Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's First Quarter 2013 Earnings Call. This call is being recorded. (Operator Instructions) We will now go live to the presentation. Please stand by. At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Marianne Lake. Ms. Lake, please go ahead.

Marianne Lake

Thank you. Good morning everyone. I'm going to take you through with the presentation, which is available on our website. Please refer to the disclaimer regarding forward-looking statements at the back of the presentation.

So if you turn to Page 1, a very strong start to the year with record net income of $6.5 billion for the first quarter and record EPS of $1.59 a share, on revenue of $25.8 billion and a return on tangible common equity of 17% for the quarter.

You can see on Page 1, we've highlighted upfront two significant items; a $650 million reserve release in mortgage and $500 million reserve release in card. And as I go through the presentation, I'll also be highlighting for you a number of smaller items some positive and some negatives.

We continue to maintain the leadership positions we highlighted at Investor Day; Number One ATM Network, Number Two Branch Network, Number Two Mortgage Originator, Number One Credit Card Issuer in the U.S., and Number One ranking in Global IBCs. And we're on track to deliver against our expense targets for the year.

On a reported basis, total loans for the company were up 1% with core loan growth, excluding run-off up 5%. Favorable credit performance continued in our wholesale and core consumer portfolios with low levels of delinquencies and charge-offs. As the housing market recovers, losses in the real estate portfolio continue to improve and this quarter, we saw 30+ delinquency decline by 14%, and severities improve.

So if you turn to Page 3 for a brief capital update, we ended the quarter with Basel I and Basel III Tier I common of $143 billion and $146 billion respectively, both up from last quarter. Our Basel I ratio is 10.2%, which reflects the impact of new market risk rules that went into effect in January and the 10.2% compares to a ratio of 9.9% the last quarter as measured on the same basis.

Our Basel III ratio of 8.9% is up from 8.7% last quarter and reflects the full impact of the rules (we understand them) [ph]. And as you know, we don't put forward the impact of passive run-off or model-enhancements, which we expect to deliver around 100 basis points of benefit this year and next.

And we still expect to reach our Basel III Tier 1 common target of 9.5% by the end of this year, including the capacity to continue share repurchases. And we've also made progress this quarter and are on track for full LCR compliance this year. So in the bullet to the bottom of the page, the Board intends to increase the quarterly dividend to $0.38 a share effective in the second quarter and we repurchased $2.6 billion of common equity in the first quarter with authorization to repurchase an additional $6 billion over the next four quarters.

Returning to the businesses, on Page 4, we have Consumer & Community Banking. The combined consumer businesses generated $2.6 billion of net income for the quarter on $11.6 billion of revenue with an ROE of 23% on new allocated capital. And as we go through the presentation, all of the current quarter ROEs are calculated based upon the new allocated capital numbers that we showed you at Investor Day.

Overall, revenue was down year-on-year and quarter-on-quarter driven by mortgage banking, quarter-on-quarter the reduction reflects the continuation of production margin compression. Credit costs reflect the releases in both mortgage banking and card that we referred to on Page 1.

And core expenses were flattish both year-over-year and quarter-over-quarter normalizing prior periods. We remain on track to deliver on our expense guidance and head count in the consumer bank and mortgage business was down over 3,000 heads this quarter, a function of the evolution in the branch operating model and the completion of the IFR work. We ended the quarter with over 5,600 branches and closed 19,000 ATMs and as of today, we have over 1,400 Chase Private Client locations.

On Page 5, Consumer & Business Banking, net income was $641 million and an ROE of 24% on net revenue of $4.2 billion down 2% year-on-year and quarter-on-quarter. The sequential decline is due to fewer days in the quarter for net interest income and seasonality in non-interest revenue.

We continue to see pressure on deposit margins, eight basis points down in the quarter and 32 basis points year-over-year, but this continues to be largely offset by the (inaudible) growth of 11% year-over-year, which we believe is significantly faster than the industry. And this quarter we had the lowest customer attrition on record, which reflects the great progress that we are making on the customer experience.

And we were just named winner of four TNS Choice Awards recognizing superior performance in customer acquisition, retention, satisfaction and market share with consumer and affluent banking customers, which is more than any financial institution has earned in any year.

Average Business Banking loan balances of $18.7 billion are flattish quarter-over-quarter and in the drivers you can see loan production decrease this quarter, due to softer demand and higher competitive intensity. However, the pipeline in the second quarter is looking stronger.

We had record investment sales of over $9 billion, up 40% year-on-year and client investment assets are up 15%, which shows that we are penetrating our customers more deeply with 70% of those sales up from 50% last year being managed money driving strong recurring revenues.

Finally, on this page expenses are up year-over-year, reflecting the investments that we are making in the business, including new branch builds, and a one-time cost related to a contract renegotiation.

Turning to Page 6 on Mortgage Banking, overall net income of $673 million and an ROE of 14%, and if you look at the top of the table in the first blue highlighted items, production pretax income was $427 million, down year-over-year and sequentially driven by continued margin compression.

As we expected and as we talked about last quarter, gain on sale margins continue to come down this quarter and reached levels of around 100 basis points on a pretax basis, which compares to a normalized pretax margin in the fourth quarter of last year of around 180 basis points and was driven by a significant tightening in primary and secondary spreads, as well as pricing pressure, reflecting increased capacity in the market.

Strong originations of $53 billion were up 37% year-on-year and 3% sequentially. While applications were actually down 8% from last quarter, but we continue to expect high levels of refinancing and close loan volumes in the next quarter to remain solid.

Production expense increased year-on-year on higher volumes, a net repurchase of this of $81 million in the quarter reflects a reduction in realized losses, partially offset by reserve releases. We continue to believe we're adequately reserved and we do expect reserve releases to broadly offset losses over time.

Moving down to servicing, revenue of $778 million increased sequentially, primarily due to one time gains associated with buying, sharing and reselling certain delinquent loans out of securities. Servicing expenses of $737 million increased a small amount of final IFR cost as we round down in every quarter and also from severance; and if you back those costs out, servicing expenses were slightly lower than the $725 million normalized run rate we talked about last quarter. IFR costs are now out of our run rate and we continue to expect servicing costs to reduce to $600 million by the fourth quarter of this year.

MSR risk management was a modest loss, a $142 million. The driver of the net loss is an increase in our expectations for home price appreciation this year, which is a great thing, but drove an approximate negative $400 million within the model update line in the supplements given higher prepayments.

And although there is an upfront negative in the mark of servicing assets, improvements in home prices would drive lower credit losses over time that will more than outlay this mark.

