MORTGAGE BANKING

Frank Bisignano, Mortgage Banking CEO and Chief Administrative Officer

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JPMorgan Chase & Co.

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2011 – A year of repositioning

Credit

- Recent underwriting practices have demonstrated strong performance
  - Early delinquency rates[1] peaked in 2005-2008 vintages at 1.5% for Prime/Home Equity loans; over 4% for government insured
  - 2009+ vintages averaging less than 0.5% across product types

Borrower Relief

- Modification and refinance programs continue to be expanded
- Significant proprietary modification and short sale programs exist with each servicer
- Servicing practices largely remediated

DOJ/AG

- $25B settlement covers 5 servicers
  - ~$5B – Cash
  - ~$3B – Refi Program for "underwater" homeowners
  - ~$17B – Additional consumer relief
- Required to adhere to certain enhanced mortgage servicing standards

Consent Orders

- The OCC and the Fed issued Consent Orders in April 2011 to large mortgage servicers
  - Servicer plans were approved by the OCC and the Fed
  - Communication with borrowers began in October

- **Uncertainty continues**
  - Private label litigation; GSE/FHA/VA/PLS repurchases and other
  - Volume of unsold homes; shadow inventory
  - Role of private capital in mortgage market liquidity

[1] Ever 30 days delinquent measured 6 months from origination for the JPMC serviced portfolio; excludes HARP

2011 – Positioning for success at Chase

Brought full power of the firm to fix our mortgage business

- Reconstituted management team and organizational structure
- Recruited key leadership by leveraging talent inside the firm and from strategic external hires
- Formed Borrower Assistance
- Increased loan officers 23% in 2011
- Leveraged firmwide expertise and best practices across LOBs – Investment Bank, CIO, and other Consumer businesses

Delivered on technology and process improvements

- Consolidated three servicing platforms into one
- Re-engineered servicing processes to improve efficiency
- Increased number of modifications per month by 38% and short sales by 43%

Improved volumes, market share, and customer satisfaction

- Chase now #2 in originations – 3Q/4Q11
- Increased the number of loans originated from the branches by over 40%
- Enhanced customer experience
- JD Power Customer Satisfaction rank up to 5th, from 12th
- Community relationships improved

Improved risk and control environment

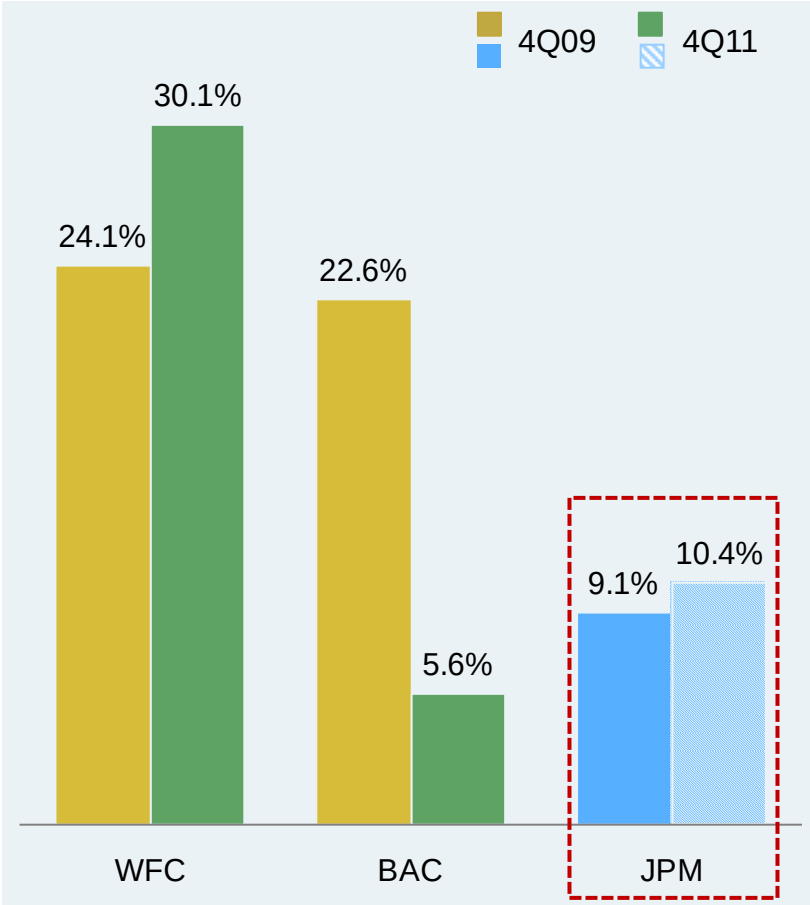
- Control governance structure revamped; risk management oversight enhanced
- Consent Orders servicing improvements

