

**TESTIMONY OF JAMIE DIMON
CHAIRMAN & CEO, JPMORGAN CHASE & CO.
HOUSE FINANCIAL SERVICES COMMITTEE
FEBRUARY 11, 2009**

Chairman Frank, Ranking Member Bachus, Members of the Committee, my name is Jamie Dimon, and I am the Chairman and Chief Executive Officer of JPMorgan Chase & Co. I am pleased to be here today to assure the Committee that we at JPMorgan Chase are doing everything we can to help restore confidence in the U.S. financial system and to ensure that we are fulfilling our responsibilities under the Troubled Asset Relief Program (TARP) as Congress intended: to restore liquidity and stability to the U.S. financial system, to ensure the continued flow of credit to consumers and businesses, and to encourage modification of residential mortgages.

Of course, even before TARP, JPMorgan Chase entered into two transactions to help stabilize our financial system and protect consumers and taxpayers from potentially catastrophic losses: the merger with Bear Stearns back in March of last year; and the purchase of Washington Mutual assets some six months later. While we believed that each of these transactions would produce long-term benefits for our franchise, each also entailed significant risk. Subsequent to those transactions, the government asked us to participate in the Capital Purchase Program established under TARP.

As this Committee is aware, JPMorgan Chase did not seek the government's investment. But we agreed to support the government's goal of obtaining the participation of all major banks. The funds we received strengthened our already strong capital base, which is the foundation of all of our lending activities (including our mortgage modification efforts, described in detail below). We have paid and will continue to pay dividends on the government's investment -- \$1.25 billion on an annual basis. In this context, I want to provide the Committee with an update on JPMorgan Chase's post-TARP lending activity.

But before I do that, I want to spend a minute on who we are. While some may think of us as a Wall Street firm, we are very much a part of Main Street. Our 5,000 branches serve customers in 23 states. We employ 174,000 people in 49 states -- 125,000 of them outside the New York metropolitan area. We provide health care coverage for 417,000 people. We have long-standing relationships with over 400,000 small businesses. More than 50 million Americans own JPMorgan Chase shares, often through their retirement plans. On average, we pay more than \$10 billion a year in taxes to the federal government, as well as state and local jurisdictions. Last year, our Foundation made charitable contributions of approximately \$100 million across the U.S. Our people are ingrained in the communities we serve. We thrive when those communities are healthy, secure and prosperous.

Lending to consumers, businesses and governments

JPMorgan Chase continues to provide significant levels of credit to our customers, whether individual consumers, small businesses, large corporations, not-for-profit organizations, state and local governments or other banks. Since we received the capital investment under TARP on

October 28, 2008, our lending volumes have been significant, particularly in light of the rapidly deteriorating economic environment. Whenever we lend, but especially now, we must do so in accordance with prudent risk management and underwriting standards, mindful of market and credit risks. We should not forget that eroding credit standards by many market participants played a large role in creating the current economic malaise. The challenging economic conditions we face today only elevate the importance of operating in a safe and sound manner and maintaining what we believe to be a strategic imperative: a “fortress balance sheet.”

In the fourth quarter of 2008, we made over \$150 billion of new loans, including the following:

- Over \$50 billion in new consumer originations – representing over 5 million new loans and lines to consumers (*e.g.*, for mortgages, home equity loans and lines, credit cards, student loans, auto loans, etc.). Through this activity, we helped more than 75,000 families acquire homes or lower the interest rate on their mortgages.
- Over \$20 billion in new credit extended¹ to 8,000 small and mid-sized businesses, governments and non-profits; in addition, we committed to extend an incremental \$5 billion in lending to the government and non-profit sector over the next year and were the only investor willing to step up to purchase a recent \$1.4 billion bond offering by the State of Illinois.
- An additional total of approximately \$90 billion in new and renewed commitments to our corporate and other clients.

We also dramatically increased our presence in the interbank market, lending an average of \$50 billion a day to other banks – which provided much needed liquidity to the system. Including interbank lending, our aggregate new lending for the fourth quarter was over \$200 billion.

Also during the fourth quarter, we purchased almost \$60 billion of mortgage-backed and asset-backed securities, which had the benefit of supporting the agency debt markets and promoting liquidity in the housing capital markets.

In sum, our consumer loan balances increased by 2.1 percent in the fourth quarter,² while overall personal consumption expenditure in the country decreased by 2.3 percent over the same period. That is to say, we lent more even as consumers cut back on their spending during the quarter.³

JPMorgan Chase’s lending volumes in the fourth quarter are especially significant in light of the continued deterioration of the economy in the U.S. and globally and a steep decline in demand for credit. The stock market is down 21 percent since the passage of the Emergency Economic Stabilization Act, the United States lost 1.5 million jobs in the fourth quarter, and home values have continued to fall. This dismal picture is reflected in business and consumer sentiment: confidence of small businesses has eroded steadily to the lowest level on record since 1908; surveys of investor sentiment show investor confidence has fallen to half the level seen early

¹ New commitments and renewals

² \$483B vs. \$473B

³ Source: our supplement for our loans and the Bureau of Economic Analysis for U.S. Personal Consumption Expenditure.

last year; and consumer confidence levels as reported by the Conference Board have plummeted over the course of 2008 from 91 to 38.

In short, banks like JPMorgan Chase are continuing to lend in this environment. The significant tightening of credit that we have all seen over the last several months must be understood in the wider context of the overall credit markets. Nonbank lenders, such as money market funds and hedge funds, constitute 70 percent of our nation's credit markets --providing credit, for example, through their holdings in commercial paper. Understandably, as their own investors have pulled back, these institutions have done the same, either by not extending any credit or by dramatically shortening the duration of the commercial paper they are willing to purchase. The result has been a further tightening of liquidity in the financial markets.