Finally on this page, Real Estate Portfolios show pretax income of $784 million, which includes net charge-offs of around $450 million this quarter, and compares to a normalized fourth-quarter number of $520 million. This reflects lower delinquencies as well as lower severities as home prices improve and lead us to a release reserve of $650 million this quarter.

As you've seen charge-off has been steadily declining and we do expect that to continue, but at a more moderated pace. We've updated our guidance for you to expect quarterly net charge-offs to be at or below $400 million.

If you turn to Page 7, Card Merchant Services & Auto, net income of $1.3 million, up 8% year-on-year or up 33% if you exclude the change in loan loss reserve and ROE of 33%. Revenue of $4.7 billion was flat year-on-year, but down quarter-on-quarter with quarter one having seasonally lower loan balances, sales volume and merchant processing volume. Expenses were down by year-over-year and quarter-on-quarter, primarily driven by non-core expense items in the comparable period.

Net charge-offs continue to be low and we released $500 million of loan loss reserve this quarter, reflecting the continued improvement in early stage rollouts. The net charge-off rate is 3.55%, well down over 80 basis points year-over-year was up slightly quarter-on-quarter on lower loan balances. And consistent with Investor Day, you should expect up to $1 billion of card reserve releases in the full year of 2013, including the $500 million reflected this quarter.

Year-on-year growth in sales volume was strong at 9%, and the revenue rates at 12.83% reflects strong interchange revenue and merchant processing fees, with merchant processing volumes up 15% year-on-year.

Moving onto Auto, originations were up 12% year-on-year and 18% quarter-on-quarter. Although the first quarter is seasonally stronger, this growth outpaced the normal seasonal pattern. We gained share in the quarter through increased competitive positioning in prime and auto saw a strong growth with our private label manufacturing partners.

Moving onto Slide 8 and 9 on the Corporate & Investment Bank; very strong first quarter results, and the results this quarter included a small DVA gain of $126 million that is a loss in the same quarter of last year of $900 million. Both of which you'll see in the credit adjustment line item in the table. So if you focus on the numbers excluding DVA, $2.5 billion of net income on $10 billion of revenue, down 2% year-on-year, but up 22% quarter-on-quarter, and with an ROE of 18%.

Total Banking revenue was $3 billion, up 12% year-on-year driven by higher IB fees of $1.4 billion in the quarter, up 4% year-on-year with record bond underwriting. And lending related revenue were $500 million, primarily core NII and fees on retained lending commitment and to a lesser extent gains on positions received in loan restructuring.

Total Markets & Investor Services revenue of $7 billion, down 7% year-on-year driven by fixed income market of $4.8 billion, down 5% year-on-year, coming off of a very strong first quarter last year, and up 50% quarter-on-quarter on seasonality with continued strength in the client franchise. The P&L impact from the remaining synthetic credit portfolio included there was insignificant this quarter, but positive.

Equity markets of $1.3 billion, down 6% year-on-year, but up 50% quarter-on-quarter and the sequential change reflects seasonally strong equity derivatives results. Securities Services revenue of $974 million was flat year-on-year, and down slightly quarter-on-quarter. And while a portion of this reflects the depository receipts business, which is seasonally down, the portion that reflect our custody business has grown in line with assets under custody, which were $19.3 trillion, up 8% year-on-year.

And we're seeing positive expense trends. Year-on-year a net reduction of 2% driven by lower compensation and efficiency initiatives essentially substantially offset this quarter by litigation expenses. If you take the DVA and the restructuring gains I mentioned, as well as the litigation expense they net out.

The comp/revenue ratio at DVA of 34% is in line with our guidance, and at the bottom of the drivers section, you can see that our average CIB VaR continued to decline this quarter to $62 million, reflecting lower levels of risk including the continued de-risking of the synthetic credit portfolio, but also reflecting very lower levels of volatility across multiple asset classes.

So on Page 9, before I step over the page, you can see that we continue to make progress, growing our international loans and deposits. Our international loan balances were up 9% since the end of 2012 with particular strength across Asia and EMEA.

Moving on to Page 10, in the Commercial Bank; we've posted our net income of nearly $600 million on $1.7 billion of revenue flat year-over-year with a return on equity of 18%. Underlying loan growth of $0.11 year-on-year includes our C&I portfolio, which grew 12% in line with the industry, and our commercial real estate book, which grew 10% year-over-year significantly above the industry, driven by commercial term lending.

Quarter-over-quarter loan balances were generally flat consistent with the industry, partly reflecting the fact that some demand were pulled forward into the fourth quarter, but also reflecting lower level of demand and increased competition. Loan spreads held up, while this quarter remained stable to last quarter, and credit quality continued to be very strong. Lastly here, expenses up 8% year-on-year on the continued investment in the business and increased operating expenses to commercial card.

Turning to Page 11, our Asset Management business have record net income for first quarter of $487 million, up 26% year-on-year and 1% quarter-on-quarter with an ROE of 22%. 12% year-on-year revenue growth reflect an increase in management fees driven by strong long term net inflows including a record $31 billion this quarter marking the 16th consecutive quarter of long-term net inflows.

We also had higher equity and fixed-income markets, up 9% based on our business mix, and still higher performance fees driven by strong fund returns in 2012. We have record loan balances up over $20 billion, driven by increases in U.S. mortgage and international loan growth.

Total AUM was close to $1.5 trillion with over $1 trillion in long-term AUM. And lastly, higher head count expenses and performance related fund contributed to a 9% year-over-year expense growth, while the pretax margin of 29% also increased from 26% last year reflecting an improvement in operating leverage.

Moving on to Page 12, Corporate and Private Equity; total net income of $260 million for the quarter and reflected a private equity net loss of $182 million including nearly $300 million of unrealized losses related to specific positions.

Treasury and CIO net income were $24 million, and included about $500 million of net securities gains offset by about $470 million of Negative NII due to low rates and limited reinvestment opportunities. Both the private equity losses and the securities gains were more significant this quarter than usual unless it's a positive $200 million pretax.

Finally, other corporate net income of just over $400 million includes $230 million of prior period tax adjustments. And finishing on guidance in CIO and Treasury, our guidance remains a net loss of $300 million plus or minus, and in other corporate, our guidance remains $100 million plus or minus of net income with both numbers able to vary quarter-on-quarter.

Turning to Page 13 on net interest margin, Firmwide NIM declined 3 basis points and Core NIM 2 basis points quarter-on-quarter. A number of items affected our NIM first were negative. The low rates environment continues to affect our reinvestment opportunities, and also competitive pressures continued to impact loan yields.

