $29 billion, which I talked about, up 8%. We believe that's a growth rate faster than the industry growth rate. Business Banking originations, up 8% year-on-year. We had very strong investment sales this quarter as the markets improved, and we continue to build out CPC, our Chase Private Client business, up 41% quarter-on-quarter. And in fact, client investment assets of $147 billion is a record for Chase wealth management.

On Page 6, you see Mortgage Production and Servicing, circled net income of $460 million for the quarter. That compared with a net loss of $1.1 billion in the prior year, so $1.5 billion swing year-on-year. We had very strong production-related revenues of $1.6 billion. And that's driven somewhat by higher volumes, so originations were up 6% year-on-year. Applications, as I mentioned, up 33%. A very favorable refinancing environment, including the impact of HARP 2.0, but we also had higher margins this quarter as a function of those volumes and some mix issues. And we should be cautious about that because we're likely to see those margins return to more normalized levels on a go-forward basis. Repurchase losses in the quarter were $300 million. That's lower than our expectations on a quarterly basis, which remain $350 million, plus or minus. In large part, that was a function of timing.

And if you now move to the servicing side, in the middle of the page, you'll see expenses there of $1.2 billion. That includes approximately $200 million of cost for the foreclosure-related matters associated with the settlement. So if you exclude that $200 million, servicing cost continued to remain very elevated at $950 million for the quarter. And of that number, $700 million is related to default expense, which was essentially flat quarter-on-quarter, but very, very high.

As we discussed at Investor Day, you should expect to see our servicing cost come down over time. Volume of delinquencies, as the units decline, cost will come down. We're also working very hard to make our processes more efficient. And over time, you would expect, consistent with what we shared over Investor Day, that our normalized expenses for servicing should be in the $300-million to $350-million range, but that will take a number of years to get to.

On Page 7, you see our Real Estate Portfolios. Circled net income of $500 million in the quarter. That compares to a loss of $160 million in the prior year. Revenues down 7% year-on-year. It's the result of the runoff we've been talking about for a while. Loan balances are down $24 billion, 11% year-on-year, consistent with our guidance. And we've said that you can expect a reduction in NII in this portfolio of about $500 million, plus or minus, for the year, as we continue to run off the WaMu portfolio and our other noncore mortgage assets.

Credit cost, you see the benefit of almost $200 million, and that is a function of delinquency trends improving across all the mortgage asset classes, including home equity. You see a circled number of $808 million for the quarter in net charge-offs, and as I mentioned, that's down 25% year-on-year. So based on the reduction in the delinquencies, which, by the way, is in the appendix on Page 16, the resolution of the foreclosure settlement and what we're seeing as stability in our severity numbers, we reduced our allowance this quarter by $1 billion. That's, again, part of the significant items on Page 1. But I will say even after that reduction, allowance coverage remains at 6% for the portfolio, $7.7 billion, which is a very conservative approach to our risk. And quite frankly, the $1-billion release is reflective of what we had to do as an accounting matter.

I would note one other reporting change here, which is due to the industry-wide regulatory guidance. We moved $1.6 billion of our high-risk seconds into the nonperforming loan category, and that's despite the fact that $1.4 billion of those $1.6 billion are current today. As you know, we've identified those high-risk seconds early. We put reserves up against them early, and so our reserves remain unaffected. But if you excluded these changes, NPLs would have trended down year-on-year, down quarter-on-quarter, and the same would be true at the company-wide level as you look at the company statistics.

On Page 8, Card Services & Auto, circled net income of $1.2 billion, that's on revenues of $4.7 billion. Revenues and outstandings are lower year-on-year, that's the impact of runoff, and modestly lower quarter-on-quarter. And that's primarily due to the seasonal growth that we saw and we tend to see in the fourth quarter around the holidays. We did see strong sales volume in card, as I mentioned, up 12%. But if you exclude the sale of Kohl's, sales were actually up 15% for the system. And the new product sales growth for our Freedom, Sapphire and Ink products were actually in excess of that growth rate. Auto originations, also up 21% year-on-year, and that quite frankly reflects higher industry sales.

Credit costs of $740 million really reflect 2 factors. Total net charge-offs are $1.5 billion. That's down a little under $900 million year-on-year. We've got lower delinquency and net charge-off rates circled for card at the bottom of the page. We do expect, by the way, the net charge-off rate to be 4.25, plus or minus in the next quarter. I'd also note loss rates in auto remained very low. We recognized 28 basis points of charge-offs this quarter. And as a result of all of that information, we released $750 million this quarter in card. And again, reserves here remain very robust even after that release.

One other comment on card expenses, we're up 6% year-on-year, and that really was related to exiting a noncore product in the business.

Page 9, Commercial Banking. Circled net income of almost $600 million on revenues of $1.7 billion, a 25% return on equity, and that's based on a higher capital allocation for this business this year. 9% year-over-year revenue growth that's been driven by the themes we've been talking about, growth in loans and liability balances, and that's offset by the spread compression we've experienced year-on-year.

It is our seventh consecutive quarter of loan balance growth. You see the circled loan balances of almost $116 billion, up 16%. We had record revenue and record loan balances in our middle-market business for the quarter. That was up 19%. C&I loans, up 24% year-on-year, and I think the best of what we've got in industry data. Industry volumes are up 12% year-on-year. So if you think of all that, it really does reflect 2 underlying trends: growth, we believe, in terms of demand; as well as a combination of improvements in market share across those product sets. I will continue to note, utilization does remain relatively stable, where it's been at a low rate for the last several quarters. Credit costs were $80 million in the quarter here, but net charge-offs were exceedingly low at 4 basis points.

