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Before the Senate Committee on Banking, Housing and Urban Affairs

"Oversight of the Emergency Economic Stabilization Act: Examining Financial Institution Use of Funding Under the Capital Purchase Program"

November 13, 2008

Chairman Dodd, Ranking Member Shelby and Members of the Committee on Banking, Housing and Urban Affairs, good morning. I am Barry Zubrow, Executive Vice President and Chief Risk Officer of JPMorgan Chase & Co. On behalf of the firm, I thank you for inviting us to participate in today's hearing on the use of funding received under the recently established Capital Purchase Program. We appreciate Congress' important oversight role, and the role of this Committee in particular, in connection with the United States Treasury's direct investments in financial institutions like those represented here today under the Emergency Economic Stabilization Act enacted by Congress just a few weeks ago.

JPMorgan Chase is a global financial services firm and one of the largest financial institutions in the United States, with approximately $2.3 trillion in assets. The firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the JPMorgan and Chase brands, the firm serves millions of customers in the U.S. and abroad, including individual consumers, small businesses, large corporations and state and local governments.

On October 28, 2008, the U. S. Treasury purchased 2.5 million shares of the firm's fixed rate cumulative perpetual preferred stock and a warrant to purchase up to 88.4 million shares of the firm's common stock for aggregate consideration of $25 billion. As this committee is well aware, the government's investments in financial institutions were conditioned on a number of restrictions on the firms' activities, including restrictions on the payment of dividends, repurchase of shares, and compensation of senior executives.

The $25 billion in capital we received under the Capital Purchase Program enhanced JPMorgan Chase's already strong capital position. All of our capital ratios were significantly in excess of the benchmarks established by the Federal Reserve for *well capitalized* bank holding companies, even before the Treasury's direct investment. Specifically, as of September 30, 2008, we had total capital of $159 billion and Tier 1 capital of $112 billion. Our total capital ratio was 12.6%, our Tier 1 capital ratio was 8.9% and our leverage ratio was 7.2%. Indeed, consistent with our continual emphasis on maintaining a "fortress balance sheet," during the first nine months of the year and prior to the Capital Purchase Program, we independently raised $21.9 billion in the public markets, had net income of $4.9 billion, and generated additional capital of $4.3 billion in connection with employee plans and the acquisition of Bear Stearns.

Although we did not seek the capital provided by the Capital Purchase Program, we believe the Program is well-conceived and support it. To be sure, the circumstances of each institution receiving capital are different. However, we recognize the importance of supporting the uniform application of this Program so as to promote stability and confidence in the financial markets.

The capital we have received through the Capital Purchase Program is being deployed in a manner consistent with the purposes of the Program, among other things, to expand the flow of credit to creditworthy U.S. consumers and businesses on competitive terms and to work diligently to modify the terms of residential mortgages to strengthen the U.S. housing market. At the same time, the decisions on capital usage must be consistent with prudent business practices and underwriting standards, appropriately mindful of market and credit risks and in the best interests of all of our shareholders in maintaining a strong and vibrant JPMorgan Chase.

What does this mean in practice?

Mortgage loan modifications

On October 31, we announced multiple new initiatives within our Chase home lending business designed to keep more families in their homes through a significantly expanded loan modification program. The program, part of our recently announced "The Way Forward" effort, is expected to help an additional 400,000 families – with $70 billion in loans – during the next two years. Since early 2007, Chase has helped about 250,000 families avoid foreclosure, primarily by modifying their loans or payments. Through the significant expansion of our loan modification program, we will also be reaching out to the customers of Washington Mutual and the EMC unit of Bear Stearns, which are now part of JPMorgan Chase.

With these proactive and systemic steps, we are redoubling our commitment to help homeowners stay in their homes. In total, we anticipate that these programs will allow 650,000 families to remain in their homes as we modify approximately $110 billion in mortgages.

How do we plan to do that? We will:

- Open 24 regional counseling centers to provide borrowers with face-to-face help in high delinquency areas;
- Hire 300 additional loan counselors (bringing our total to more than 2500) so that homeowners can work with the same counselor from start to finish;
- Proactively reach out to borrowers to offer pre-qualified modifications, such as interest rate reductions and principal forbearance;
- Expand the range of financing alternatives offered to enhance affordability, eliminate negative amortization and otherwise modify the pay-option ARMs that

we inherited as part of our acquisition of the mortgage portfolios of WaMu and EMC; and

- Commence a new process to provide an independent review of each loan before moving it to the foreclosure process.