On the positive side, investment securities yields increased from higher mortgage backed securities income driven by slower prepayments and reduced secured financing. And lower long term debt cost reflected a change in mix.

Lastly, our outlook on Page 14, we've covered most of these items already, but you'll see that we've changed our NIM and NII guidance to put it altogether on one place, and on a consistent basis.

All numbers shown are pretax and our estimates of net NII reflecting both rate compression and volume growth. So you should expect modest NIM compression during the year with absolute levels of NII very strongly supported by growth in interest earning assets, but overall NII expected to be down about 1% this year.

Lastly, you may have seen, we will redeem about $5 billion of outstanding trust preferred in the second quarter, and as it heads up, this will lead to a modest one-time loss in the second quarter, but also a lower cost of debt over time.

Backing up, we had a record quarter with high quality earnings and strong underlying business performance seeing positive momentum across our businesses.

So thank you for joining us. Operator, you can open up the call for Q&A.

Question-and-Answer Session

Operator

(Operator Instructions)

James Dimon

Operator?

Operator

Our first question comes from John McDonald of Sanford Bernstein.

Marianne Lake

Hi, John.

John McDonald – Sanford C. Bernstein & Co.

Good morning, Marianne. On the last point about NII outlook, what are the drivers of the strong growth in earning…?

Marianne Lake

Sorry, John, we can't hear you. Apologies John, we didn't hear the question.

John McDonald – Sanford C. Bernstein & Co.

Can you hear me?

Marianne Lake

Yes, we can.

James Dimon

Yes.

John McDonald – Sanford C. Bernstein & Co.

Sorry about that. Can you tell me on the NII outlook, what are the drivers of the strong growth in earning assets you expect that you just mentioned on the NII page?

Marianne Lake

Yes. So we are growing – as you've probably seen on Investor Day and while there was a little bit of lower growth this quarter, we do expect to grow loans in our commercial bank loans and asset management, wholesale loans, mortgage banking. So we are growing our deposit very strongly. So it's really just the underlying business driver growth that we've been seeing and expect to continue.

John McDonald – Sanford C. Bernstein & Co.

Okay. On the expense outlook, you mentioned so the kind of adjusted expenses to be down about a $1 billion, what's the base that we should look at for you to be down from, do you have that?

Marianne Lake

Yeah. So John, if I refer you back and from recollection I'll do it for you, if I refer you back to Investor Day, it's based upon our adjusted expenses, which are defined as our expenses excluding corporate litigation and foreclosure-related matters, which in 2012 was $60 billion plus or minus, I think $60.1 billion and we're expecting to be $59 billion this year and that's what we're on track to deliver.

John McDonald – Sanford C. Bernstein & Co.

And what was it in the first quarter?

James Dimon

A little higher than that.

Marianne Lake

A little higher than that in the first quarter. But the first quarter is seasonally high.

John McDonald – Sanford C. Bernstein & Co.

Yeah. Okay, got it. And then can you just repeat your outlook on the default servicing expense line that came down a lot this quarter nicely and you mentioned the target for the end of the year?

Marianne Lake

Yes. So the fourth quarter normalized run rate was $725 million and this quarter it's down a little of that as you would expect given the IFR completion. We said that we expected the fourth quarter to be running at $600 million we said that at our Investor Day and we're still on track to do that. And we've also said that the long-term run rate for that part of the business would be about $325 million a quarter and that will be over the next couple of years.

John McDonald – Sanford C. Bernstein & Co.

Okay. And then the litigation dropped significantly this quarter, you said I think you said it was kind of immaterial this quarter on the litigation provision, is that right?

Marianne Lake

The litigation dropped quarter-over-quarter, clearly we had a large number last quarter on the back of IFR and we did have a litigation expenses this quarter, you will see in the supplement that was just over $300 million.

John McDonald – Sanford C. Bernstein & Co.

Okay. And the last thing is on the buybacks, you did a healthy buyback this quarter, but the share count didn't shrink that much. Is the first quarter heavier than usual in terms of your issuance? And the question is getting at, would $2.6 billion of buybacks in other quarters be expected to shrink the share count in quarters when I thought the first quarter?

Marianne Lake

Yes, that's right John.

John McDonald – Sanford C. Bernstein & Co.

Okay. So your issuance is more weighted towards the first, is that right?

Marianne Lake

Yes, but also remember we didn't buy back shares in the fourth quarter or third quarter. So that was an overall, overall net $2.6 billion – $2.6 billion net of employee issuance.

John McDonald – Sanford C. Bernstein & Co.

I was getting at how that translates to reduction in the share count, it's kind of offset by what you do on issuance right, each quarter?

Marianne Lake

Yes.

John McDonald – Sanford C. Bernstein & Co.

And it was just a normal quarter of issuance, so $2.6 billion buyback would keep the share count flat. Is that the kind of ratio we might expect?

James Dimon

I think the issuance number is fairly level and consistent quarter-by-quarter because it is really based upon amortization of restricted stock and all that.

John McDonald – Sanford C. Bernstein & Co.

Okay. Okay.

James Dimon

And the buyback, the $2.6 billion, that was over the course of the quarter. So it averaged out to half of that through the quarter. So we can give you more detail on that little bit later John.

John McDonald – Sanford C. Bernstein & Co.

Okay, but it’s steady throughout the year, that’s what I was getting at.

James Dimon

The $6 billion will offset how much average amortization over the same 12 month period like $2 billion…

Marianne Lake

$2 billion.

James Dimon

$2 billion, okay.

Marianne Lake

Actually John, that’s a good way of looking at it. The $6 billion we’ve authorized to repurchase relates to employee issuance at the same period just a little bit over $2 billion.

James Dimon

For accounting purposes.

John McDonald – Sanford C. Bernstein & Co.

$2 billion for the year and $6 billion for the year. Okay, great. Thank you.

Operator

Our next question comes from Glenn Schorr of Nomura.

Glenn Schorr – Nomura Securities (US)

Hi guys, thanks.

Marianne Lake

Hi, Glenn.

Glenn Schorr – Nomura Securities (US)

Hello there. First of all, the first deadline for compliance with central clearing came and went and it clearly didn't have much of an impact on your first quarter FICC results. So I am curious I hear commentary in the market that a lot of clients might not be ready for either the second or the third deadlines later this year. Curious what you are expecting and if you do think it could produce any hiccup in activity levels.

James Dimon

The second one is the big one. That's June 11…

Marianne Lake

June 11, yeah.

James Dimon

…something like that, and that's where you have a lot of asset manager, a lot of bigger client stuff like that. People are still getting use to it, so we think – I think we've got 30% or 40% lined up to do it.