Page 10, Treasury & Securities Services, solid results here. Net income of $350 million, up 11% year-on-year, 40% quarter-on-quarter. Revenues of $2 billion, up 9% year-on-year and that's, again, resulting from some underlying fundamental trends that are offsetting that spread compression that we've talked about. Liability balances are up 34%. International revenue was up 12%. Assets under custody is a record $17.9 trillion, up 8%, and trade finance loan balances are up 40% year-on-year. You will notice there, by the way, we had a modest decline in trade finance quarter-on-quarter, really a function of a little bit of seasonality and, I would say, an increased return of competition, particularly from some of our European competitors in the fourth -- in the first quarter.

Page 11, Asset Management. We had improved quarter-on-quarter results in AM, largely driven by market conditions, but we are down from what was a strong first quarter 2011. Circled net income of $386 million, that's on revenues of $2.4 billion. The results were really driven by some underlying growth, as well as the market improvement we saw this last quarter. It's the 12th consecutive quarter of long-term flows, $17 billion, $43 billion over the latest 12 months. And we did set records for assets under supervision and records for assets under management. Expenses were up year-on-year, and that's largely been from the investment spending we've been talking about for a number of quarters.

Page 12, Corporate and Private Equity. Private Equity net income of $130 million, that's on $250 million of revenue, predominantly mark-to-markets for public positions and some modest realizations this quarter. So Corporate, we recorded a net loss of $700 million, and the loss included 2 significant items.

The first is a $2.5-billion addition to our litigation reserves, predominantly mortgage-related, and we identified that up on Page 1. So I'm going to make a couple of comments here on the litigation reserve. As you know, including the actions this quarter, we've been building very significant reserves. We believe that currently, these reserves are both comprehensive in nature and appropriately conservative, given what we know about these exposures, including the information in the first quarter of this year. And I would say, absent a material adverse development that could certainly change our views, we don't anticipate making material addition to these reserves over the course of the year, but I do want to caution the fact that circumstances can change. Reserves can go up; they can go down. But we feel, based on what we know today, that we're unlikely to add materially to this position.

We did book, in addition, a $1.1-billion pretax gain that was also identified on Page 1. That is from the WaMu bankruptcy settlement. And if you excluded those 2 items, Corporate net income, excluding PE, we note on the right -- bottom right, was $175 million for the quarter.

Page 13, the Fortress balance sheet. I've covered a lot of the topics already, but let me just add 2 comments to the page. First, as you know, we authorized a new $15-billion share repurchase. We've spent approximately $450 million year-to-date on that new authorization. And for those that are likely to ask, it's at a price of about $44.75.

Second, on trust preferred or TruPS, we have $20 billion outstanding, as you all know. We do expect to redeem $10 billion of that $20 billion in total this year, and that is pursuant to the capital plan that we submitted in the CCAR process. And for much of that -- those securities, we're going to wait until there is a regulatory call event to call those. We were in the market for a $400-million call on a single security that didn't require that trigger. And for the remaining $10 billion, currently, our view is that is very attractive long-term financing.

On Page 14, we do have the outlook. I think I've covered all of that. And so before I turn it over to Jamie, I did want to talk about the topics in the news around CIO, and just sort of take a step back and remind our investors about that activity and performance. We have more liabilities, $1.1 trillion of deposits, than we have loans, approximately $720 billion. And we take that differential and we invest it, and that portfolio today is approximately $360 billion. We invest those securities in very high-grade, low-risk -- we invest those dollars in high-grade, low-risk securities. We've got about $175 billion worth of mortgage securities. We've got government agency securities, high-grade credit and covered bonds, securitized products, municipals, marketable CDs. The vast majority of those are government or government-backed and very high grade in nature. And we invest those in order to hedge the interest rate risk of the firm as a function of that liability and asset mismatch. We hedge basis risk. We hedge convexity risk. Foreign exchange risk is managed through a CIO, and MSR risk. And we also do it to generate NII, which we do with that portfolio.

The result of all of that is we also need to manage the stress loss associated with that portfolio and -- so we have put on positions to manage for a significant stress event in credit. We've had that position on for many years, and the activities that have been reported in the paper are basically part of managing that stress loss position, which we moderate and change over time, depending upon our views as to what the risks are for our stress loss from credit.

All of those decisions are made on a very long-term basis. They're done to keep the company effectively balanced from a risk standpoint. We are very comfortable with our positions as they are held today. And I would add that all of those positions are fully transparent to the regulators. They review them, have access to them at any point in time, get the information on those positions on a regular and recurring basis as part of our normalized reporting. And all of those positions are put on pursuant to the risk management at the firm-wide level.

The last comment that I would make is that based on, we believe, the spirit of the legislation as well as our reading of the legislation, and consistent with this long-term investment philosophy we have in CIO, we believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker. So with that, maybe Jamie, I'll turn it over to you before we open it up for questions.

**James Dimon**

Yes. So Doug, thank you. So let me just -- I'm going to talk about one thing, and then we'll open to your questions. One is the stock buyback. Obviously, we've got permission to buy back $15 billion of the stock. We would have preferred to have been able to buy back substantial amounts below tangible book value, but we were unable to. We will always, as a disciplined buyback of the approximately $3 billion we issue every year, and that's the $3 billion we issue mostly for comp, and that's not on a GAAP basis just because we issue before vesting, et cetera. At 45, we will -- we reserve -- right now, we're buying back at that rate, but we may do more.