Improving financial performance

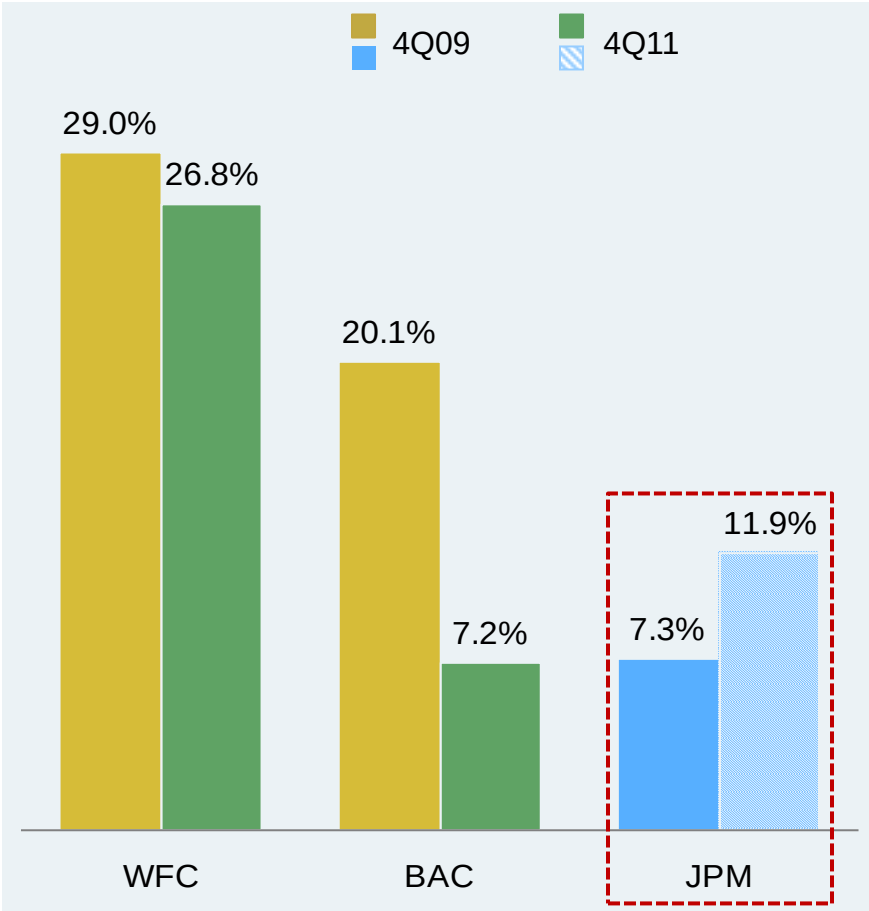
- Charge-offs decreased
- Repurchase losses lower
- Strong retail channel volumes and margins

2011 – Focused on more profitable Retail channel

Market share trends – Total originations



Market share trends – Retail originations

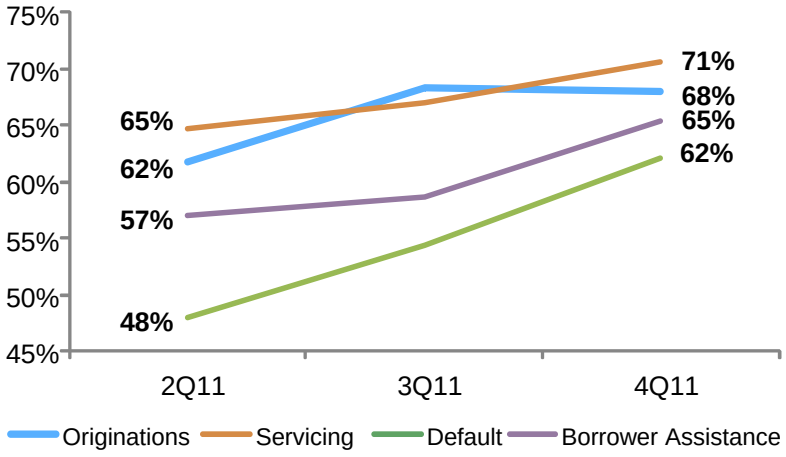


- Overall market share increase driven by Retail originations – Now represent ~2/3 of our volume
- While growth has been driven by the Retail channel, we continue to believe the Correspondent channel is attractive with the appropriate risk/return profile