Marianne Lake

Yes.

James Dimon

They are still reading documents, sign new documents and so hopefully they will go smoothly. It's unlikely they'll go smooth in the first round. The first round is really, really large participants and swap deals et cetera. So we'll have to just wait and see.

Glenn Schorr – Nomura Securities (US)

And even on the wait and see if some aren't ready, do you think of that as a temporary and just literally a function of processing not maybe we don't need insurance anymore because it's too expensive?

James Dimon

Look I don't, we really don't know, I would say temporary, but probably still down a little bit, because of the reason you gave. Some people just say we don't need to do this anymore, and we also know all the final rules by the way, and how the SEFs are going to work in bidding.

Glenn Schorr – Nomura Securities (US)

Right. Okay. Marianne, on the RWA front, bunch of little things in here, but Basel I RWAs were up an 11% quarter-on-quarter, but Basel III were pretty much flat. I know that it's something to do with 2.5% being starting in the first quarter, but if you can help us.

Marianne Lake

Yeah, so if you take our Basel I RWA went up about couple of hundred billion dollars that's all about the implementation of the new market risk rules and Basel 2.5, which is also why you saw our ratio go down from reported 11% last quarter. So it's really all explained by that, and our Basel III RWA was flattish quarter-over-quarter with some pluses and some minuses.

James Dimon

And that was already in there essentially.

Marianne Lake

Yeah, of course.

Glenn Schorr – Nomura Securities (US)

So I guess that leads into the comment you made towards the beginning on any passive runoff and model enhancements are not pulled forward in your results and I think you said it could be a about 100 basis points. Is there a dollar amount of RWA natural runoff that we should be thinking about, because obviously capital is building?

Marianne Lake

Yes, from recollection. And again Glenn – forgive me if I get it wrong, it's on the slides on the firm overview in Investor Day that I think that a 100 basis points equates to about $180 billion of RWA over the next two years. But remember the passive runoff will take place over time; not completely linearly but over time and the model enhancements can be a little bit lumpier and a little bit more back ended. So we'll just have to see how that pays out. But, yes, we're still expecting for those things to happen for us to get 100 basis points of benefit from that and that's without the active mitigation, that's going to happen over the course of time.

Glenn Schorr – Nomura Securities (US)

Okay, last one…

Marianne Lake

Just check that slide for me Glenn when you get on.

Glenn Schorr – Nomura Securities (US)

Will do. Last one Jamie, I know you addressed some of this in your shareholder letter but between everything related to Basel III stress-test, Dodd-Frank in place already and then OLA and Living Wills coming online, it feels like we're going down to pass on containing to big sale but yet there is a steady drum beat including grounds that are to change things. Just curious on where we're headed in this and what will stop the drum beat? When is enough-enough?

James Dimon

Well, Glenn, I actually think you all on the line should be dealing with this issue a little bit because the reason you have companies is because they serve clients well at a good cost, There is a reason our numbers are good because we have cross-selling clients come to us and there are reasons for global banks just like there are reasons for community banks. I think that the real issue again, you guys do the numbers is the banking system has gotten so much stronger in the United States and it's not just capital but it capital, liquidity, oversight, sort of activities that people didn't like, [no longer] [ph] being done, derivatives going to clearing houses and the initial wave of OLA and Living Wills et cetera, those things should all work. I hope at one point we declare victory and just stop eating our young at this time.

Glenn Schorr – Nomura Securities (US)

All right, thanks.

Operator

Our next question comes from Betsy Graseck of Morgan Stanley.

Betsy Graseck – Morgan Stanley

Hi, good morning.

Marianne Lake

Good morning.

James Dimon

Hi.

Betsy Graseck – Morgan Stanley

A couple of follow-up on RWA, how much of the passive mitigation was embedded within the RWA results for Basel III this quarter?

Marianne Lake

So there is a little bit of passive mitigation with a little bit of runoff and there was also some declines as we purchase that securities and those were offset by some other things. So it wasn't a very big number because as I say that wasn't leading over time and the model enhancements which were about a half of the 100 basis point benefit will be a bit back ended.

Betsy Graseck – Morgan Stanley

Okay, so really that's going to come later this year is what you are saying.

Marianne Lake

Yeah. Some of it late this year, some of it next.

Betsy Graseck – Morgan Stanley

And then on the NIM and LCR there is obviously an interplay there and could you just give us an update on where you are with the LCR this quarter because your NIM declined, this quarter actually was a lot lighter than what we were expecting?

Marianne Lake

Yes, so we showed you at Investor Day that we had a gap to be fully compliant, we are going to be compliant by the end of the year. We did close that gap, we closed not completely by about a third, obviously we also disclosed on the slide, you will see our HQLA or high quality liquid assets which it has a relationship based on up, but that is a numerator and the denominator changes to, so think about this and we made good progress, we closed the gap by about a third and we are on the way to compliance.

James Dimon

I think it's in when she talked when Mary gave you the forecast going forward for NIM?

Marianne Lake

Yeah.

James Dimon

That includes changing how we create more LCR.

Betsy Graseck – Morgan Stanley

Right, okay and then lastly just on the CCAR conditional approval, can you just give us a sense because I think people were a lit bit surprised to see that you had the conditional approval results and yet you're able to do the buyback and the dividend hike that you asked for, so I guess generally in question is what can you speak to with regard to what's being asked and what kind of timeframe, do you think you have for satisfying the regulatory requirements here?

James Dimon

Let me just add, on the qualitative stuff, we've passed and that's why we got the capital plan, their criticisms were on qualitative and from what we know now and we're still doing work and we will give you more is around lot more granular type of forecasting, they want more [interesting] private type of forecasting and so, we're having conversation with them. Marianne has formed the CCAR department, which is going to become experts in CCAR.

Marianne Lake

And that's in terms of the timeline, we are resubmitting as requested in the third quarter. We're doing everything between now and then to remediate and improve our processes following that feedback. So, we are committed to being successful.

Betsy Graseck – Morgan Stanley

Okay. Thanks.

Operator

Our next question comes from Brennan Hawken of UBS.

Brennan Hawken – UBS

Good morning.

Marianne Lake

Good morning.

Brennan Hawken – UBS

So, just to follow-up on the question on litigation, so that dropped to the $0.3 billion. Is that potentially, are we now adjusting to a lower level or was that just like no ways in what it is extremely a volatile number bouncing around the world?

Marianne Lake

Yeah. Brennan, I think it’s very hard to predict and you’re right that it bounces around and then it can be noisy. We have high level of litigation reserves in the third quarter of last year and we hope that the numbers will remain low but we can’t predict them for you I’m afraid.