So we reserve the right at any point in time to do whatever we want, and it's based upon basically 4 things. What are the organic opportunities? They might be there, portfolios or more organic growth. What are the investment opportunities? There are a lot of things you can buy, both investments or acquisitions, which we don't really expect big ones now. Our own desire to get quickly -- how fast we want to get to our new capital requirements under Basel III. And the stock price. So it does not mean at 45 -- obviously, if the stock goes up, I think we'll be consistent and we'll buy less. When it goes down, we'll buy more. We're a buyer in size around tangible book value. And then, obviously, we reserve the right to change that at will. So let's open up to questions or comments about any subject at all.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] Your first question comes from the line of Glenn Schorr with Nomura.

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

Jamie, just because you brought it up, I think it's interesting. If you took the midpoint of the range that you outlined in the shareholder letter and you took the $23 billion, $24 billion of over-the-cycle earnings, that's a sub-7x multiple. It seems very attractive that the midpoint of the range is -- I'm just curious on how you think through the valuation when you're thinking about the use of proceeds on the buyback.

**James Dimon**

Well, I mean, like you say yourself, I mean, you can do –- anyone can do the numbers. A tangible book value is extremely attractive at 40 or probably even very attractive at 45. I'm not saying it's not attractive, but our best thing is to grow our business and not to worry about buying back the stock. We're going to buy back the stock when it's a bargain, not just because we feel like it. And so you guys can all do the numbers and it's not going to tell you what we're going to do.

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

All right. Fair enough. If you look on the quarter -- for year-on-year basis, expenses are up like 15%, and now there's more -- there's litigation cost in there and things like that. I think on the Investor Day, you had suggested flat expenses year-on-year. Obviously, it depends on Investment Bank revenues, but can you just talk about that revenue expense dynamic?

**James Dimon**

We said flat expenses. We still expect that. The first quarter was a little bit higher because of FICA and payroll, a whole bunch of things like that, and some one-off expenses that run through there, and that's flat if you back out IB comp and extraordinary stuff. That number should be about $12 billion a quarter. Obviously, it was a little bit higher this quarter to do that, but it will come down over time, we think.

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

Okay, so still flat?

**James Dimon**

Remember, it's flat, but we're still doing a lot of investing. So we aren't getting other efficiencies to help pay for the investing.

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

Fair enough. And maybe last one for me. I think the fear around issues in Europe has started to subside post-LTRO, and I think we discussed that last call. We got a little bit of a scare over the last week or 2 with Spain. Just curious on your thoughts right now. Where are we in that process? And do you still feel comfortable on the counterparty exposures?

**James Dimon**

Yes. I constantly read about counter party. Our numbers, we disclosed around $15 billion, a little bit higher than that now. They obviously move around. I would still say exactly the same thing. The LTRO was a massive thing that took the -- a real catastrophe in the showing [ph] off the table. But obviously, the world is going to evaluate over time whether the fiscal union is tightened and given teeth and carrots and sticks and all that. And it's going to look at Spain and Italy's both austerity and growth plans, and it's going be like an accordion for the next 18 months. So I'm personally not going to react to that, but I think they have to do some things to give it the real stability. The LTRO wasn't sufficient. It was not a -- it was a short-term fix, not a permanent fix.

**Operator**

Your next question is from the line of Guy Moszkowski with Bank of America.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

On the CIO question, which obviously you've addressed and has gotten so much attention in the press this week, can I just ask one further question, which is, are all of the results of the CIO group reflected with -- only within Corporate and other? There's no sharing of any of those results with, say, FICC in terms of the reporting that we would see in the Investment Bank.

**James Dimon**

No. God no. No, no. A lot of the NII is given to the businesses that generate the deposits on a consistent fund transfer methodology, which -- but not with the Investment Bank. Remember, a lot -- and most of that portfolio is an AFS portfolio. Not all of it, but most of it.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

Right, fair enough. It just...

**James Dimon**

We disclose both realized gains, unrealized gains and mark-to-market gains. You get all of that.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

Yes, that's just a question that I ask in order to sort of assess the "tempest in the teapot" nature of the stories relative to the revenues that we see with it, because it don't seem to be that big.

**James Dimon**

It's a complete tempest in a teapot. Every bank has a major portfolio. In those portfolios, you make investments that you think are wise, that offset your exposures. Obviously, it's a big portfolio. We're a large company and we try to run it. It's sophisticated, well, obviously, a complex thing. But at the end of the day, that's our job, is to invest that portfolio wisely and intelligently to -- over a long period of time to earn income and to offset other exposures we have.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

Okay, then turning to the capital questions. Obviously, you've had a rapid growth towards your eventual Basel III targets, although, of course, we still don't know exactly what they are. And you've alluded to the conditions under which you would return capital through buybacks. But what about the potential for, say, special dividends along the way? If you felt that you had excess capital and the share buybacks were not that attractive, how would you think about that?

**James Dimon**

Guy, I think the right way to look at it is ask that question in 2 years. I mean, we're not at the Basel III targets yet. Obviously, you should expect dividends on a regular -- we may change our mind, but on a regular annual basis from us that will look at what to do. Obviously, it's a board-level decision, but there's going to be -- surely be no special dividend before we know what the real capital rules are. So take that off the table.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

Okay, that's completely fair. Mortgage origination, you alluded to better spreads obviously, and maybe you could just give us a little bit more color of how that came through, because it certainly does look like they improved meaningfully, given how the revenue evolved versus last quarter, versus the origination volumes.

