Good morning, ladies and gentlemen, and welcome to JPMorgan Chase Third Quarter 2012 Earnings Conference Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please standby.

At this time I would like to turn the call over to JPMorgan's Chairman and CEO, Jamie Dimon; and Chief Financial Officer, Doug Braunstein. Mr. Braunstein, please go ahead.

Doug Braunstein

Thanks, operator, and good morning, everyone. I'm going to take you through the earnings presentation which as you know is available at our website and if you refer to the disclaimer regarding forward-looking statements in the back of the presentation, I will kick us off on Page 1.

We generated record net income of $5.7 billion, that's on record EPS of $1.40 per share for the quarter. That came on revenue of $25.9 billion, up 6% year-on-year, 13% quarter-on-quarter. Our return on tangible common equity was 16% for the quarter and in the back you will see a return on Basel 1 risk-weighted assets was 1.7% for the quarter.

We characterize the business across all of our lines of business has strong performance this quarter and I want to quickly highlight upfront a few contributing factors we're going to talk about as we go through the presentation. First, we really had positive franchise trends in market share that we have been talking about for several quarters as we continue to invest in our businesses.

We maintained our #1 rank in year-to-date global ID fees, we had record deposits in CDB, record production revenue in the mortgage bank, sales volume of 11%, increase in Card, record revenue in the commercial bank, record assets under custody in TS&S.

Secondly, we saw positive year-over-year loan growth, although modest decline quarter-on-quarter; and that is despite the fact that we continue to experience the runoff from our various consumer portfolios we've talked about. On a reported basis, total loans for the company were up 4% year-on-year; and if you look at core loan growth excluding the runoff portfolios, on a comparable basis to the presentation I did at the investor day, core loan growth was up 10% year-on-year. We have record loan balances in the CB up 15%, record business banking loan balances in CDB up 8%, record asset management loan balances of $75 billion.

Third theme you'll see is credit. We continue to see the same core trends in the past couple of quarters; consumer loan losses still very high by historical standards, continue to improve in both our real estate portfolios as well as Card and losses continue to remain very low in the wholesale side.

And then the last theme is strong capital generation for the company. We ended the quarter with a Tier 1 common of 135 billion, that's up 5 billion quarter-on-quarter, strong Basel 1 and Basel III ratios of 10.4% and 8.4% respectively. That estimate for Basel III of the 8.4% is post NPR and it compares to the 7.9% we recorded last quarter. I would also note we continue to work with the regulators on the implementation of the Basel 2.5 rules that were recently announced. And that's going to allow us to continue to refine our estimates as we go forward.

Finally, you see as we always do put a number of significant items up front here for the quarter. I'm going to discuss these where relevant in the financials, but I also do want to remind you that there are, in addition to these larger items, there are always positives and negatives that run through the P&L. So for example, we didn't highlight the 200 million negative of DVA because it wasn't significant enough for us to highlight up front, despite the fact I just did.

If you move on to the businesses on Page 3 in the Investment Bank, we have circled net income of $1.6 billion for the third quarter. That's on revenues of $6.3 billion. If you take out the DVA, it was $6.5 billion in revenue for the quarter. That's up 45% year-on-year, 8% sequentially, $1.7 billion of net income and return on equity of 17%. IB fees for the quarter of $1.4 billion were up almost 40% year-on-year. We had particular strength this quarter in the debt issuance activity; given the favorable rate environment our clients are taking advantage of funding both going long and increasing their funding capacity.

Markets revenues of $4.8 billion were up 24% year-on-year, 5% quarter-on-quarter. Very favorable performance in Fixed Income, up 33% year-on-year, 7% quarter-on-quarter. And we saw broad-based strength across the Fixed Income product set and particular improvement in our credit-related products this quarter.

Included in Fixed Income for the quarter, and going forward on a P&L basis, was the impact of the synthetic credit portfolio that we transferred to the IB at the very beginning of the third quarter; and I want to highlight three items here about the synthetic credit portfolio. The first is the IB did book a modest loss this quarter in the position, that's included in the $3.7 billion of revenues in Fixed Income. We did continue to reduce risk in that position this quarter. And you'll also see the IB bar for the quarter was $122 million; that did reflect the addition of the synthetic credit portfolio as well as a model change we implemented this quarter and then a reduction of the diversification benefits for this quarter as well.

If you look at equity, markets revenue of $1 billion, essentially flat year-on-year. Cash volumes continue to remain a challenge but it was offset by good results in equity derivatives as well as our Prime Services business. Last comment on the IB, if you look at the comp to revenue ratio x DVA, 32% for the quarter, 34% year-to-date.

If you turn to Page 5, Consumer and Business Banking, CBB, you see circled net income of about $780 million. That's on revenue of $4.3 billion, down 7% year-on-year. This will be the last quarter we talk about it on a year-over-year basis but it was impacted by the Durbin Amendment as well as the theme we've been talking about of narrowing deposit margins. If you look quarter-on-quarter, excuse me, revenues were flat. And it really reflects those core-business trends that have been offsetting margin pressure. So the positive growth of 9%, we had a recent FDIC deposit survey that showed our deposit growth at several times the industry average. And the way we analyze that data it actually showed, we grew share in our consumer deposits in all of our 50 top markets this year.

The record business-banking balance is $18.6 billion. We opened over 1 million additional checking accounts year-over-year, 2.5 million more active-mobile customers. We continue to make progress on CPC. $155 billion of client investments under assets on the balance sheet and we opened our thousandth CPC location actually on October 1 so it did make it into the 9/30 numbers.

And just a final word on expenses. Consistent with the guidance we gave you last quarter, you see expenses here were turned back to first-quarter levels. And you will continue to see overhead ratios remain elevated in the near-term given the rate environment.

If you turn to Mortgage Production and Servicing on Page 6, circled net income of a little over $560 million this quarter. Record production related pre-tax income of $1.1 billion in investment driven by a couple of items. Volumes were $47 billion this quarter up 30% year-on-year, 8% quarter-on-quarter, driven by the favorable rate environment for refinancing as well as HARP volume. You'll also see current margins really remained well above historical levels. We would expect those margins to compress over time.