We expect to fully implement these changes within 90 days. In the interim, we have stopped foreclosure proceedings on any additional loans on owner-occupied properties with mortgages owned by Chase or its affiliates. We have worked and will continue to work diligently with investors to get their approval to bring these enhancements to the loans we service on behalf of others. We want our efforts to have the broadest possible impact. We also plan to offer a substantial discount on or donate 500 homes to community groups or through non-profit or government programs designed to stabilize communities.

Lending Activities

Our core business is supporting our customers through our lending operations. We continue to provide credit to our customers, whether they are consumers, small businesses, large corporations, not-for-profit organizations or municipalities. We are extending:

- billions of dollars in consumer loans, including home mortgages, home equity loans, student loans and auto loans;
- billions of dollars in credit card account lines and line expansions to assist millions of consumers;
- billions of dollars in new loans to middle-market corporate customers, state and local governments, and non-profit organizations, including hospitals; and
- billions of dollars in loans to large corporate clients.

Throughout the past year, during some of the most turbulent and difficult conditions many of us have ever witnessed, we have prided ourselves on continuing to be there for our clients – whether by making markets and committing capital to facilitate client business, investing in infrastructure and other projects, or making loans to creditworthy borrowers. In short, we have been open for and remain open to new business.

Executive Compensation

We take very seriously our responsibility to all of our shareholders to ensure that our compensation practices are appropriate for the complexity and scale of our business. Simply stated, we believe that compensation should be based on performance (measured over time) of our businesses. Performance of the firm, the business and the individual are all taken into consideration when making compensation decisions; our emphasis is on profits and risk-adjusted returns, rather than revenues, and we also consider other factors such as risk management, client satisfaction, support of the firm's values and the need to attract outstanding, diverse talent. Since almost two months remain in 2008, we are not in a position to provide specific information regarding 2008 compensation. But given the type of year we are currently experiencing, even though we have produced profitable results in each quarter to date, I have little doubt that employees and executives will make substantially less this year than they did in 2007. I also want to note that the funding received through the Capital Purchase Program will have absolutely no impact on the compensation decisions for JPMorgan Chase employees or executives.

We believe that compensation should not incentivize excessive risk-taking, and the more senior the executive, the more important it is that compensation be disciplined and not formulaic. Under the Capital Purchase Program I recognize my responsibility to work with the Board's Compensation & Management Development Committee to review the incentive compensation arrangements of our senior executive officers to ensure they do not encourage excessive risk taking.

Let me add a general note about our compensation practices; we tie compensation to long-term performance of the firm by providing a large percentage of compensation in equity awards that vest over multiple years. We also require senior executives to retain at least 75% of all equity awards that are granted to them.

JPMorgan Chase does not provide senior executives with employment contracts, change-in-control agreements or merger bonuses. There are no "golden parachutes," and top executives are subject to the same severance programs as other employees. In addition, even prior to the Capital Purchase Program, the firm had in place a bonus recoupment policy. We have supplemented this policy with the recoupment policy specified under the Capital Purchase Plan and have measures in place to ensure we are in full compliance with the Program's requirements.

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We are keenly aware of the responsibility undertaken by any firm in which the government invests taxpayer funds. We fully intend to honor that responsibility by promoting the goals of the Capital Purchase Program while also acting prudently and sensibly.

JP Morgan Chase will continue to operate in a manner consistent with safe and sound banking practices. We want to be there – we have a responsibility to be there – for the customers of tomorrow as well as for the customers of today. Many believe that irresponsible lending was one of the causes of the current distress in the financial markets. No one wants a repeat of those mistakes. Every day, we seek to strike the appropriate balance as we work to serve our customers through economically viable and appropriate lending activities while honoring the goal of the Capital Purchase Program to get the economy back on track by making capital available to American businesses and consumers.

John Pierpont Morgan once said that he wanted to do first class business in a first class way. That remains our goal and our commitment, to our customers, our shareholders, our employees and the taxpayers of this nation.