**James Dimon**

There were several hundred million higher than what we would call normal, for a whole bunch of different reasons, including HARP, supply/demand, the price at which Fannie Mae and Freddie Mac are buying and securitizing things, so I would expect that to normalize over time.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

Okay. Then the last one for me is a related one, which is that looking at the mortgage apps that you received during the quarter, which would presumably tell us something about originations out a quarter or so, that's up very, very strongly. Factoring in the HARP and everything else, is that a pretty good indicator that we should expect origination revenues to improve at least in the quarter or so ahead? Or should we discount that in some way?

**James Dimon**

It's a measure of what you're going to get next quarter on revenues, but not -- on the volumes, but not necessarily on the spreads.

**Operator**

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

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

Questions on trading. Equity trading revenue seemed better than expected and better than the industry cash volumes. Any color on what helped you guys there? Was equity derivatives particularly strong? Or any other color?

**James Dimon**

They were a little bit stronger, yes.

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

And then could you give us some sense of how trading revenues trended month-to-month during the first quarter, and maybe it's early, but how things are so far in April?

**James Dimon**

We're not going to go through month-by-month numbers. I would say so far, it was 10 days. There's going to be 60-plus days this quarter, and the 10 days is a little bit lower than we saw in the first quarter. That, in my opinion, does not reflect the next 50 days. So Doug mentioned there's usually been regular seasonality in the business, not just for us but for everybody, so whether that continues or not, who knows?

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

Okay. Just following up on Glenn's expense question. So kind of x the IB comp and special items, you're shooting for kind of flattish this year. That's in like the $48-billion ballpark for the year.

**James Dimon**

Yes. A little over -- it was $49 billion...

**Douglas L. Braunstein**

It was $49 billion and change and -- John...

**James Dimon**

And we're a little over that...

**Douglas L. Braunstein**

And we're a little over on a run rate basis, flat actually quarter-on-quarter, but a little over on a run rate basis.

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

Okay. So you're shooting for $48 billion, $49 billion for the year in that ballpark, x all the other stuff.

**Douglas L. Braunstein**

Right. And that would include -- that includes all the investment spend, as Jamie mentioned.

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

Okay. And is comp to revenue of 35% this quarter, is that a decent guide to the year, do you think?

**James Dimon**

Yes, give or take.

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

Okay. And can you give us any color on the -- why the litigation reserve build was so big? Was some of that the AG foreclosure settlement that just happened this quarter? Or is that -- would that be separate?

**James Dimon**

No, no. It was the completion of a thorough review of all the reps and warranty, all the litigation, all the tranches, all the Bear Sterns, et cetera, et cetera. But the real view about all that, that's all.

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

Okay. And then can you just remind us or can you say what this WaMu bankruptcy settlement action was?

**James Dimon**

It's just a final settlement, some taxes and pensions and certain assets and stuff like that. It's been in the works for 3 years. It just -- we didn't account for until it was all finalized.

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

Okay. That's not related to the FDIC suit about who's at fault [ph] for the putbacks.

**James Dimon**

No. No.

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

Okay. And then, is the net interest income and margin trends from this quarter, that's consistent, Doug, with your expectations for the year?

**Douglas L. Braunstein**

Yes, I would say we're going to continue to see pressure. I wouldn't say, John, for the year, but certainly for the next quarter. And then, we'll see where the world goes. Part of it is, a little bit, we have the opportunity to buy back some TruPS. That may help improve some of the trends, and we're not quite sure when that's going to hit.

**James Dimon**

And part of it is discretionary, like how we invest our long-term funds over time, and we've been fairly conservative in that.

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

Okay. So you are sitting on kind of excess cash that you're kind of waiting for a better environment to invest.

**Douglas L. Braunstein**

And part of it -- part of the reason NIM was down quarter-on-quarter is there were -- we were a little more conservative in the opportunities with that excess cash.

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

Okay. And if you did the $10 billion of TruPS that you are planning, there might be some NIM, or net interest income benefits, Doug, that you've not put into your guidance.

**Douglas L. Braunstein**

That's right. Well, we didn't -- all I'm saying is we're going to have pressure -- the only thing I'd say is we'll see some continued pressure on NIM for the second quarter.

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

Right. You've talked about that in terms of spread compression and runoff, and you just haven't incorporated any impact from what you might do on TruPS yet.

**James Dimon**

No, it is incorporated in other things we talked about.

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

It is, okay.

**James Dimon**

Yes. But, look, the important thing is when we took those portfolio, one of the bigger decisions you make, if you look at our portfolio -- and we disclosed we would benefit from rising rates. A lot of that comes in the CIO, and it costs money to be there. But we think it's a conservative and proper way to run the company because we worry about the fat tails, much higher rates, not much lower rates or -- so we can change that and increase NIM tomorrow, if we wanted to.

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

If we started to see the 10-year go up consistently without Fed funds moving up, would that be something you could take advantage of? Or when you see rates going up, Jamie, it's really...

**James Dimon**

Yes, but we would have to feel at that point in time that we want to do it. And there are other ways to do it. You can buy spread product, not just fixed-rate product.

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

And then more fundamentally, there's a benefit from just kind of the shorter Fed funds going up eventually.

**James Dimon**

Yes, and we've told you all about that, that you'd see in TSS, a couple of hundred million in...

**Douglas L. Braunstein**

CB...

**James Dimon**

In CB, the same, and a little bit in Consumer banking.

**Douglas L. Braunstein**

I'd say, John, from a position standpoint, very consistent with where we were at Investment Day: a 100-basis-point rise in the curve, we generate a couple billion dollars of incremental NII.

**James Dimon**

All things being equal, which they're not.

**Douglas L. Braunstein**

Which they're not, right.