Repurchase impact was essentially neutral for this quarter, similar to what we talked about last quarter. And then you'll see on the Servicing side, we continue to be challenged by very high default-related expenses including the foreclosure-related matters and the ongoing costs that are associated with the settlement and consent order. We do unfortunately expect these expenses to remain elevated longer and that is consistent with the general expense guidance that we gave you last quarter, certainly through the end of this year.

If you turn to Page 7 for real estate portfolios, you see net income of $60 million. Revenues are down 13%. That’s the same theme we’ve been talking about, decline in NII as we ran off $22 billion of loan balances in the portfolio, 11% reduction year-on-year. And we’re going to continue to see this trend impacting our annual NII by about $500 million plus or minus. And this quarter was consistent with that.

Circled credit cost of $520 million on aged really reflects three items. First, we had a modest improvement in the credit-quality trends and that resulted in a $595 million charge-off number on a comparable basis to how we reported last quarter. As a result of that, going forward you will see our guidance for net charge-offs is $600 million plus or minus on a quarterly basis.

Second, we recognized an incremental $825 million of charge-offs we believe one time based on new regulatory guidance. And I’m going to talk about that on the next page. And as a result of all of that, we reduced our reserves by $900 million this quarter, essentially reflecting our improved expectations for losses going forward.

We have included, by the way, reserve analysis that we discussed last quarter. It is on Page 20 of the appendix. And you’ll see on an unadjusted basis, based on all of these actions, we continue to have a very healthy loan-loss reserve of 234% of our annualized net charge-offs on an adjusted basis.

If you turn to Page 8, we thought we’d give you a little more description on the regulatory guidance. It essentially required that substantially all the loans that we have on our books discharged under Chapter 7 bankruptcy be written down to their collateral value. And that’s regardless of the current delinquency status. So that impacted about $2.8 billion of mortgage balances, predominantly in home-equity loans.

And that’s what added the $825 million in charge-offs for the quarter. I just want to highlight a couple facts we have on the page: 97% of those loans that we just wrote down to collateral value were current, 85% are actually paying principal, 50% have been making payments for at least two years following bankruptcy, 80% for one year, and 85% of the portfolio despite those scores has all improved since bankruptcy about 75 points on average.

If these loans perform the way we expect them to, we would expect to recover a significant amount of the current net charge-offs for this quarter over time. The guidance is a result of this action impacted on non-accrual loan balances, as did the previous regulatory guidance we implemented in the first quarter on junior liens. If you see at the bottom right, we tried to give you a pro forma trend analysis. And if you look at absent these changes, the circled number of 5.1 billion on non-accrual, that's the number to compare apples-to-apples to the third quarter of last year and so you see a reduction of a little over $1 billion in non-accrual balances.

Page 9, Card services and Auto, circled net income of $950 million, that's up 12% year-on-year. That's on revenues of $4.7 billion. It's down slightly year-on-year but up 4% quarter-on-quarter. I mentioned before we saw strong sales volume in Card. In fact, we have now had double-digit sales growth for the last seven quarters if you exclude the Kohl's portfolio. We continue to believe this is market share growth as we get a larger percentage of consumer spend and the United States.

The revenue rate you see on the page of 1246, based on strong interchange revenues and lower reversal this quarter and consistent with the guidance that Gordon had given you on investor day. Net charge off rate continued to decline, 357, that is down in absolute dollars, $380 million year-on-year. Just a quick moment on Auto, it had very solid performance originations up 7%, 9% quarter-on-quarter. That's really been based on the improving Auto environment as well as continuing strength in used car pricing.

Final note, on expenses, they are down 9% year-on-year and that's largely due to lower marketing costs. If you turn to Page 10, the Commercial Bank, circled net income was $690 million, that is, as I mentioned, on record revenues of $1.7 billion, driven by record loan balances. CNI growth for our portfolio continues to exceed the industry average.

It was 19% year-on-year versus a 13% industry average growth. Record million market loan balances now for the tenth consecutive quarter up 15% year-on-year. I will note, utilization continues to remain relatively flat. And given the strong cash positions on a number of our customers and the current environment, we are not sure that we haven't reached a new normal here in terms of utilization. The Credit environment continues to be very benign in the commercial bank and so excluding recoveries it's nine basis points of charge-offs this quarter.

Treasury and Security Services on page 11, net income of $420 million, that's up a little under 40% year-on-year but down on from a seasonally strong second quarter. Revenues are up 6% year-on-year and that is really the result of the higher deposit balances you see, particular growth by the way in international deposits and higher average trade finance loan volumes international trade loans grew almost 25% year-on-year. We also had record assets under custody during the quarter.

One note here on investment spending, as we continue to invest this is now beginning to be offset by some of the efficiency initiatives that we talked about in prior quarters so it actually reduced expenses year-on-year and quarter-on-quarter and the impact you see is improving margins year-over-year.

Asset management on page 12, $440 million of net income, up 15% year-on-year and 13% quarter-on-quarter. That's on revenues of $2.5 billion. The results of the quarter were really driven by the improving markets as well as the continuation of long-term product flows. You will see it is our 14th consecutive quarter of long-term flows, almost $21 billion this quarter. We've had a little under $60 billion over the last 12 months into long-term portfolios. And that's really based on continued strong investment performance as well as the banker build-out we have been investing in. Loan growth, as I mentioned, is up almost $20 billion year-on-year. And that's really from increasing contributions from mortgage production as well as international.

If you turn to Page 13, Corporate and Private Equity, net income for the quarter totaled $220 million. It reflects really a number of things. So in Private Equity, you see net income loss of $90 million. That is principally mark-to-market positions for the quarter. In Treasury and CIO net income of $370 million, that's on revenues of $713 million. I'm going to talk about that revenue in a number of items.

First, we had almost $900 million in revenues from the extinguishment of the gains on the redeemed trusts. We told you about that during our second quarter call.