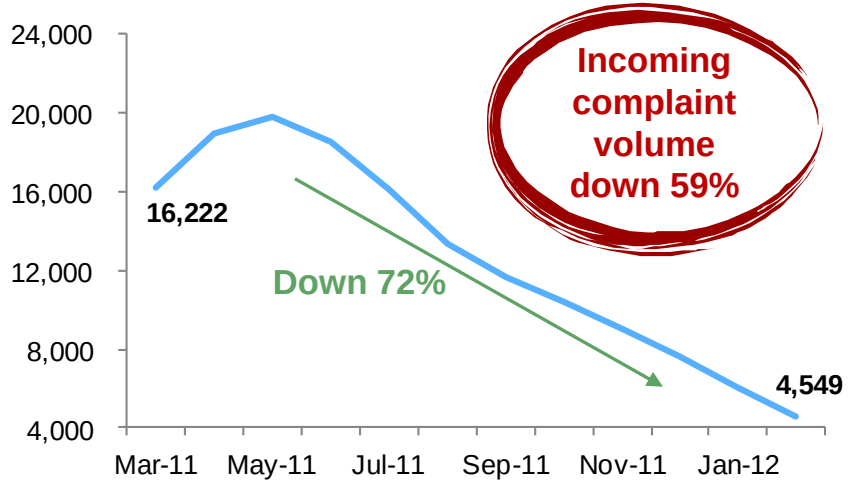
Note: Retail channel includes branch and direct to consumer originations
Source: Inside Mortgage Finance – Originations are firmwide