**Operator**

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

**Betsy Graseck - Morgan Stanley, Research Division**

A couple of follow-ups. One is on the special dividend question that was asked earlier. I guess, the reason why -- what I'm wondering is, if you were -- if you decided not to do your approved buyback this year based on what the stock is doing, then why wouldn't you do a special dividend this year to absorb what you were approved for in buyback?

**James Dimon**

I guess, Betsy, we don't know all the final capital rules. So if we were going to buy back the stock, my preference would be get to the -- whatever the rules are, sooner rather than later. That's all. It's not that you've lost the money. You've got -- you can -- I always call that kind of earnings in storage [ph]. You can redeploy your capital later. After we know all the rules and we have excess capital, and that's the best thing to do for shareholders, obviously the board will consider that. We're not going to consider before we get to whatever the known capital rules are. And we're going to know a lot more, remember, hopefully by the end of this year.

**Betsy Graseck - Morgan Stanley, Research Division**

Yes, I mean, the impairment for Basel III is supposed to be out shortly. But I guess the question then is, why are you...

**James Dimon**

Betsy, we're not going to do it before we get to our capital rules, and we don't know what they are.

**Betsy Graseck - Morgan Stanley, Research Division**

Yes, okay. So I guess, but the basic question I have is, you have an expectation for what your capital is going to end up being at year end.

**James Dimon**

We don't know. Our expectation is 9.5 Basel III. We don't know all the RWA rules, we don't know when it's going to come out, and we're not even sure about the 9.5.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. So I suppose the question then is, why are you more comfortable doing buybacks than special dividends?

**James Dimon**

Because buybacks at the right price are enormously valuable for shareholders and just paying out extra cash is not.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. And then on -- just a couple of questions on housing. So obviously, from your letter, housing is much better, green light flashing. I just wanted to understand how that comports with what was presented at Analyst Day -- Investor Day, when you talked about how estimated OREO and foreclosure projections were actually moving up in the near term, as you're getting to the pick through the python. But given your letter, I kind of wondered, well, is your investment...

**James Dimon**

No, no. We didn't say they're moving up. What we said is that they might move up temporarily as some of them get freed up. But if you look at total delinquent -- seriously delinquent loans and total foreclosures from a year ago to today, to the end of this year, they're going to come down. Obviously, they're kind of very lumpy as every bank goes around its own different thing. But homes for sales are down. Inventory is down. Delinquent loans are coming down. Charge-offs are coming down. Real money is coming in. And so we're just saying we're pretty much at the bottom, but -- I don't know the lumpiness by month or by quarter, but we're pretty much at the bottom here as long as you have a recovery. So if the United States goes back into a recession, all bets are off. But you have got 4 million new jobs. Household formation will probably go up. That's all I'm saying. It's not...

**Betsy Graseck - Morgan Stanley, Research Division**

Should the slide might be a little too conservative?

**James Dimon**

What slide?

**Betsy Graseck - Morgan Stanley, Research Division**

Just on where you showed temporary increase in trajectories for OREO and foreclosures.

**James Dimon**

Yes, but I think we mentioned the catch-up now that the AG foreclosure...

**Douglas L. Braunstein**

Betsy, I think that was all around the foreclosure settlement and just being able to work some of the delays through the system. That's it. Wasn't talking about the underlying fundamentals.

**Betsy Graseck - Morgan Stanley, Research Division**

Sure, got it. Okay. And then last is just the high-risk seconds that you outlined, the regulatory requirement to put them in as a non-performer even though 88% are current. You said you had reserves against it. Could you just help us understand how those reserves -- how you set those reserves up?

**James Dimon**

Right. So I think we fully disclosed this about 2 years ago, that we'd identified a long time ago that when -- we were surprised to find out, by the way, that a lot of seconds were still paying when the first no longer was. But when we analyzed, it was pretty obvious it was just a timing difference. That in almost all cases, the first went delinquent, the second eventually went delinquent. And in all cases, where the first went into foreclose, the second was a loss, basically a total loss. So we just recognized our reserving years ago. That's all. We specifically reserved for specifically that thing. So moving it from performing to nonperforming didn't affect our reserves. That's -- and it was $1.6 billion.

**Douglas L. Braunstein**

$1.6 billion in total.

**James Dimon**

We have other little pockets like that. We have 2, by the way, so...

**Douglas L. Braunstein**

We actually identified -- that group was a $4-billion number for us, of which the regulators asked us to move $1.6 billion. So we have reserves for a broader pool than just that moved pool.

**Operator**

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

**Brennan Hawken - UBS Investment Bank, Research Division**

So you guys booked actually a pretty small gain in your Private Equity holdings, which seemed kind of conservative given the pretty significant rise we saw in Equity Markets. Could you comment maybe about that? And is that just a conservative market we should assume?

**James Dimon**

We're always conservative in that.

**Brennan Hawken - UBS Investment Bank, Research Division**

Okay. And then on refi, anecdotally, it seemed like there was a lot of expectation about HARP 2.0 moving a good deal of refi activity. But we haven't really seen that in the Fannie and Freddie MBS at this stage, and we also didn't see a big increase in JPM's volumes either. Is the expectation that, that is going to kick in, in a big way in the back end of the year? When you're taking a look at the pipeline, how many months does it take for that to move through the -- through your production?

**James Dimon**

I guess, let me just put it this way. It is more than we thought. It's picking up a little bit, but I don't think it's going to completely change everything. You were seeing refis anyway, and this just opens up a bigger universe to be refi-ed. Other than that, we just -- I just -- we just couldn't give you the numbers offhand. We may have to get back to you on that.