Keeping families in their homes

At JPMorgan Chase, we are not only continuing to lend; we are also at the forefront in doing everything we can to help families meet their mortgage obligations and keep them in their homes. Even before the current housing crisis began, we had undertaken foreclosure prevention efforts designed to do just that. We believe that it is in the best interests of both the home owner and the mortgage holder to take corrective actions as early as possible – in some cases even before default occurs. Our foreclosure prevention efforts include both the \$330 billion of loans that we own and the \$1.1 trillion investor-owned loans that we service. We expect to help avert 650,000 foreclosures by the end of 2010. We have already helped prevent more than 330,000 foreclosures and have done so in a way that averts re-default by achieving long-term, sustainable mortgage payments.

We are well underway to implementing the commitments we made in announcing this foreclosure prevention plan. In particular, we have:

- Delayed starting foreclosure on over \$22 billion of Chase-owned mortgages held by more than 80,000 homeowners so that Chase could review those mortgages for possible modification.
- Commenced mailing proactive modification offers to borrowers of Chase-owned loans at imminent risk of default.
- Selected sites for 24 Chase Homeownership Centers in areas with high mortgage delinquencies where counselors can work face-to-face with struggling homeowners. We will have 14 centers – 9 in California and 5 in Florida – open and serving borrowers by the end of the month and the remaining 10 by the end of next month.
- Added 300 new loan counselors to provide better help to troubled borrowers, bringing the total number of counselors to more than 2,500.
- Initiated an independent review process to ensure each borrower was contacted properly and, if and as appropriate, offered modification prior to foreclosure.
- Developed a robust financial modeling tool to analyze and compare the net present value of a home in foreclosure to the net present value of a proposed

- Worked to help establish a non-profit clearinghouse to join Chase and other lenders who want to donate or sell at a discount their owned real estate to non-profit and government agencies that can use these properties.
- Worked with Fannie Mae and Freddie Mac to implement their new Streamlined Modification Program for borrowers at least 90 days delinquent; we have mailed more than 28,000 letters in the past several weeks.

We believe that programs like ours are the right approach for the consumer and for the stability of our financial system as a whole. We would urge that the Administration adopt a uniform national standard for such programs and otherwise do whatever it can to ensure that sensible modification efforts short of bankruptcy are undertaken as broadly and consistently as possible.

Compensation policies aligned with long-term performance

I know that many Americans are concerned about compensation practices across the financial services industry – and I think some of those concerns are quite legitimate. At JPMorgan Chase, we have long adhered to compensation practices that were designed to reward long-term performance, not just revenues, and aimed to align employee and shareholder interests. Before the TARP program was conceived, we used a multi-year approach to compensation, weighed risk management as part of our performance evaluations, had a bonus recoupment policy beyond that required under Sarbanes-Oxley, and did not use golden parachutes or many other perquisites. We have always paid a significant percentage of our incentive compensation in stock (50 percent for our most senior management group) and require this group to hold 75 percent of their stock until retirement.

And for us, incentive compensation is not a perquisite given exclusively to senior officers and investment bankers. It is part of our regular compensation given to employees across the firm, including retail branch and credit card personnel, technology experts, and compliance and support professionals. Each employee is paid based on a combination of individual performance, business unit performance and the performance of the firm as a whole.

I took no bonus for 2008 in any form, cash, stock, or options. I judged that it was appropriate for me, as the leader of a major financial firm in the current environment, to forgo a bonus last year. Many of our employees took significant cuts in compensation, and the more senior executives took the larger percentage cuts. For our most senior management group, incentive compensation declined more than 60 percent. For the Firm as a whole, average incentive compensation per employee was down 38 percent. (Average *cash* incentive compensation was down by 43 percent.) This is true even though, during one of the most tumultuous periods our economy has ever experienced, we earned a profit in every quarter and executed the Bear Stearns and Washington Mutual transactions. Our employees worked harder than ever and performed admirably for the company and for clients under enormously challenging conditions in 2008. I believe the compensation we paid them was appropriate.

State of the Financial Industry

Before I conclude, I should address the Committee's request for comment on the state of the financial industry. These are obviously challenging times. The government, in my view, has taken bold and necessary steps to keep this crisis from becoming something that none of us would want to imagine. Congress will be tackling many more challenges in the months ahead and we stand ready to work with you on the range of issues confronting the financial services sector and our economy as a whole. One issue I do want to touch on briefly is the need for regulatory modernization. For in my view, long-term recovery will elude the financial industry unless we modernize our financial regulatory system and address the regulatory weaknesses that recent events have uncovered.

The ongoing financial crisis has exposed significant deficiencies in our current regulatory system, which is fragmented and overly-complex. Maintaining separate regulatory agencies across banking, securities and insurance businesses is not only inefficient, but also denies any one agency access to complete information needed to regulate large diversified institutions effectively and maintain stability across the financial system. It also results in uneven and inequitable regulation of similar activities and products across different institutions.

I am in complete agreement with Chairman Frank that Congress and the President should move ahead quickly to establish a systemic risk regulator. In the short-term, this would allow us to begin to address some of the underlying weaknesses in our system and fill the gaps in regulation that contributed to the current situation.

As part of a longer-term modernization discussion, we stand ready to work with Congress and others to think through any number of complex issues. But waiting for the larger debate over regulatory reform to play out could take months. Every credible regulatory modernization plan includes the creation of a systemic risk regulator, and everyone agrees that this needs to be done – and done right away. I hope Congress will act to get this critical building block in place.

Conclusion

There are tremendous challenges facing the financial services industry and the American economy. I look forward to working with this Committee to address those challenges, to help find solutions to our current economic problems, to keep American families in their homes and to begin to restore confidence in our financial markets.