Brennan Hawken – UBS

Sure. Okay. But, I guess said another way, you guys don’t see anything changing in the environment that would lead you to believe or be comfortable with a lower level of assumption of litigation expenses. What do you think about?

James Dimon

I think it’s always going to be lumpy because we have to do with these things in due course. I think in the prior year as we put away a lot, we won’t get the same predominantly mortgage, largely mortgage, et cetera and obviously the fact that we’re not doing more means we think we’ve got them. We did a lot of work in that. It could always change, but we’ve done thorough analysis, as a lot of you all did, by the way, we did it at the tranche level almost in, so it could be permanently low yes. It could be permanently low. It doesn’t have to go higher and obviously lot of things coming our way, we have to reserve for properties as they come in.

Brennan Hawken – UBS

Yes, let’s hope so. Okay and then the spread in mortgage compression was kind of meaningful here at this quarter. What inning do you think we’re in there ballpark, I know it is kind of tough to predict this all as well?

Marianne Lake

Yes, I mean it’s tough to predict but maybe the thing is, look at is if you take off pretax spread right now of 100 basis points that compares to a longer term sort of average run rate of 65 basis points before the crisis. So we’ve been setting down from a very, very high level at the beginning of 2012 and we’re back to a level where frankly we are not that far away from the longer term run rate and it’s driven by the primary, secondary spread which came in about 20 basis points in the quarter back to levels again still more normal. So I don’t know I could say anymore in present but it doesn’t feel like we have another big step change to guys.

James Dimon

So we expect it might be up a little bit next quarter not down for a variety of reasons.

Marianne Lake

Doesn't make volatility quarter-on-quarter but for this year, we can grow in and around this range.

Brennan Hawken – UBS

Okay. Okay. So this is the right way to think about it, so that helps. And then last one for me, when you think about your cap markets business and depending change, you guys chatted a little bit about it with Glen on swap clearing that June seems like the bigger date, Basel and all of the subsequent changes to the competitive environment, competitors adjusting their size of the business. What have you, how do you feel about your business there particularly on the fixed side more capital intensive businesses.

Do you think that there is this presents an opportunity to maybe go through review and right size maybe increase the efficiency measures there or do you feel comfortable keeping your business where it is roughly?

James Dimon

Lot of that business is what we call, flow business, so little bit credit emerging markets rates FX clients, when we deal the clients who are around the world, maybe need those services and you're obviously always trying to become more efficient. So when you look at FX, I'm going to say 80% is electronic. If you look at rates, the electronic number is going to go up and so which is going to drive efficiency, but we still think price going to need it. There will be price to pay for and obviously everything will be adjusted to Basel III. But as you pointed out, some people are leaving the business, some are getting in the business, we think it has a good future, we don't think it's going to go away.

Brennan Hawken – UBS

Okay, thanks a lot.

Operator

Our next question comes from Erika Penala of Bank of America.

L. Erika Penala – Bank of America Merrill Lynch

Good morning. I just had one follow-up question to Betsy's inquiry on capital return. So clearly we now have two years as the Stress Test behind us and you are initially approved in 2012 for a $15 billion buyback and $6 billion this year, I guess what do you, does the Fed need to see and you're building capital clearly. What do you think that Fed needs to see from you in terms of the qualitative issues to get back to the kind of capital return that they clearly in 2012, they thought you had plenty of capacity to pay out?

James Dimon

Erika, you're confusing two different things. I really took good quality they're giving us more feedback and where they say we started showing the quality like I mentioned them, idiosyncratic, more level detail, more enterprise-wide type of forecasting, et cetera. That's one issue, the second is, the actual dollar amount. The Fed has made it very clear, they want people to get to their Basel III targets, ours is at least 9.5. Ben Bernanke said on a speech he gave that the banks that they did the stress test on have more capital after extreme stress then they started with the cap in the crisis.

So the Fed I think is feeling more and more comfortable, not just individual banks but the system as a whole. And we've reduced the 15 down to 6, because we wanted to get to our 9.5 target faster, that's why we did it.

L. Erika Penala – Bank of America Merrill Lynch

Okay.

James Dimon

We just changed our mind, we want to get to 9.5 this year, we want to get LCR this year, and obviously they made change to stress test next year and sooner we're going to have a conservation buffer coming in, and we don't know how the interplay of those two things will work.

L. Erika Penala – Bank of America Merrill Lynch

Okay. And, given what you just mentioned, is it too optimistic to assume for next year a buyback in the $12 to $15 billion range?

Marianne Lake

I think it's too early to say.

James Dimon

Yeah, it's too early to perhaps tell that.

Marianne Lake

Okay. Thank you.

James Dimon

Remember, that's going to relate to how fast you grow and other request from regulators, so we will take that when we get there.

Marianne Lake

Yeah, but we do, Erika we do expect that we will be continuing to pay capital just through this 100 basis points of passive runoff mitigation, so certainly our capital levels will be stronger and we just have to see how things play out.

L. Erika Penala – Bank of America Merrill Lynch

Okay.

Operator

Our next question comes from Mike Mayo of CLSA.

Michael Mayo – CLSA

Good morning.

Marianne Lake

Good morning.

James Dimon

Good morning.

Michael Mayo – CLSA

Loan growth, it's a little bit softer, and I think you mentioned there was some push forward to the fourth quarter, but you also mentioned more competition and lower levels of demand, if I heard you correctly.

Marianne Lake

Yes.

Michael Mayo – CLSA

So, my question is how much of the softer loan growth is due to JPMorgan perhaps pulling back, how much it's due to the economy?

Marianne Lake

So, if I could, little difficult to side it for you, but we did see I don't know still people thought in the fourth quarter just given the year end issues that people were concerned about, and so that has had an impact. I think it's slightly less of an impact and in terms of competitive landscape and there are deals being done with terms and conditions and pricing that we're not comfortable at the moment, and we're just remaining very disciplined, so that has had an impact for us.

Michael Mayo – CLSA

So, really on the lower level of demand, I mean what was your loan utilization in the first quarter versus the fourth quarter?

Marianne Lake

It will be flat. It will be flat at around 32%.

Michael Mayo – CLSA

I'm sorry.

Marianne Lake

It will be flat at around 32%.

Michael Mayo – CLSA

32%?

Marianne Lake

Correct.

Michael Mayo – CLSA

And so what's that kind of flat or down a little bit?

Marianne Lake

It will be flat, flat.

Michael Mayo – CLSA

Flat and is that just why aren't people borrowing more?