2011 – Positioning for success at Chase

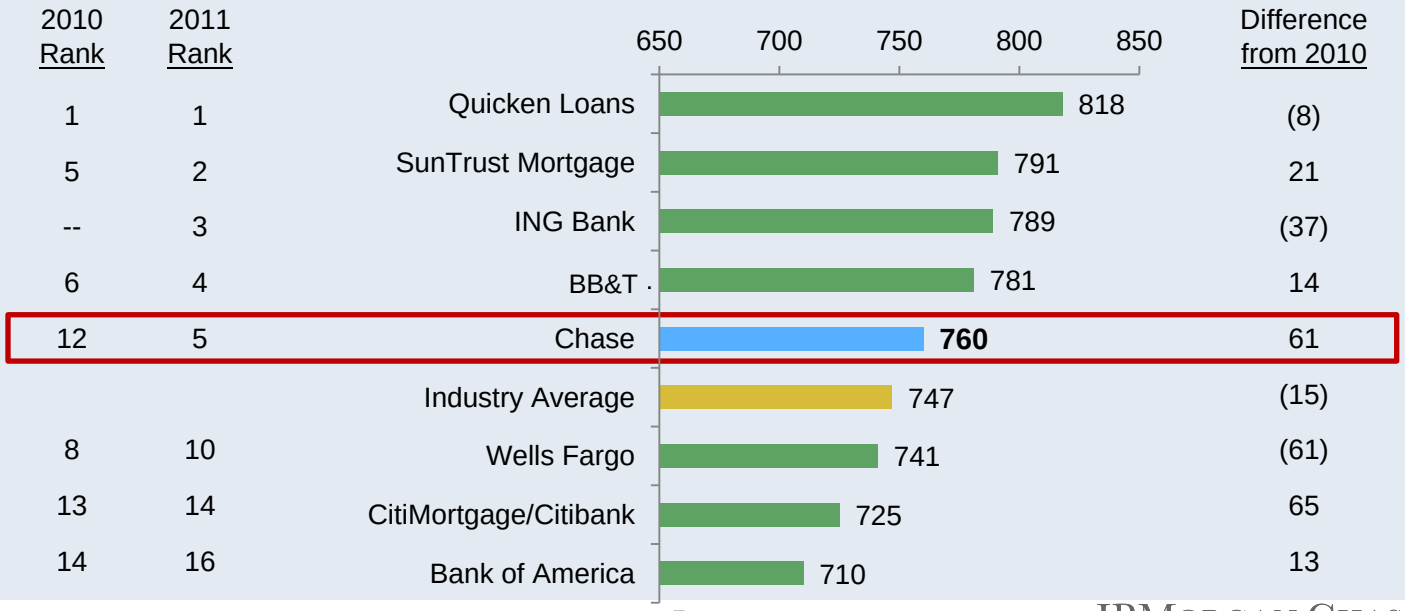
Customer satisfaction trends



Customer complaint inventory



JD Power Mortgage Origination Survey – 2011 overall satisfaction index



2010 Rank	2011 Rank			Difference from 2010
1	1	Quicken Loans	818	(8)
5	2	SunTrust Mortgage	791	21
--	3	ING Bank	789	(37)
6	4	BB&T	781	14
12	5	Chase	**760**	61
		Industry Average	747	(15)
8	10	Wells Fargo	741	(61)
13	14	CitiMortgage/Citibank	725	65
14	16	Bank of America	710	13

2011 Results

P&L ($mm)	2009	2010	2011
Production pre-tax	$7	($216)	$993
Servicing pre-tax	1,943	1,191	(3,797)
Real Estate Portfolio pre-tax	(8,890)	(4,311)	(504)
Total net income	($4,250)	($1,924)	($2,138)

Key drivers ($B, unless otherwise noted)			
Total origination market size	$1,840.0	$1,630.0	$1,350.0
Chase mortgage loan originations	150.7	155.6	145.6
Chase Retail channel originations	$53.9	$68.8	$87.2
Chase Correspondent channel originations	93.2	85.5	57.9
3rd Party mtg loans svc'd (EOP)	1,082.1	967.5	902.2
MSR net carrying value (EOP)	15.5	13.6	7.2
MSR revenue multiple	3.3x	3.2x	1.8x
Headcount	32,393	39,440	49,189

2011 Ongoing vs. legacy view – Ongoing business profitable

Mortgage Banking ($mm)

	2011			
	Ongoing	Legacy	Total	Normalized
Production				
Pre-tax income	$2,270	($1,277)	$993	$1,500 +/-
Servicing				
Servicing operating pre-tax	203	(2,428)	(2,225)	
MSR risk management	154	(1,726)	(1,572)	
Total pre-tax income	$357	($4,154)	($3,797)	$1,000 +/-
Real Estate Portfolios[1]				
Pre-tax pre-provision	549	2,522	3,071	
Credit costs	109	3,466	3,575	
Total pre-tax income	$440	($944)	($504)	$500-1,000
Total Mortgage Banking pre-tax income	$3,067	($6,375)	($3,308)	$3,000-3,500
Mortgage Banking net income	$1,982	($4,120)	($2,138)	$1,800-2,100
Normalized ROE				15%

Key drivers

- Production: legacy repurchase losses will normalize over time
- Servicing: MSR yield will improve in 2012 based on refinement of MSR valuation model in 4Q11
  - Weighted average option adjusted spread of 7.8% at year end 2011 vs. 3.9% at year end 2010
- Real Estate Portfolios: legacy portfolio will improve with credit and ultimately turn positive

Normalized earnings should produce 15% ROE through the cycle

[1] Legacy Real Estate Portfolio is defined as WaMu purchased credit-impaired, discontinued products, broker originated loans, limited documentation loans, and certain loans with ECLTVs greater than 80%. Ongoing portfolio end-of-period loan balance is $36B and legacy portfolio end-of-period loan balance is $162B

2011 included significant negatives

($mm)			
Significant items - pretax	**2010**	**2011**	**Normalized**
Production			
Repurchase losses[1]	(2,912)	(1,347)	(150)
Servicing			
Servicing and default expense[2]	($2,234)	($3,195)	($1,250)
Core servicing expense	*(837)*	*(1,031)*	
Default servicing expense	*(1,397)*	*(2,164)*	
Non-recurring	($350)	($3,377)	
Foreclosure related matters	*(350)*	*(1,650)*	
MSR valuation updates [3]	*NM*	*(1,727)*	
Real Estate Portfolios			
Foreclosed asset expense	(896)	(649)	(200)
Subtotal	***($6,392)***	***($8,568)***	***($1,600)***