If you, second, look to mark-to-market losses in CIO, it was a loss of $200 – approximately $250 million, and included in that loss was $450 million from a loss on the remaining index positions that we left in CIO. And that really reflects credit spread tightening that we had this quarter and you'll note that we effectively closed those positions out now by quarter end.

Third, we did recognize $460 million of pre-tax gains through securities gains, and in addition, while not on the page here, we did mention last quarter our AFS-related AOCI, so that's our security portfolio gains with $8 billion pre-tax, that number actually increased to $11 billion, a $3 billion increase on a pre-tax basis, $2 billion after taxes.

And then the final component here is we did book negative NII given the low rate environment. And given that environment and the reinvestment opportunities which I'll talk about on the NIM page, you would expect to see this line item be a loss of $300 million plus/minus for next quarter, and that will obviously have an impact on NIM as well.

The last piece is other corporate here. We booked $700 million approximately in pre-tax costs for additional litigation reserves. And that was largely offset by a number of items including some tax adjustments this quarter.

So if you turn to Page 14 on NIM, you see that NIM declined four basis points quarter-on-quarter, our core NIM declined eight basis points quarter-on-quarter. And a number of items affecting NIM for the quarter on the negative side, prepayment speeds impacted the yields of the mortgage portfolio in our AFS portfolio. Secondly, as I mentioned, ongoing low rate environment and the impact on reinvestment opportunities impacted NIM as well as repricing of our floating rate instruments in that portfolio given the low rate environment. And then the third is really a mix issue. We increased our average deposits for Central Banks this quarter, primarily in the Fed, and that impacted NIM as well.

Now on the positive side, we did have a reduction in cost for deposits that were paid across our deposit-taking businesses this quarter. And the last note here is our long-term debt balances and interest expense were down on average quarter-on-quarter, but the long-term debt rate benefit that we got from repurchasing – redeeming the trusts was more than offset this quarter by the impact of accounting, primarily FAS 133 hedge in effect in this that we have talked about over a number of quarters.

And given all of what I just talked about going forward, and the current rate environment, we'd expect to see continued modest pressure on NIM for the next several quarters. I think I've covered the significant points on Page 15 and have talked about all the issues in terms of outlook on Page 16.

So with that, operator, can I ask you to open the lines for questions for Jamie and myself.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from the line of Glenn Schorr with Nomura.

Glenn Schorr – Nomura

Hi. Thank you. Obviously great mortgage production. Curious if you can parse out how much related to HARP versus the overall rate environment? And if you think you have any visibility as we head into the fourth quarter and next year?

Jamie Dimon

So Refi was about 75% and HARP was about 15% in total. And next quarter will probably be pretty good because you still have low rates and the pipeline stuff is still pretty high, the applications.

Glenn Schorr – Nomura

Okay. Thank you. Same with the mortgage theme. I guess the overall message seems like, in your words, housing has turned and you lowered reserves a little bit. You've got a lot more reserves to go. So what things do you look for, for that to continue? And is it apples and oranges when you look at the other side of the coin and see that repurchase claims are up, litigation reserves are up? And there has been a whole lot of press lately about some cases going against the industry or some court rulings going against the industry on the put-back side.

Jamie Dimon

Yeah, so, Glenn, maybe I can separate out. On the mortgage reserves side, we said in outlook is if the trends continue the way they are you should expect to see more reserve releases. But that is subject to the current trends. On the repurchase side, that data in the back of the supplement is both GSE and private label. So the trends we talked about last quarter on the GSE side have run through the mortgage lines continue. And so you saw our actual paid claims of 230, our reserve release I think of 218 if I'm recalling correctly. We expect that, subject to obviously certain changes, to continue. And then on private label, we have told you based on what we knew that we thought we were well reserved for those issues but obviously circumstances can change. And that will change our reserve policy when and if appropriate.

Glenn Schorr – Nomura

Okay. Last quickie. Is there still about a 30 base-point delta for what you're showing us on the advanced approach on Basel III, Tier 1 common? And if you used the standardized?

Jamie Dimon

Yeah, so are you asking, the delta has shrunk. If you're asking – which we didn't put in the impact of the NPR on Basel I, that delta has shrunk as well.

Glenn Schorr – Nomura

Okay. Cool. I can follow the rest off-line.

Doug Braunstein

The only thing I want to say about capital, the 8.4% Basel III, which obviously is an estimate, up-front phases in everything that we know of today. It does not phase in what we know about our own runoff and create new models down the road to reduce it. So we would estimate if we did all that, we were close to 9-5.

Glenn Schorr – Nomura

Close to 9-5 ?

Doug Braunstein

In other words, we're phasing all of the bad stuff up-front and not any of the good stuff. The good stuff is the runoff that we know is going to happen in the next two years. And obviously there's no models to have better RWA outcomes on CRM and some other issues. It's just not in there yet.

Glenn Schorr – Nomura

And just a last one. On the re-submission, is that a November event for when we get thumbs-up, thumbs-down from the Fed?

Doug Braunstein

We don't know. They'll let us know. Remember this only affects the first quarter buy-back, which is not that substantial for our company. And we have to reapply for the full year CCAR, which would affect what we can do after March 31st, which we'll be doing soon. That's the more important number.

Glenn Schorr – Nomura

Got it. Okay. Thank you.

Operator

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

Betsy Graseck – Morgan Stanley

Hi. Thanks. Good morning. Question on just the reinvestment strategy. Doug, you mentioned going through Page 14 the challenges. The question is, do you at this stage continue re-investing in RMBS to the extent that you have the runoff occurring today? Obviously the front of the curve collapsed there on RMBS. Or do you go into more treasuries and Ginnie's given the fact that you are a little light on that asset class anyway? Relative spread has improved. Or do you loosen the credit box and try to drive up the loan growth?

Doug Braunstein

Well, number three definitely, which the loan growth is probably more important. I wouldn't say it's loosening the credit box, it's maybe just being a little more competitive on pricing. Treasuries, no. And the benchmark for the reinvestment portfolio would be Fannie's or Ginnie's or Freddie's. But obviously there are issues to that about the convexity it creates when you do that. And the other thing, which we are obviously working through with new RWA, you've got to combine liquidity need with the RWA charges. So right now we're staying fairly conservative. There will be other opportunities down the road.