Marianne Lake

As we have, we saw declines in deposits. So they're using that cash and they're out.

Michael Mayo – CLSA

Okay, and then a separate question, looking at the annual report, page four of the Chairman's letter said, refers to regulation, and some of the issues that you faced and said we will see more of these, I'm sorry. So when you say we will see more of these Jamie, what are you talking about because people's imagination can go in a lot of different directions, are we talking Department of Justice, SEC, FBI, or you think of anything particular or general or a timeframe, and really what I'm asking you to address is the regulatory tail risk of we don't know what we don't know in terms of potential government moves as relates to JPMorgan?

Marianne Lake

So Mike, it's Marianne, so we're in constant dialogue with our regulators, and so we know that we should be expecting some more consent orders, but to clarify for you they relate to issues that we've been working on over the course of the last several years so even though new breaking issues that will surprise you in any material way.

Michael Mayo – CLSA

Okay and was there anything new as part of the 11 hearings that would change the way you would think about the London Whale incident because there were some pretty damming information, some unknowns at least to those who follow the company, but from your perspective, is there anything else that you need to do as a result of the information from those hearings?

Marianne Lake

So Mike, we can't really go into the details of the reports in specifics, but we obviously respect the work of the subcommittee where we respect the findings they had and we're working very hard to fix our issues and as it relates to the proposal and the recommendation to require documentation associated with portfolio hedging, identifying the specific risks that the hedge is designed to mitigate and then monitoring over time, we tend to agree that that makes a lot of sense in the context of what we face.

Michael Mayo – CLSA

And then lastly, when you talk about some additional changes that need to take place. And I think some of these are organizational, is there anything major news that you did not cover at the Investors' Day recently?

Marianne Lake

No, actually, there was couple of things I would say, first that, we are organizing ourselves around the control and regulatory agenda, because it's a high priority for us and we are getting ourselves organized in the same way as we would around in our merger and acquisition. And in doing that we are prioritizing our work, but we're not changing our overall strategy, we are not going to change the way, we see our customers how we think about growing our businesses, but at the margin we're going to refocus our energies on making sure that we execute on the commitments to improve the control and regulatory environment.

Michael Mayo – CLSA

All right. Thank you.

Marianne Lake

Thanks Mike.

Operator

Our next question comes from Matt Burnell of Wells Fargo Securities.

Marianne Lake

Hi, Matt, hello…

Operator

Mr. Burnell your line is open. Please go ahead.

Matthew Burnell – Wells Fargo Securities, LLC

Sorry, can you hear me now?

Marianne Lake

Yes.

Matthew Burnell – Wells Fargo Securities, LLC

Thank you. Good morning. I wanted to drilled down a little bit on the mortgage side of things, mortgage originations were a little bit stronger than we expected up about 3% and applications were down about 8%, you suggested that you thought that gain on sale margins might be relatively flattish going through the next couple of quarters, I guess, I'm just curious that what's your thoughts are in terms of the mortgage origination market away from the gain on sale issues that you have been facing?

Marianne Lake

Yeah, so, in applications, I see it come back our rates have come down a little in the second quarter and for us in particular starting there we are expecting refi volumes to stay high, we did see a little bit of an increase in purchase volumes in the applications in the first quarter a bit from a smaller base and also we did the MetLife transaction. So, we have the opportunity to be working in that portfolio. So, our view on volumes for the year is that they're going to remain solid although there will be some volatility really on the back of continued strength in refinancing and you saw the half extension so more broadly for the market, I think refi including half will be a level of support for volumes this year.

Matthew Burnell – Wells Fargo Securities, LLC

And then Marianne question on NIM clearly your moves on the LCR had some effect on NIM over the last quarter or two. Can you separate what you think that that the net interest margin movements will be for JPMorgan excluding your moves for the LCR or is it just so intertwined that you really can't do that?

Marianne Lake

Yeah, I mean, it's really, honestly it's really all part of how we think about positioning the organization and they're being compliant with LCR is part of our new reality. So, it's just a part of even better into this, how we're thinking about the overall positioning of the firm, so it's not something we're separating out for you.

Matthew Burnell – Wells Fargo Securities, LLC

Okay. And then, just finally, we saw a fairly sizable decline in value or risk both in the CIB and overall. Can you give us a little more color as to what's going on there, what we might be able to expect in the second quarter?

Marianne Lake

Yeah. I mean, it's helped me, we do in the second quarter, it is a real reduction in risk across the portfolio including and not driven by that, including the synthetic credit portfolio which we continue to de-risk. But, it is important to know if you look across asset classes, there's been a very significant decline in levels of volatility, that effect, the time series around the back period, so that necessarily have bad days rolled off and better days rolled on and so when we complete our bar, pushing the bar down lower. So, as long as volatility remains lower and we continue to de-risk, there are reasons to believe they will be at or around this level, but it is going to be subject to changes and volatility as and when they happen.

Matthew Burnell – Wells Fargo Securities, LLC

Okay. Thank you very much.

Marianne Lake

Thank you.

Operator

Our next question comes from Moshe Orenbuch of Credit Suisse.

Moshe Orenbuch – Credit Suisse - North America

Great, thanks. Couple of kind of cleanup things, when you are looking at the getting to the 9.5%, did you kind of factor in that 100 basis points or is that something that would be on top of that 9.5%.

James Dimon

It's factored in.

Moshe Orenbuch – Credit Suisse - North America

Factored in.

James Dimon

It's factored in.

Marianne Lake

Yeah, it's an all-in number for us. So, to the degree that we expect that to happen by the year end, it's all part of the number including some (inaudible) the whole thing.

Moshe Orenbuch – Credit Suisse - North America

Got it. Okay. And, kind of talking qualitatively about the C-Card process, also there was a pretty large impact on PPNR which it seemed to be like the

Fed's looking at pretty harsh, I guess a pretty harsh look at kind of trading losses. I mean do you have – have you had any kind of clarity from them about how they – whether they are looking at that revenue stream differently than other banking revenue streams?

Marianne Lake

Yeah, I'll take the two things separately the PPNR section and trading losses. So, on the trading losses obviously there is a number of different [stresses] that we do and while our number was different. I don't think we feel like there is anything about our processes that is in the period you're going to change that as it relates to PPNR. We did get feedback that we need to look at certain of our revenue models and we need to look at them more centrally and as Jamie said, with a slightly more negative view at it idiosyncratically and we are going to do that.