[1] RFS only. Excludes EMC
[2] Excludes non-recurring foreclosure-related matters
[3] Includes refinements to the valuation model and related inputs comprising updates to the prepayment model, revised fee and cost to service assumptions and an increase in the option adjusted spread ("OAS") to reflect higher return and capital requirements

- 2011 servicing and default expense of $3.2B will normalize to $1.25B over time
- 2011 results include $3.4B of non-recurring costs

2012: business growth and winning

Customers

- Capitalize on 'One Chase' brand
- Continue to improve customer experience
- Continue root cause analysis to eliminate customer complaints

Performance

- Expand and strengthen the production franchise
- Accelerate growth, particularly in retail channel and purchase lending
- Re-engineer origination and servicing processes and enhance operating efficiency
- Price for appropriate returns given increasing capital requirements

Controls

- Strengthen controls, minimize breakages and defects
- Enhance compliance, risk and control infrastructure
- Deliver against Consent Orders and DOJ/AG requirements

People

- Attract and retain talent to focus on most critical areas
- Develop and motivate high performers
- Improve loan officer retention
- Build a culture of quality and control

Leverage technology to enhance customer experience and improve operating efficiencies and controls

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Best-in-class customer experience – Mortgage Manager video

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Strengthen the production franchise

Why we like the business

- Retail origination model leverages Chase brand and customer delivery platform
  - Branches, online, and mobile
- Core product for branch cross-sell opportunities
- Fee based counter-cyclical earnings stream complements traditional spread businesses
- Attractive returns over the cycle

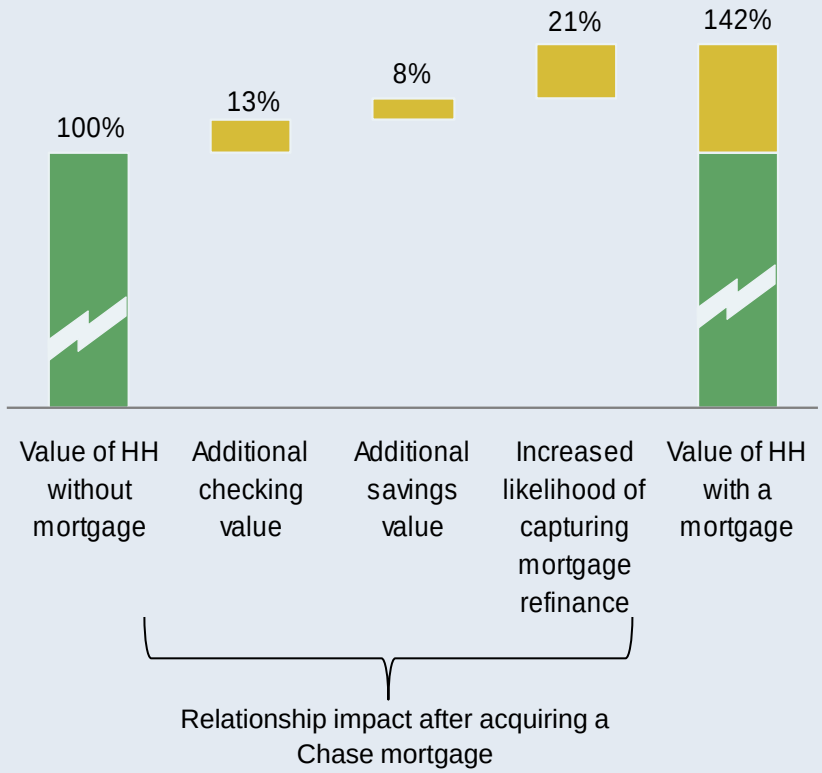
Areas of focus

- Improve purchase market share to 10%-12%
  - An increase of ~50% from 2011
- Retail sales force growth ~25% in 2012
- Best-in-class customer experience
  - Roll out Mortgage Manager
- New retail origination platform
  - Improve productivity
  - Enhance underwriting and process quality