Betsy Graseck – Morgan Stanley

Okay. And on the loan side, you think you can drive some incremental loan growth through just pricing activity? Just being more competitive on rate?

Jamie Dimon

I think Jumbo yes, just be more competitive on rates. And we think there are very good credits going forward. And you can see we are growing the Commercial Bank. We're growing Auto. Card, we hope to grow. We want to grow all those things. And we've got good margins. We want to push the loan growth a little bit.

Betsy Graseck – Morgan Stanley

Okay. So then, switching gears, just talk a little bit about Thick. Thick's result were very good this quarter. The question on the outlook has to do with some of the structural changes that are going on as we move into next year, in particular clearing where there is some debate around collateral requirements, collateral shortfall, not going to be able to re-hypothecate as much going forward as you did, as you are able to right now. So how are you thinking about that Thick line? And what are you doing to try to maintain the kind of run rate that you've got given those pressures?

Jamie Dimon

We don’t know if there’s going to be a “collateral” shortfall. It’s not quite clear yet. And the rules for collateral for, I mean for liquidity stuff is not quite clear yet. Clearinghouses is both an opportunity and a risk. And so we hope to get, we’re building the system so we can provide cross collateral for clients and ease of transaction and cheat-transactions for clients. Obviously it may change some of the volume to go through other things. But I’m not sure in total that, that’s going to change a lot in the Thick line. Our experience has been that things go to clearinghouses or during execution sometimes volume goes up and makes up for it.

Betsy Graseck – Morgan Stanley

Okay. I’m good. Thanks.

Operator

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

Ed Najarian – ISI Group

Good morning. Jamie, I’m really interested in getting your view on how you think QE3 overall is going to impact JPMorgan specifically. We can see, obviously, the short-term benefits of a lot of mortgage origination revenue potentially a positive impact on the economy. But, of course, the negative is lower mortgage rates, lower MBS rates and what that does to the margin. So I’m interested in getting your view on is QE3 a good thing or bad thing for JPMorgan?

Jamie Dimon

You basically laid it out already which is lower rates you referred to a little bit. That obviously helped mortgage origination and ultimately housing prices because low rates can drive that part of the economy a little bit. If it were to drive the economy and I’m not sure it will, that would be a plus for us. I think they are doing their job not to help things or hurt things but to try to drive the economy and drive jobs. If that works, it’s a good plus. I personally think that the fiscal policy is going to be more important than the Fed policy soon. The Fed needs help with rational fiscal policy.

Ed Najarian – ISI Group

How do you think about this idea that in the near term clearly you are going to mint a lot of money on the mortgage refi boom, but once that’s behind you, you are simply left with a lower margin. How much does that concern you or not?

Jamie Dimon

Not a lot. If you look at the margins in production are very high. They're well over 2%. A norm would be under 1%. So obviously one day that'll normalize. In the meantime you get volume and higher spreads. On the other hand, we have huge excess servicing costs, which probably would more than offset that. And when Housing recovers charges will come down. So to me if the economy gets better, we're fine. We may lose some production income, but everything else will be better.

Ed Najarian – ISI Group

And then finally, there's a lot of big banks that are sort of framing a component of their operating expenses that they think is abnormally high right now. Based on the extra mortgage servicing, the foreclosure, all things related to continuing through the end of this credit cycle. Is there any number or range that we should think about for JPMorgan in terms of those excess mortgage related costs coming down as Housing continues to recover?

Jamie Dimon

The big one to look at is the excess servicing costs due to the high level of default and high-cost default and consent orders and look at that number. It's about $500 million a quarter, a little more than that. That number will eventually be zero. I don't think it's going down to zero, it'll probably take eight quarters before it goes down to a number approaching zero, maybe more. It's going to take a while to work through all of that. But, that number will disappear.

Production income will also come down at one point for all the reasons you said. When rates go back up you're not going to have all the refis we have today. And you'll probably have more competition and purchase money originations reducing margins. And obviously when the Housing recovers, the losses we are burying in charge-offs will reduce too, just owning the real estate portfolio.

Ed Najarian – ISI Group

Okay. Thank you very much.

Operator

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

Brennan Hawken – UBS

Good morning. Thanks for taking the question. Just to follow up actually on that question from Ed in the eight-quarters that you indicated Jamie. Any idea that's actually a pretty – it's obviously an extended time period, any idea what the trend line would look like or is it too early? Is it going to – is most of the benefit that comes from that reduction going to be backend weighted or will it be pretty linear? Any idea about that?

Jamie Dimon

Yeah, I expect none the next quarter, I expect a little bit in 2013 and a lot in 2014. But those are just – I'm just – this is just rough estimates. We don't really know.

Brennan Hawken – UBS

Of course. Great. That helps. Thanks. And then the $700 million of litigation this quarter, does that mean that you guys had adverse development or was it largely one-time items there? I guess said another way, is there an adjustment from the previous views that litigation reserves really don't need to be built from this point?

Doug Braunstein

No. I think we're separating. When we talk about mortgage to private label stuff we said we felt we were substantially fairly well done. But there is other mortgage stuff that the goes in and out we adjust for and constant other litigation. So when we know we have something we can estimate what it is we put up litigation reserves for it. Unfortunately, I think litigation costs will stay high for a while too. There's just constant development in litigation, it's not all mortgage related.

Brennan Hawken – UBS

Okay. And then thinking about CCAR application, not just this quarter's but also next year's, are you approaching it any differently or is there any increased caution when you think about the fact that there was a material weakness of internal control at JPMorgan? I mean it seems like there might be something that could really sharpen the pencils at the regulators and so we're just curious as you approach the application whether or not that adjusted how you thought about your application at all?