**Brennan Hawken - UBS Investment Bank, Research Division**

Okay. And then, I guess, last one on regulation. It feels as though, the environment is getting more constructive there, dialogues are improving. Could you maybe give some color around that? Is that your perspective as well? Is it making it a little easier to start to plan your business going forward?

**James Dimon**

Yes, look, I do think it's going to look better. And I do think that a lot of these things resolve during the course of this year. So hopefully, that will be true. It's still a complex environment. We've got a lot of things to do to meet all the regulatory requirements, but I do think it's getting a little better.

**Operator**

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

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

My questions really relate to the impact of lower interest rates. I guess the first would be, branches -- the number of branches are up 5% since a year ago, but revenues in RFS are down 4%. So I know we talked about this at Investor Day, but still the same plans to increase the branches. What metric should we look at from the outside to monitor that progress?

**James Dimon**

Well, I pointed out at Investor Day that branches make $1 million a branch, and we've just adjusted the build to make up for changes from Durbin and other things like that. But we are losing in total, and we disclosed like $500 million a year.

**Douglas L. Braunstein**

Yes, for the NIM.

**James Dimon**

We are running the company such that we expect to get that back. So we're not going to make short-term decisions about branch builds because of short-term spread compression. We think the value is there, and we're doing that. We just are adjusting the branch build. And so what you're seeing is almost exactly we told you. Durbin is $150 million a quarter, NIM is down by about...

**Douglas L. Braunstein**

It would be $400 million year-over-year. And you see the margins in that business decline by 20 bps as a result of that this quarter.

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

And then, more generally, you mentioned that NII could see some additional pressure. What would be the biggest source of ongoing margin pressure as it relates to low rates?

**Douglas L. Braunstein**

Well, we've identified NII from the portfolio runoff, Mike, so that's another -- that's a $500-million number. And as we go through quarter-on-quarter now, you've got spread compression impact in TSS and in CB somewhat leveling off over time. But you'll continue to see a little bit of that, but it will level off as we normalize in a rate environment we've had low for long.

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

And then lastly, why don't we have bigger loan growth? It looks like you're -- you mentioned you had record middle-market loan balances, but still, Wholesale loan growth versus the fourth quarter increased at the slowest pace since 6 quarters ago. So if we have, for good borrowers, the most benign rate environment in our lifetime, why wouldn't we see more loan growth in aggregate?

**James Dimon**

You got to be -- the issue with that is you got -- in our Wholesale, you got really 2 big books, okay? You have the Commercial Bank, which was up substantially. If I were you, that's what I'd look at. You have the Investment Bank, but that one moves around dramatically as big companies borrow, pay it off. You got a bridge loan that goes in and out, a conduit loan that goes in and out. So I wouldn't look at that one the same way. That just can go -- that can move dramatically quarter-by-quarter. But we saw, if you look at the Investment Bank, a lot of debt issuance. That -- usually when you have huge debt issuance, sometimes your bank loans go down.

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

So just one overview insight, it seems like traditional banking isn't doing so great. NII down, margin down, loans were flat for the quarter, utilization hasn't changed. On the other hand, capital markets are doing great. You have phenomenal issuance, great trading. Is there some insight you can give us into the industry? I mean, we have lower rates. It's not necessarily fueling traditional banking. On the other hand, capital markets are doing well. Is this just exaggerated disintermediation? Or how would you describe the current environment?

**James Dimon**

Mike, we've had 8 straight quarters of middle-market and C&I loan growth in the Commercial Bank. We've had probably 4 or 5 or 6 straight quarters of small business loans going up. So if you're looking at the commercial world, that's what I would look at. In the commercial -- in the consumer bank, we've had consistent growth in deposits and we have a NIM going down a little bit because of the interest rate environment. But the underlying deposits, clients, flows is actually pretty good. And credit card spend is good and debit card spend is good, but you have NIM compression. That's -- we can go over it a 1,000 times: we're going to have NIM compression. That's just, if you think of that as like the cost of mozzarella for pizza, when it goes up, your margins go down a little bit. It doesn't mean you're selling less pizza.

**Operator**

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

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

Two things jumped out to me from a big picture point of view. The comp ratio of the Investment Bank was, as you mentioned, lower than a year ago, 35 versus 40. The pace of reserve release and the credit book also accelerated quite a bit. And I guess just from a high-level point of view, you tend to be very conservative when you can be, especially at the beginning of the year. So as we think about each of those 2 buckets, which I realize are completely separate, but as we think about the comp ratio of the Investment Bank, what is it within the businesses that you're trying to change or think that will be different than they've been in the past, where you've kind of erred in the side of being a little more conservative early on in the year?

**James Dimon**

Nothing. Remember, there's a lot of things that go into the comp ratio of the bank. But I think the best way to think about it is, 35, give or take. We've always said 35 to 40. But a lot of things affect that, and that's why we book it because nothing's changed. And the reserve takedowns were in mortgages and credit card and they're required. The accountants look at a whole bunch of numbers, they make you take it down, so we had to take it down. We don't expect -- I think it's important. We don't expect big take -- reduction in reserves in credit card anymore. Mortgage over time will have to come down as the book gets smaller and charge-offs come down.

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

And on the mortgage reserve release, I think this is the first quarter that you had significant reserve release in the RFS. As you think about the pace going forward, based on what you see right now, would you expect something similar?

**James Dimon**

Maybe. We don't really know. We've got to see what happens to charge-offs over time.

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

Okay. And then just coming back to the Investment Bank comp, I mean, as we think about the businesses there, there's been a lot of talk about trying to manage down the comp ratio within FICC. Is that something that's driving the ratio? Is it -- or is it just a different...