Core product for branch cross-sell opportunities

Mortgage increases the value of the overall customer relationship

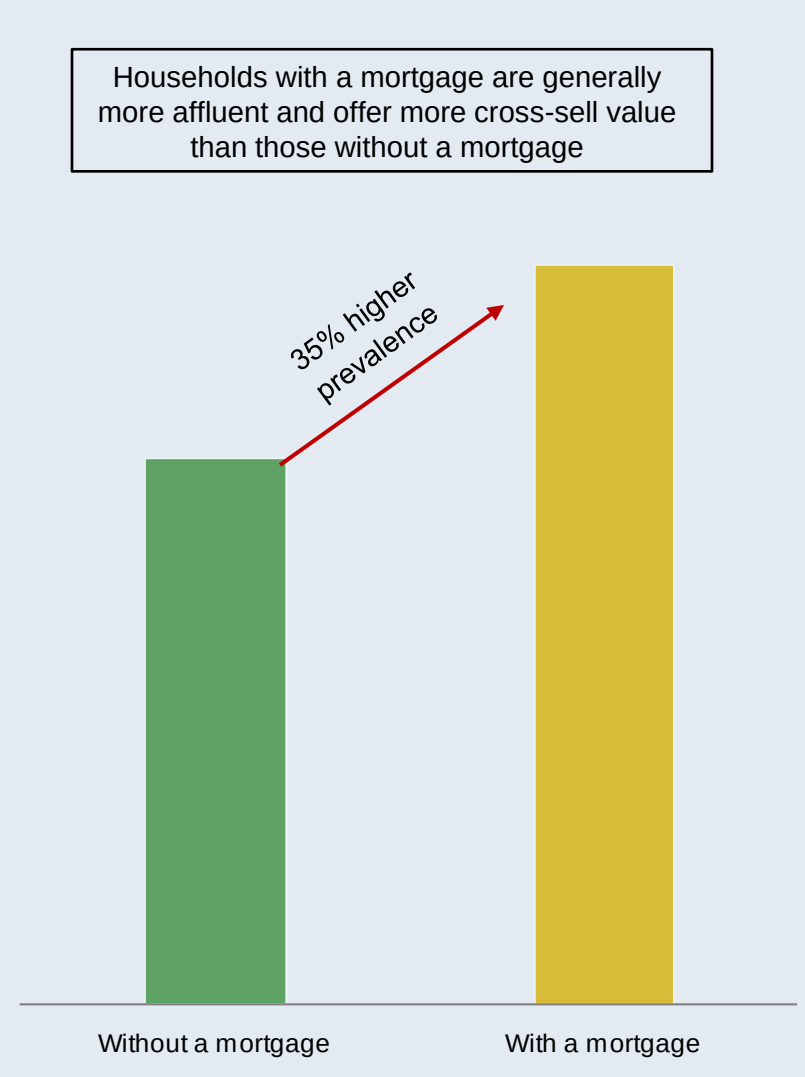
Incremental value[1] of adding mortgage to a banking relationship



- Excludes any additional value attributed to cross-sell (e.g. credit card, investments)

[1] Higher share of wallet and lower attrition of balances

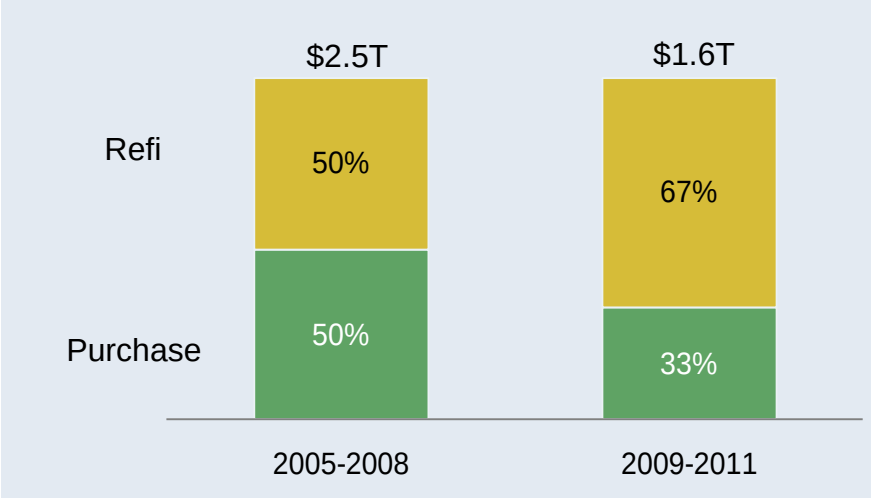
% of HH that are high net worth, mass affluent or affluent[2]