Moshe Orenbuch – Credit Suisse - North America

Okay. And then lastly, on the mortgage business, you look like kind of in the core production, the expense reduction was about half of the revenue decline. How do you think about the – as that business continues to normalize? As you said, it's probably mostly normalized from a gain on sale perspective although you probably have some volume issues as we go through the rest of the year. I mean, how do you think about the cost structure of that business as you go forward?

Marianne Lake

So, couple of things, one is we are expecting to and hoping to, we set a target for ourselves to gain share. We do expect volumes to be supported by refinancing this year, so that is our expectation that could change of course. And then as it relates to the cost structure, obviously that comes down a little bit more slowly over time but we're making progress. And we talked about the fact that we expect that to be down at $600 million run rate for the fourth quarter and down to $325 million sometime over the next couple of years. And we're actively working on optimizing our servicing business both the core performing servicing and so that obviously with the (inaudible) sale, but also where it would make sense we would be open to doing sales on sub-servicing of delinquent loans and we're working two of things to try and get the cost structure to the best as it can be.

Moshe Orenbuch – Credit Suisse - North America

Okay. Thank you.

Operator

Our next question comes from Matt O'Connor of Deutsche Bank.

Matt O'Connor – Deutsche Bank Research

Good morning.

Marianne Lake

Good morning, Matt.

James Dimon

Good morning.

Matt O'Connor – Deutsche Bank Research

I thought this is one of the cleanout quarters in a while, so I just had one follow up here. In the private equity you took some losses on the private portfolio just wondering what drove that. And then also the outlook for this business under Basel III and Volcker even though we don't exactly know what Volcker is yet.

James Dimon

You know private equity, we've always told you this won't be and it's just mark-downs and write-downs of existing positions, and we don't go through the specific names, but obviously we hope it will earn a profit, so it just wasn't a pretty big quote to private equity. And, the private equity legally can survive Volcker and all those things, so we like the business, we would like the people and you just have to do it in a different basis, that's all.

Matt O'Connor – Deutsche Bank Research

Is there any seasonality in terms of getting on a year-end or mid-year statements on the private portfolios?

James Dimon

No, there is no seasonality in private equity. It's constantly being reviewed.

Matt O'Connor – Deutsche Bank Research

Okay. All right. Thank you.

Marianne Lake

But it's lumpy.

James Dimon

Yeah.

Operator

Our next question comes from Guy Moszkowski of Autonomous Research.

Guy Moszkowski – Autonomous Research LLP

Good morning. First thing I wanted to ask was, if we could dig in a little bit on the repurchase losses within mortgage servicing, such a big swing versus the fourth quarter an $81 million, it sounds like a reserve build, because I think, I heard you say that your actual realized losses were not significant and yet the guidance remains that it should be kind of a net zero. So it just seems like there were a lot of moving parts there. I was hoping maybe you could give us a little sense for why you have the $81 million hit?

Marianne Lake

Yes, absolutely. Guy it's a big change for the fourth quarter of with the small number. So not to diminish the size of the numbers that positive 50, negative 80 and sort of plus or minus around the zero level, and what are the factor of Guy is that the reserve release is based upon our model and realized losses is based upon agency activity, and so the timing isn't exactly perfect.

So realized losses came down from about $200 million to a $180 million, and we've didn't build reserves, we've release them just not at the same order of magnitude and it's really to do a timing, which is why we say that we do expect over time they will met the zero last quarter and with the small positive this quarter, it's a small negative nothing to read into it.

Guy Moszkowski – Autonomous Research LLP

Okay. Thanks for that. With regard to the CCAR process and some of the changes that the Fed is asking you to make. First of all just qualitatively, can you give us a sense for the amount of dialog that you have with the Fed one as you work towards satisfying their request, so that you really know exactly where they thought the deficiency were, or is there a lot of guess work for you on that?

Marianne Lake

So were in terms of dialog with regulators, we obviously can't comment on the specifics of our conversations with them. We have some very constructive conversations as we came out the 2013 CCAR process, and on the basis of those we're actively working to make the improvement they want us to make. We're also expecting to continue to get more and more detailed feedback and actually hope to get some industry best practice information too. So we're going to working and part of sit with them in terms of dialog all the way through this year, so that we can be clear on what CCAR looks like.

Guy Moszkowski – Autonomous Research LLP

And just if I can follow-up on, I think it was Moshe's question about the PPNR, it sounded like you were saying that many of the deficiencies that they were focusing on were in the inputs to the calculation of the stressed PPNR specifically is. Can I understand that right?

James Dimon

Guy, we haven't got a lot of feedback yet. So there'll be more to come. But we're going to be geared up to do it, and I think we want to be best-in-class with CCAR. The answer is absolute part was in PPNR, I mentioned just one (inaudible) product exposure and risk in PPNR, so if when you're going to addressed as you could assume that your company is just dealing with all those macroeconomic factors, which you forecast, you're going to assume, your company is going through as macroeconomic forecast plus you want to some other kind of stress, you can lose market shares. Obviously that would change your PPNR. So we'll be having more dialog in front of figure out make sure we do the right thing here.

Guy Moszkowski – Autonomous Research LLP

Okay. That's very helpful. Thanks. I hope it doesn't sound too crazy, but just to think about at the other way, is there any chance that after the resubmission or as part of the resubmission given how close you are to your Basel III targets and with some of that 100 basis points coming in. Is there any chance that you would ask for and could get an increase for this year?

James Dimon

Well, this is just a resubmission of the progress program, and then like to see qualitative improvements. This is not to change your request at all, this is the one Marianne referred to that will be in the third quarter. . .

Guy Moszkowski – Autonomous Research LLP

Yes, yes, yes that's what I talking about.

James Dimon

Obviously doing other CCAR in January.

Guy Moszkowski – Autonomous Research LLP

Got it. And then final question, you mentioned Jamie in the shareholder letter that just because you don't have big fancy names cost-cutting programs, it doesn't mean you're not very focused on cost reduction. Is that what we're seeing in the fact that if you look at the CIB, your comp was down 7% versus your revenue being plus or is it that you did something different in the way you think about through the year accruals.

James Dimon

Through the year accruals it's almost exactly the same as based upon it is a lot of stuff, because of that number, but that really hasn't changed that much.

Marianne Lake

And I see you couldn't normalize out to DVA, which was an odd loss last process if you normalize that our out revenues are down. So it's not come down on that number.

Guy Moszkowski – Autonomous Research LLP

Yes, that's fair. That's fair.

James Dimon

As referring to that we're constantly putting a new operationals, new systems to reduce overhead. Marianne already mentioned there were a bunch of things. We're doing in mortgage. We're seeing similar efforts in consumer. That's a constant effort. We do have names for some of them by the way, I'm just not mentioning here.