**James Dimon**

You're barking up the wrong tree. If you want to model, your model should be 37.5 and just leave it there. Every -- we have consistently, for years, charged capital of the businesses, looked at risk-adjusted returns, multiple-year returns and all the things like that. So our basic methodology is not going to change. You may see the percentage payout come down. We were already at the low end of -- relative to competition.

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

I guess I was less concerned about the specific number and more just thematically. When I was in their, I guess, early February meeting with Jes [and some of the other people I've talked with, it seems like there's just a lot of effort to try and get the FICC comp ratio down. And I was just wondering if that...

**James Dimon**

I think there are reasons that the comp ratio is going to come down, but -- and I know Jes has spoken about it. So I do think there are pressures that will bring it down, which are more related to competitive pressures than just that number.

**Operator**

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

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

Most of my questions have been answered, but just one quickly on FICC trading and the strength there. You talked about the rates business. But is there any way to put color around how much of the strength in fixed income trading was sort of volume-related and how much was basically more market-oriented based on just gains -- mark-to-market gains on sale in the inventory through the quarter?

**James Dimon**

Yes. There is -- it is, but we had very good volumes. And you're absolutely correct. Volumes drive it, spreads drive it and kind of your positioning drives it a little bit, so -- but volumes will be probably the primary driver. Obviously, we want to do a good job positioning the inventory, too.

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

I mean, I think the fear is -- I mean, obviously, the first quarter is usually seasonally strong. The fear is not just that you maybe get a little bit of drop-off in volume after the first quarter, but that some of the strength came and it -- obviously, we can't measure it from the outside looking in. But some of the strength came from just the fact that debt spreads in almost every asset class were tightened so much throughout the quarter. Is there any way to think about that as we try to think about where trading could go for the next several quarters?

**James Dimon**

Yes, all things being equal, when that happens it will be a benefit to your trading results. And if it goes the other way, it's usually a negative. Not necessarily that way because you can position for it. So if I were you, you can look at volume, spreads, and you can make your own estimate. But every company takes different positions and tries to protect itself from that. But all things being equal, that's a back wind for trading, yes.

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

Okay. But no way to sort of give us any sense of how much of a back wind that was in the first quarter...

**James Dimon**

It was a little bit of a benefit this quarter, but it would be a mistake to start to break that out, because you don't have to be positioned that way. That's why it's a mistake to break it out that way.

**Operator**

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

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

Yes, I wanted to come back for a moment to the delinquent mortgage servicing cost issue. And just looking at industry statistics, the number of homes in delinquency have almost dropped by half since early 2010, but the number of homes in foreclosure has stayed flat at like about 2 million, 2.1 million and ever since then hasn't budged. And it seems to be the number of homes in foreclosure that drives the expense levels. And I'm wondering, does the AG settlement kind of give you an ability to break the logjam a bit and to accelerate the process? And/or when should we start seeing the decreased delinquencies translate into decreased foreclosure and foreclosure-related expense?

**James Dimon**

I think we've told you that you should start seeing it like every quarter for the next 8 quarters. It will be a little lumpy, but my guess is 8 quarters from now it will be a lot less than it is today.

**Operator**

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

**Andrew Marquardt - Evercore Partners Inc., Research Division**

I just wanted to circle back on the margin commentary in NII. I think you'd mentioned that perhaps in 2Q, there could still be some pressure, but we shouldn't really read into that in terms of pressure throughout the year. I just wanted to tie that back to kind of the full year commentary about the real estate run-off drag of, I think, $500 million year-over-year, as well as the Consumer business banking drag of, I think you still think about $400 million. How do we think about it in terms of potentially when there would be an inflection point?

**Douglas L. Braunstein**

Andrew, I'd say if you think about it, 5 to 10 basis points for the next quarter; it will moderate a little bit going forward; and then it's going to be a function of, as Jamie said, our positioning and a function a little bit of what the financing market looks like in general. But near term, that's a good indication and that incorporates all of the runoff, all the margin pressure and a variety of pluses and minuses.

**James Dimon**

It's hard to speak about this in a consolidated thing. Probably for the most part, TS will see it. If you see it in Commercial Bank, it's going to be more to pricing pressure than it is to margin pressure loans. And if you see it in -- what Doug said are probably most in the consumer bank, but each business is a little different and...

**Andrew Marquardt - Evercore Partners Inc., Research Division**

That's helpful. And then, any sense of when the real estate drag kind of starts to slow down? When could we see an inflection in terms of C&I and Business Banking, maybe growth offsetting that drag? Is it by the end of the year? Or do we have to wait till next year?

**James Dimon**

I guess, the drag is going to slow down, but it's going to go on for years.

**Douglas L. Braunstein**

And, Andrew, remember, I put that chart up at Investor Day. We're releasing capital with that as well. So the fact of the matter is, as that slows down, it does hurt NII. It goes on -- hurts NII, but it's releasing capital along the way.

**James Dimon**

And it is -- I talked about [ph] this last year, but it was $600 million last year. It's going to be $500 million this year. It's going to be $350 million the year after that. It's going to be $250 million -- it's just going to come down over time as the portfolio runs off.

**Andrew Marquardt - Evercore Partners Inc., Research Division**

Got it. That's helpful. And then just one last ticky-tack [ph] question. In IB, you talked about the DVA loss of $900-million-plus, but there was also a CVA gain this quarter. How much was that?

**Douglas L. Braunstein**

It was about $175 million. We manage that number, as you know.

**Operator**

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

**James F. Mitchell - The Buckingham Research Group Incorporated**

A couple of follow-ups. One on FICC, did you see any evidence of market share gains as some of the Europeans have decided to pull back there? Or was it a more kind of a broad-based business improvement in the FICC line?