Doug Braunstein

Listen, it's obvious we had a gap in the armor here. Like I said, an arrow went right through that gap. But other than that gap we think we have pretty damn good controls in stuff like that. That material weakness will be fixed. We have huge – we've got a great company. We've got huge cash flows, huge capability and we could probably buy back a lot of stock next year and still hit the 9.5% Basel III at one point. And so I think a rational thing to do is that the stock is at the right price to buy back stock. Obviously we will apply. We don't know the CCAR rules will change next year so when we see those rules we'll decide.

Brennan Hawken – UBS

Yeah, early going, understood. I just was curious whether or not that was going to adjust to your approach at all.

Doug Braunstein

I would hope not. I would hope that when you look at the company in total you see pretty good disciplines and pretty good controls.

Brennan Hawken – UBS

Fair enough. And then last one for me, I know that nothing is official but I don't know whether or not you or Doug might want to comment on the story in the Journal that got some attention yesterday about maybe different roles for Doug in the future or anything or who might be successor if Doug decided he wanted to do something different?

Doug Braunstein

Yeah, well, obviously, I find it truly irritating that people yatz the press like that. But Doug is a top professional. He ran our U.S. Investment Bank coverage for many years. He is a top CFO. We have no, we will let you know when and if we intend to make changes when we make them, not through gossip in the press. I should point out that we have a very strong bench in this company. We got a lot of talented people so if and when we make decision like that we'll make it. I also want to point out we always have conversations with senior people and everybody about the future for them; their career, what they want to do next, when the timing makes sense for them in the company. That's kind of a normal conversation. I would not put that as an abnormal type of conversation.

Brennan Hawken – UBS

Fair enough. Actually one more, sorry. Trying to think about the implications of this announcement, the Bear suite, the Bear lawsuit that was announced. As I thought about it, wouldn't this if you have the ability to come after a firm that acquires a troubled financial institution at a time of crisis, after the fact, opportunistically, with perhaps political motivations, I mean shouldn't that raise concerns from a safety and soundness perspective from the fed? I mean isn't that kind of a key tool that the Fed uses in times of crisis? And shouldn't that sort of created an issue for this lawsuit?

Jamie Dimon

I'm not sure it creates an issue for the lawsuit but I agree with you as a policy matter, it's going to make it much harder in the future for companies to buy a troubled company.

Brennan Hawken – UBS

Okay. Thanks.

Operator

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

Moshe Orenbuch – Credit Suisse

Great. Thanks. Kind of following up on that a little bit, Jamie, you made some comments earlier in the week about kind of the ongoing costs of some of those, or the total costs, I should say, of some of those acquisitions. I would assume that some of the costs in the quarter, book litigation and otherwise, you're still kind of feeling that. Have you ever sized or are you willing to size what that might be?

Jamie Dimon

So let me further – I also want to mention when the government bankrupted GM, you do remember they did bankrupt GM, they absolved GM of all prior legal liability. So the government's being a little inconsistent here.

Moshe Orenbuch – Credit Suisse

Clearly.

Jamie Dimon

So when I made a comment publicly on another forum that when we did Bear Stearns, remember we put up substantial reserves in purchase accounting. So it didn't run through the P&L for closedown costs, litigation, consolidation and materially risk management. Like we can get down the risk that we got in Bear Stearns. And so included in that number instead was what we did put in purchase accounting. Since then, we put on more reserves related to stuff. Some related to Bear Stearns, some related to

WaMu, some related to JPMorgan Chase itself. And so it's increased the cost to us. And that's unfortunate but that's life. And we have reserved for the things we know about and we think about now. So it's in our numbers, the comments I'm making. But we're not future looking at additional reserves.

Moshe Orenbuch – Credit Suisse

Okay. On a separate matter, the Card business had pretty strong revenues this quarter. Is there anything you can call out in terms of what drove that improvement? Is there something going on there? And can we expect that to continue?

Jamie Dimon

Well, first of all, the losses there are very low. And you shouldn't expect much improvement from year-to-year. There are historical lows. But what we are really proud of in the Card business is the new products from Sapphire, Freedom, Ink, products like Blueprint, our rewards programs, are doing very well. We've been gaining share every single year for four years now on Card. And you see this spend numbers. Not the outstanding numbers but the spend.

So spend was up like 11%. And you compare that to a lot of competitors and that's more than double the growth of the average competitor. And that is obviously driving revenue. You also have a merchant process in there representing, if I remember correctly, 18% that's in the revenue line. So the Card business has been doing very well. If I'm making up the years that they didn't do very well.

Moshe Orenbuch – Credit Suisse

And just a follow up, at the Investor Day, I think Gordon had mentioned that you expected kind of marketing spend to be kind of flattish in 2012. And I think Doug had alluded today saying that part of the reason costs were down was that marketing spend was down. Given that performance, is that something that you're going to start marketing more aggressively? Or is there just enough spending going on?

Jamie Dimon

Marketing was high last quarter and normal this quarter.

Moshe Orenbuch – Credit Suisse

Got it.

Jamie Dimon

That’s the way I look at it. But marketing to me is an investment in the future. So if we come up with plans, marketing plans, but we think they’re going to have very good returns, we’re going to spend the money. That’s what we do. We don’t sit here and set a marketing budget and meet it. We actually try to review all of the programs we have and when we have attractive things to do, we’re going to do them, even if it reduces the current quarter profits.

Moshe Orenbuch – Credit Suisse

Thanks so much.

Operator

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

Matt O’Connor– Deutsche Bank

Good morning.

Jamie Dimon

Hi.

Matt O’Connor– Deutsche Bank

You spoke a bit about getting more aggressive on loan pricing, in part because you feel better about the economy and part because of just the lower, flatter interest rates. But what do you need to see to lower lending standards a little bit, specifically on the Consumer side, as you think about Mortgage and Card and maybe even Auto?

Jamie Dimon

Can you repeat the question again?

Matt O’Connor– Deutsche Bank

In short, what do you need to see either macro-wise in the economy or from a regulatory point of view to loosen some of the lending standards, which I think for the industry are quite high on the Consumer side?