Guy Moszkowski – Autonomous Research LLP

Okay. But there's nothing different like you said in terms of the way you accrue for bonuses within the investment bank?

James Dimon

No.

Guy Moszkowski – Autonomous Research LLP

Okay, thank you.

Operator

Our next question comes from Gerard Cassidy of RBC.

Gerard Cassidy – RBC Capital Markets

Thank you. Good morning. I had some questions on the commercial banking line of business. You had a nice increase in the real estate lending area in the first quarter, it look like it was about $9 billion after four quarters of essentially flat to down real estate loans. Can you give us some color on where the growth was?

James Dimon

Well, I think you're referring to the CTL…

Marianne Lake

Yeah.

James Dimon

The Commercial Term Lending, which is lending against multi-family, and we have seen growth in it. Remember that was like 65% LTV. It did great through this last downturn, so we're very comfortable with that kind of lending.

Gerard Cassidy – RBC Capital Markets

Are you guys finding greater demand? Or are you just more comfortable with it now than you were maybe a year ago?

James Dimon

I would say a little of both.

Gerard Cassidy – RBC Capital Markets

Following up on your guidance, the answer about corporate deposits dropping in the quarter, which obviously is a good sign if companies are using this for capital improvements. What's your outlook? Do you expect that to continue? Should we see that as a continued positive trend?

James Dimon

Are you talking about the commercial bank or the total company?

Gerard Cassidy – RBC Capital Markets

Our commercial bank.

James Dimon

Well, we would expect to be kind of flat to down a little bit, as companies used their, I mean they have a lot of deposits, so I think we at our Investor Day and earlier told people they were kind of really high and we expect to come down, particularly before people start using the revolvers, so they do relate to each other.

Gerard Cassidy – RBC Capital Markets

I agree. I mean are your guys in the front-line hearing that from your customers that they expect to use more than for the reminder of the year do you think?

James Dimon

I don't know the answer to that.

Gerard Cassidy – RBC Capital Markets

Okay. Coming back to loan loss reserves, obviously, you've got a great capital position. You've pointed out that Bernanke has indicated that the banking system is super strong going through the stress test. With the current limit of loans of about $729 billion, what would be a normal reverse level in normal times compared to where you are today?

Marianne Lake

We did a whole page for you on where we thought the cycle reserve levels should be by business. Now some businesses most obviously that still have a way to go and there are other businesses in the wholesale side and the commercial banks that are below that through the cycle. So I would refer you back to that page, if you do the numbers from recollection on an annualized basis, our charge-off would be more or like $7 billion or $8 billion which more or less is not dissimilar the charge-off we've seen it for different reasons, so I would refer you to take a look at that page.

James Dimon

Note that it's mostly mortgages will come down.

Marianne Lake

Yeah.

James Dimon

Think if everything else is close to normal, mortgage which in total is $9 billion eventually a lot lower than that, but that should take a couple of years.

Gerard Cassidy – RBC Capital Markets

Thank you.

Operator

Our next question comes from Paul Miller of FBR.

Paul Miller – FBR Capital Markets

Yeah. Thank you very much. I know a lot of my questions have been answered, but we saw yesterday that they extended to HARP out another two years and there is also some discussion coming out of the White House really that they could put some type of PR plan behind HARP to try to get more people to HARP. Do you think this will have any impact at all in getting more people of the sidelines and refine to the HARP programs?

Marianne Lake

Yeah. I mean let's talk for us specifically as you probably know we've been very successful and proactive as it's relating to HARPing our own book. And by the end of this year, we fully expected to have been as successful and mind that as far as possible they will carry on. And that's not the case in the industry, so it's great news that HARP was extended out to the end of 2015. It will allow for other services to get there adopting their own, potentially to have cross service the HARP, which in turn should be good in terms of volumes although I don't think it will be at that change. And for us we're not expecting it to be a significant difference in our production or in our MSR values.

Paul Miller – FBR Capital Markets

How much, I mean, I don't know if you can disclose this or not, but how much do you think that you have HARP eligible and how many of those are HARP eligible loans that you do on a percentage basis? Do you think you've touched most of them already?

Marianne Lake

Yeah, so we talked about we peaked into the HARP volumes in about second quarter of last year. I think overall, the first half of last year was high, came down slightly over 15%. Last year, we talked at our Investor Day that we thought that we go down to the high single digit this year and it is in terms of percentage of our production. And we are very, very active and have been very proactive in mailing our HARP population and expected to have completed the program by the end of the year. So we were on track and this doesn't change our expectations.

James Dimon

The total, if you take all mortgages, I think the numbers are $4 million will be HARP report today if they went to it, and I wouldn't – some inspired that more people don't do it to tell you the truth.

Marianne Lake

Yes.

James Dimon

But only the government can do either PR or I think a cross servicing is a bigger one and will make us slightly better. They are just things that slightly better, it's not going to dramatically change mortgage.

Paul Miller – FBR Capital Markets

Okay. Yeah, I think a lot of companies have told us that they think that they've got through most of the low hanging fruit with HARP, and that the people that aren't HARPing they doubt they will ever HARP. And so I'm just wondering if there is a big PR push, if some of those guys will wake up and say, oh, maybe this isn't, maybe I need to look at this program.

James Dimon

Yeah, we hope so.

Marianne Lake

Yeah and I…

James Dimon

Because we don't know any better than you. I mean…

Paul Miller – FBR Capital Markets

Okay. Yeah.

James Dimon

Yeah.

Paul Miller – FBR Capital Markets

Okay. Thanks a lot guys. Thanks.

Operator

Our next question comes from Nancy Bush of NAB Research.

Nancy Bush – NAB Research, LLC

Good morning.

James Dimon

Good morning.

Marianne Lake

Good morning.

Nancy Bush – NAB Research, LLC

A quick question sort of back to the brown that are stuff that's kind of hanging around out there, I mean I'm reading what everybody else is that they are looking at sort of a 10% capital ratio with the possibility of another 5% tougher on top of that and basically touring away the concept of risk weighted assets and more or less of this rating Basel III as far as I can see. I mean, do you guys have any sense where this sort of 10%, 5% number comes from? Is there some sort of empirical evidence, or is it just sort of a backdoor way to try to get the biggest banks the break up?

James Dimon

You really have to ask them and we'll leave this to them and the regulators again.

Nancy Bush – NAB Research, LLC

Well, is there, I mean, do you have a sense where the numbers are coming from? What that 10%, half of ratio, where it comes from?

James Dimon

You've got to ask them.