**James Dimon**

I don't think we saw any real material market share gains since I've been going [ph] to Europe.

**James F. Mitchell - The Buckingham Research Group Incorporated**

Okay, so you really haven't seen that yet. On the HELOCs, the $1.6 billion that you added to NPAs, is that representative of all of the HELOCs that are behind delinquent firsts? Is that like 100% of those? Or is it just part of the ones that might be behind delinquent firsts?

**Douglas L. Braunstein**

It's a part.

**James F. Mitchell - The Buckingham Research Group Incorporated**

Just a part. Okay, so we don't really have the number on the big picture.

**Douglas L. Braunstein**

Again, no, we identified -- we have $4 billion that are part of that portfolio, of which $1.6 billion had to move. We reserved, as Jamie talked about, across the whole $4 billion of the portfolio. Each of -- there are different characteristics within that.

**James F. Mitchell - The Buckingham Research Group Incorporated**

But why did this $1.6 billion move and not the other $2.4 billion?

**Douglas L. Braunstein**

Because it fit the specific guidelines of LTV that the regulators asked for.

**James Dimon**

That other stuff is better -- has a better LTV makeup than that $1.6 billion.

**James F. Mitchell - The Buckingham Research Group Incorporated**

Okay, I got you. And one last question on the margin. The one thing that was a little strange was that the long-term debt cost jumped pretty material, about 56 basis points sequentially. Was that related to -- was there something about last quarter where you had some debt gains that kind of skewed that? Or why would the long-term debt numbers be going up so materially?

**Douglas L. Braunstein**

It was...

**James Dimon**

You got it.

**Douglas L. Braunstein**

You got it exactly right.

**Operator**

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

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

Jamie, just to change the comp -- the discussion a little bit. We're hearing out there for loan growth, the people that are getting loan growth that there's a lot of price competition and underwriting competition, especially in the commercial markets. And a lot of people bring up your name is being one of the most competitive out there for pricing. I was just wondering if you could add some color to that. And are you taking outsized interest rate risk growing your portfolio?

**James Dimon**

Well, 2 separate things. First of all, there is competition in pricing. I'm surprised to hear it's us. And I've heard that before. We went and checked, and we see no evidence of that. Obviously, we don't want to drive the market like that. It's got nothing to do with interest rate exposure. We don't look at -- we fund -- we try to max fund loans the way we look at loans. We don't say, okay, we'll take the interest rate exposure and pass it onto the client.

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

So you hedged -- so you're just saying you're hedging most of those. If you're doing fixed rate at 5 or 7 years, you're hedging all that out.

**James Dimon**

Yes.

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

And then you're saying you're surprised to hear that your name is mentioned a lot, but especially out West, your name comes up a lot and...

**James Dimon**

Well, Paul, it's because we're a new competitor out West. So obviously, we're competing out West to gain share. Everything we do out West -- remember, we didn't have a big middle-market operation out West, so everything we're doing is taking share from someone, as opposed to like going to Midwest where it's a lot more renewals than it is new business. I understand why you're hearing that out West.

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

And what about underwriting standards? We're hearing that, that's been -- also been cheapened.

**James Dimon**

Absolutely not. It may be cheapened for the industry, but it's nothing to do with us.

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

Okay. And then, one quick follow-up on the expenses related to servicing. With the servicing -- and you've taken some write-downs on servicing already related to higher costs. But is the AG settlement -- does that materially increase servicing costs? Or has that already been factored into your valuations?

**James Dimon**

We reserved a bunch of that stuff in prior quarters. It cost us $200 million in this quarter, and of most the rest is incorporated in loan-loss reserves, and it's already in our higher servicing costs. We've already been running to the consent orders and things like that, so it's not like -- it's not going to add additional servicing cost. We also, as you pointed out, recognize some of it in the MSR already, and we've done the value of MSR relating to some of that.

**Paul J. Miller - FBR Capital Markets & Co., Research Division**

Yes, I know you've done that in the past.

**Operator**

Your next question comes from the line of Christopher Wheeler with Mediobanca.

**Christopher Wheeler - Mediobanca Securities, Research Division**

Two questions on capital, if I may. The first one really is on the Basel III RWA. I know you don't disclose them, but perhaps you could give some indication as to the extent to which you mitigated those, either passively or actively, during the first quarter. That's the second one -- or the first one rather. And the second one really id obviously your enthusiasm for getting to your Basel III ratio. I think you said getting the yolk off your shoulders, at the Investor Day, sooner than later. That's pretty well been taken up by nearly all your competitors apart from one fairly large one in Frankfurt which seems intent on moving fully to 2019 and is obviously sitting on a considerably higher leverage ratio than your good selves. I mean, do you think that you and your peers who are taking this regulatory high road are putting yourself in a competitive disadvantage to this fairly powerful player? Or do you think that the regulatory pressures will start to actually bring you together much more quickly that perhaps they might envisage?

**James Dimon**

Look, I don't think it does that at all. I think we all compete in the marketplace, and I don't think that your capital ratios change your competition that's in the marketplace. And we're all waiting for more guidance from the regulators. It's not like there's a total competition for capital. And then the RWA is 2 pieces, okay? It's really -- one piece is simply the runoff of stuff which is going to go away. That's happening every quarter. We've already talked about the Consumer portfolio running off. There are a couple of things in the IB running off. There are a couple of things. And the second is just the normal adoption of modeling capabilities that can be used in B III, that's all, that were not being used before because we didn't need to. And so it's those 2 things -- and they're rolling in over time.