Jamie Dimon

Well, I think it’s – yeah, so mortgage is high. Okay? And mortgage is high, appraisal stands are too high, the verification income is extreme. And that’s since we don’t know the rules of securitizations and secure M. I think it’s going to loosen over time. I think doing mortgages today you get very good credits, very good underlying collateral. Remember, a lot of credits can't get loans today. It will lose over time. And I think you just need a stronger economy.

And some of these decisions, some of these regulatory rules, or even some of the Basel rules, could create kind of cliffs in mortgages so that the risk-weighted assets – I think if you go below 680 FICO, dramatically jumps. This should incent us not to do any mortgage below 680. And so I think some of those things, hopefully, will be sorted out in the next six months or nine months. And Credit Card, Auto, Student, and other, I think don't think you should expect to see major changes.

Matt O'Connor– Deutsche Bank

Okay. And then just separately, as we think about other levers because rates are to stay lower for longer, anything on the expense side that you're thinking about or could talk about?

Doug Braunstein

Yeah, we are doing budgets now and we're always drive efficiency and expenses and our expenses what I like about our expenses is in those numbers is constant investment. You see that, more bankers, more branches, more systems, more countries, more – that is what's important for driving the future of the company.

So obviously, we – some expense will be going up because they are good expenses and the bad – and some expenses are coming down to become more efficient and we're always trying to drive down what I call bad expenses. Expenses driven by bureaucracy, stupidity and stuff like that so we're going to – we'll fine tune it and when we have investor day next year we'll probably give you a better outlook for what we expect. But right now an expectation would be kind of level, the plus, what we can save will offset the investments.

Matt O'Connor– Deutsche Bank

Okay. And then just lastly on some of the servicing related cost, I realize there is a lot of puts and takes, I often get asked the question home prices are starting to go up. How quickly do these costs come down? And obviously the time to foreclose is actually increasing I think versus six, nine months ago. What's the one or two key macros data points that we can watch to be somewhat of a leading or even coincidence indicator for these servicing costs?

Doug Braunstein

Okay. So in servicing, it $5 million a quarter which will eventually go to zero and the real driver of that is things in default, delinquency or foreclosure. As those things come down, you're going to see those costs come down. And second, we have to finish the consent order in that but I think they're all kind of related. In real estate, home prices going up will reduce real estate losses or jobs reduced real estate losses. The number of homes underwater is two million less now than it was like a year ago. So obviously those things are all big pluses. I think you just need a good economy and you'll see charge-offs start to come down more – faster than they have been coming down recently.

Matt O'Connor– Deutsche Bank

Okay. Thank you very much.

Operator

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

Mike Mayo – CLSA

Hi. Good morning.

Jamie Dimon

Good morning.

Mike Mayo – CLSA

First question is what is the loan utilization this quarter versus last three quarters?

Jamie Dimon

You guys, can you turn up your – Mike I can't hear you Doug.

Doug Braunstein

You can't hear me?

Jamie Dimon

I'm sorry.

Doug Braunstein

Can you hear me now, Jamie?

Jamie Dimon

Yeah, we got you.

Mike Mayo – CLSA

Yeah, okay. So what's – yeah, go ahead.

Jamie Dimon

So, Mike, it's loan utilization in the commercial bank.

Mike Mayo – CLSA

However you can give it to us.

Jamie Dimon

We typically talk about utilization in the commercial bank particularly in the middle market. It is in the low 30s and it hasn't changed much. And I mentioned that's because most of those companies are very flush with cash as well. So, until they start to really invest more you're going to see those utilization rates around where they are.

Mike Mayo – CLSA

Okay. And your margin guidance, it seems a little bit worse than before. Is that simply due to QE#3?

Doug Braunstein

Our NIM guidance is largely identical to what we said last quarter. Modest pressure.

Mike Mayo – CLSA

But you say for a few more quarters it seems like it's pressure for longer or no?

Doug Braunstein

It could be because the implied curve has pushed lower rates out much longer so the pressure can go on a little bit longer than we would have thought before.

Mike Mayo – CLSA

And...

Doug Braunstein

But Mike remember that also relates to decisions we are going to make. How long the duration of our portfolio is, what we do in making loans, how we want to manage the risk-weighted assets. So there's been a lot of changes in the business, we've got to adjust of those changes.

Mike Mayo – CLSA

And part of that adjustment is that being more competitive on pricing for loans?

Jamie Dimon

I would say competitive but not necessarily more competitive. So we try to stay competitive in most pricing, you know get under – due to credit right and being competitive on price is more important than beat competitive pricing but I mean don't be competitive prices but have bad underlying credit standards.

Mike Mayo – CLSA

So are you lowering pricing on your loans?

Jamie Dimon

On home equity – on jumbo loans we did a little bit. Mostly on...

Mike Mayo – CLSA

And what about...

Jamie Dimon

Most of the loans probably not.

Doug Braunstein

Yeah, Mike, I will tell you in the NIM this quarter, if you look at the loan yields, relatively flat across the company. But again, as the environment, low rate environment and people looking for assets to put on the balance sheet we're going to have to remain competitive.

Jamie Dimon

Actually In the jumbo I would say, actually we just reduced rates to meet the market. We were probably a little high.

Mike Mayo – CLSA

I guess what I'm leading to is half elastic is loan pricing. I mean if you assume that the lack of loan growth in aggregate for the U.S. is not due to the supply of money but is due to the demand for money, will lowering pricing actually improve that demand? And I know it's a difficult question to answer but it goes to how much lower you might want to price your loans.

Jamie Dimon

We are not going to price a lot lower to create demand or something like that. No. I think it's a little elastic. We see the elastic in Jumbo. We're not going to change our underwriting standards in Card. We're not going to change our underwriting standards in Pricing. We got a little more competitive in Auto. But, again, that's just following the business. These are competitive businesses and we have to compete. We have to decide if we're going to meet lower prices or not. So in Auto and Jumbo we did. I would say that in the Commercial Corporate side, probably not much.

Mike Mayo – CLSA

And then one more question on the margin as it relates to mortgage. I know this is a tough question. How much longer do you think the mortgage margin should hold up in terms of the gain on sale? Or what factors should we think about when modeling that?

Jamie Dimon

I think as long as rates stay low, refis will stay high. And volume will be high. And very high volume clogs up the system and allows higher pricing. I think that once you start to see rates go up, which I personally think will probably happen sometime in 2013, but I don't know that. You're going to see lower refi and more competitive pricing, more home purchase but more competitive pricing. We don't expect to count in the high margins and mortgage origination forever. Maybe you're going to have it next quarter or maybe for a couple quarters after that but it won't last for that much longer.

Mike Mayo – CLSA

All right. Thanks a lot.

Operator

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

Matt Burnell – Wells Fargo

Good morning. Jamie, first maybe a pretty big picture question, given that we are heading towards the fiscal cliff by the end of the year, what is your outlook particularly in the Investment Bank and in the Commercial Banking segments for the fourth quarter and into the first half of next year, given some of the political risks that we face over the next few months?

Jamie Dimon

When you talk about the fourth quarter, it's only the Commercial Bank. You can pretty much project the results for the next quarter. So the fiscal cliff isn't going to change this, and I hide loans in the books and from treasury deposits and things like that. The investment bank would be more sensitive to what the market reacts to if they get very scared about the fiscal cliff. But we just don't know. We're going to be prepared. JPMorgan will try to be there for clients regardless. And I'm not sure it's going to drive the fourth quarter results that much. I think the only place you will see it really drive it would be in the Investment Bank because volume has dropped dramatically. But I can give you arguments why fiscal cliff could drive volumes up in the short run.

Matt Burnell – Wells Fargo

Doug, maybe a question for you on the Investment Banking bar, which was on a reported basis up about 70% plus. There appears to be a methodology change in the third quarter versus the second quarter. Can you provide a little more detail as to how we should think about that? And what you are thinking about the bar in the fourth quarter?

Doug Braunstein

Yes, so, as you say, much of that increase was a transfer of the Synthetic Credit portfolio which we expected some other mix changes. The model changes, we updated models for that portfolio based on Investment Banking models, which we believe are a better indicator of risk. And there were a little less diversification benefits this quarter. These bar numbers are well within the numbers that the IB has operated in before. And we did, I think, qualify at a company-wide level the impact of the model change, our reduced bar company-wide by a little over $35 million.

Matt Burnell – Wells Fargo

Okay. And then a question on your deposit costs. They're down about six basis points, quarter-over-quarter as you mentioned, Doug, in your prepared remarks. One side of the question is how much lower do you think you can get those? And if you're not able to drive those down, what affect does that have on NIM pressure over the next couple of quarters?

Doug Braunstein

It's likely we're getting close to the bottom there. And so to the extent other factors continue to have pressure, you're going to see a little bit more flippage. I will say some offsets that we didn't get the benefit of from a hedge accounting standpoint is our financing costs. We would expect to see some improvements there absent the account changes.

Matt Burnell – Wells Fargo

Okay. And then finally from me, you noted that peripheral European exposure on a net basis was a little less than $12 billion this quarter versus a $6.3 billion net number last quarter. It looks like most of the increase came in at Italy and Spain. Is there any color you can provide on what's going on there?

Jamie Dimon

The increase is mostly from the reduction in short positions at a synthetic credit portfolio.

Matt Burnell – Wells Fargo

Okay. Thanks very much.

Jamie Dimon

The rest is kind of business-as-usual in Italy and Spain. We are still doing business there.

Matt Burnell – Wells Fargo

Okay.

Jamie Dimon

You should see that exposure go up a little bit in the near-term too.

Matt Burnell – Wells Fargo

Okay. Thank you.

Operator

Your next question comes from the line of Erica Panella with Bank of America.

Erica Panella – Bank of America

Good morning. I just had one follow-up question to Brian's question. So, Jamie, you're entering this stress test in 2013 with more capital and more earnings than you did for the 2012 CCAR. And you also mentioned that it will be business as usual in terms of how you formulate your ask. So if the synthetic credit loss is really going to impact the process in your ask, is it safe for us to assume that you will ask for at least as much as you did last year if not more?

Jamie Dimon

First, we don't have the final CCAR rules yet. And they're going to change some of them and we've got to see that before we see it. And we're also working through all of the new RWA rules of Basel 2.5, the NPR Basel III, and all the new liquidity rules elsewhere. We're going to get it all right and then we're going to apply. I think we're going to buy back a substantial amount of stock and meet the 9.5% Basel III in 2013, by late 2013. But I can't give you the number right now. It may be more or less than last year what we applied for.

Erica Panella – Bank of America

Okay. That's it for me. Thanks.

Operator

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

Paul Miller – FBR

Yeah, thank you very much. Jamie, going back to mortgage originations on the correspondence channel you've really been increasing market share. Is that something – I know there is a lot of opportunity out there with a lot of guys exiting that business. And I know in the past that you've shrunk that a little bit. But is that something that we should continue to see if the mark-to-market remains healthy to grow market share on that channel?

Jamie Dimon

I think we did shrink it. Again, I've got the number 2,500 down to 700 or 800. We are looking at the complete relationship in correspondence. The correspondence I think is a pure economic transaction. Other people get out of the business and we've probably just ended up with a little more share for that reason. It's not a big strategic thrust. If the Morgan folks come in and say that they can generate a lot of servicing and a great economic rate and do more, we would do more.

Paul Miller – FBR

Okay. And then another question is you saw Wells Fargo get hit with the Department of Justice suit on FHA originations. And I know there's been a lot of litigation to all these institutions. Have you had any talks with the Department of Justice on what – I know B of A has settled with these guys with the same issues. Have you had any thoughts that have been disclosed? Any talks with the Department of Justice on these FHA-type originations?

Jamie Dimon

We haven't disclosed anything but I would expect when these things come out everyone's going to have to have something of the same order. This is a new ordinary course of business. But it's unlikely that you have three people get it and not the fourth.

Paul Miller – FBR

And then lastly, you talked about...

Jamie Dimon

But we were not very big in FHA.

Paul Miller – FBR

Yeah, okay. And then the other last one is, you talked about – Mike or Mary asked, I forget who – that you don't see anybody really doing FICOs below 680. Is that just putting on your portfolio? Or 680 and selling to the GSEs? I mean we know that...

Jamie Dimon

Conforming loans, you sell them, that's fine. You meet their standards. What I was referring to is that some of the new Basel rules create these little cliffs on risk-weighted assets. And if I remember correctly, one of the cliffs is created when you go below 700 or 680 or 650. And that therefore it's going to be harder for certain people to own mortgages even if they are very well underwritten, even 60% loan-to-value is below 680 because of the high risk-weighted-capital charge. I think some of that is stifling mortgage origination to those folks. That's all I'm saying. And I think it should loosen up over time. And I'm not sure the regulators intended that when they put out the new Basel rules.

Paul Miller – FBR

Okay. Thank you very much, Jamie.

Operator

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

David Konrad – KBW

Good morning. I just had a question regarding the comp ratio and IB. It came in at least lower than I expected at 32%. I guess is that a mix shift in the revenues this quarter? And maybe if you can give any color for next quarter, maybe I was thinking the long-term, comp-ratio guidance was 35% to 39%. Should we think of that is being lower and longer-term?

Jamie Dimon

Yeah, we've always said 35% to 40%. We actually use a formula which uses returns on capital and the types of revenues and the types of profits, et cetera. Risk-adjusted and all that. So that's the number that generally goes through. But as a rule of thumb I would think about the 35% being a good number.

David Konrad – KBW

Okay. Thank you.

Jamie Dimon

Obviously every year it changes. Competition changes. Whether you are investing in certain parts of the world, you may fund that separately because you can't take that out of people working hard today to fund a big investment in another part of the world. So it'll change over time that 35%. If you look at our investment bank 35% comp I think it's like 25% non-comp, which means a 40% margin. That's pretty good. That's pretty good. If we can sustain that, I would be a very happy guy.

David Konrad – KBW

Great. Thank you.

Jamie Dimon

In a competitive environment.

Operator

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

Christoph Kotowski – Oppenheimer

Hi. Jamie was quoted the other day saying that JPMorgan was establishing a fiscal cliff war wound. I was wondering if you could tell us exactly what you meant by that and how you are positioning the firm for that?

Jamie Dimon

I think I was referring to, I was asked a question at the Council Correlations about the Eurozone crisis and the fiscal cliff. We do have a kind of war wound Eurozone crisis. We've done extension work on it. I also mentioned we probably spent $50 million or so getting prepared for the debt crisis that we had nine months ago or so. We are preparing, I wouldn't call it war wound, I misstated it, we've got to get prepared for the fiscal cliff. What does that mean? It may be not so much for us but for our clients. How are they going to react What do we have to be prepared to do And unfortunately, when things like a fiscal, if the fiscal actually happens you have to be prepared for various scenarios including the worst possible one, even if you don't predict it. That's what we are thinking. What could really happen? What are we missing? How bad could it be? We have to be prepared for it. Were hoping it doesn't happen.

Christoph Kotowski – Oppenheimer

Okay. That's it from me. Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Jim Mitchell with Buckingham Research.

Jim Mitchell – Buckingham Research

Good morning. Two questions, one on what's left of what you'd transferred. You closed out positions in CIO and transferred the rest to the Investment Bank. Can you give us any update on your thoughts on when that could be completely exited? And any other indications of size or impact in the quarter would be great.

Doug Braunstein

Last time we gave you some measures of CS01, VaR, RWA and a couple of stress tests. We said extreme stress 800 to 1.6 billion. That was July 13. Almost any measure you look at of risk would be down 20%, 30% or 40%. Certain risks are down 40%. Certain risks are down 30%, certain 20%. And the stress risk in addition is down by that amount. The folks are doing a great job managing it. It had a modest loss this quarter. We feel completely comfortable with it. It obviously can lose money. It can also make money. And we always said we hope at the end of the year it's a non-issue we don't have to talk about anymore. We're still on track for that.

Jim Mitchell – Buckingham Research

And so it seems like it's reasonably well hedged in the Investment Bank.

Doug Braunstein

The folks are doing a great job hedging every conceivable piece of it they know about while conducting client business.

Jim Mitchell – Buckingham Research

Right. Okay maybe a follow-up on Europe, certainly the funding environment has gotten better, do you feel that there has been somewhat of a game change there? And are you feeling better about embracing market share opportunities there and putting more balance sheet to work? Or do you still have some hesitation in Europe?

Doug Braunstein

In the last couple months they have made, I would say, a lot of progress if you look at the OMT even though it has conditions but it is a big statement to make sovereign debt good for Italy and Spain. The conversations about the banking union in guaranteed programs, which would protect from a run in the banks in Spain and Italy, and also trying to redo this fiscal, it could take years, but the fiscal agreement among the Eurozone nations. I think they have made a lot of progress. You see it reflected in bond rates. I still think it's going to be a roller coaster. There will be ups and downs as good things happen or bad things happen. They are only in a mild recession. I think that's a very good thing. We have always made a decision to continue to conduct business in France and Germany and U.K. and Spain and Italy. So we continue to be worried about it. We are going to be prepared for bad outcomes but we are there. And if there are opportunities, we have not seen unbelievable opportunities like asset sales or something like that, but we will participate if there are assets we want or things we want to do.

Jim Mitchell – Buckingham Research

Right. So you think the tone of the improved tone in September is sort of carrying so far into the fourth quarter?

Doug Braunstein

I hope so. We don't run the company guessing on things like that. We're trying to build our client business. I hope so. I hope they continue to make progress. That's always good. We're prepared if that's not true too.

Jim Mitchell – Buckingham Research

Okay. Great. I'm done. Thanks.

Operator

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

Jamie Dimon

I'm just surprised no one mentioned how handsome Doug Braunstein looked in the article in the Wall Street Journal.

Doug Braunstein

On that final note, thank you all very much.