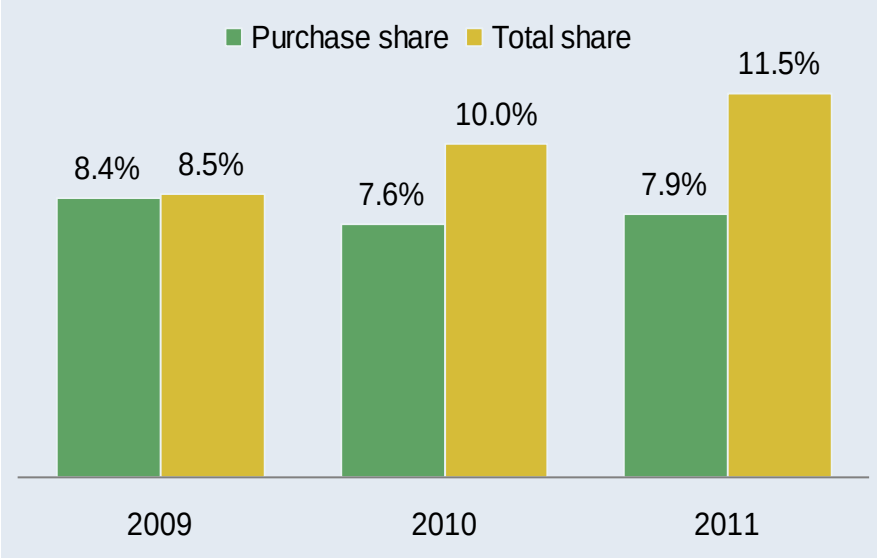
[2] Mass Affluent has a deposit and investment wallet of $100k-$500k, affluent has $500k-$5mm, and high net worth has greater than $5mm

Mortgage production – Purchase market share opportunity

Average mortgage market size and purchase/refinance mix



Chase mortgage originations market share



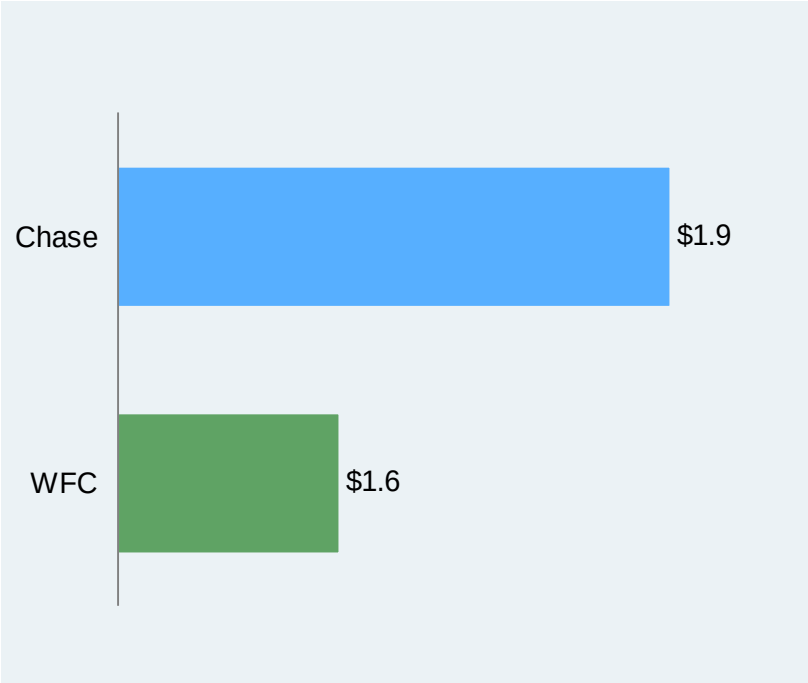
Source: Inside Mortgage Finance

Comments

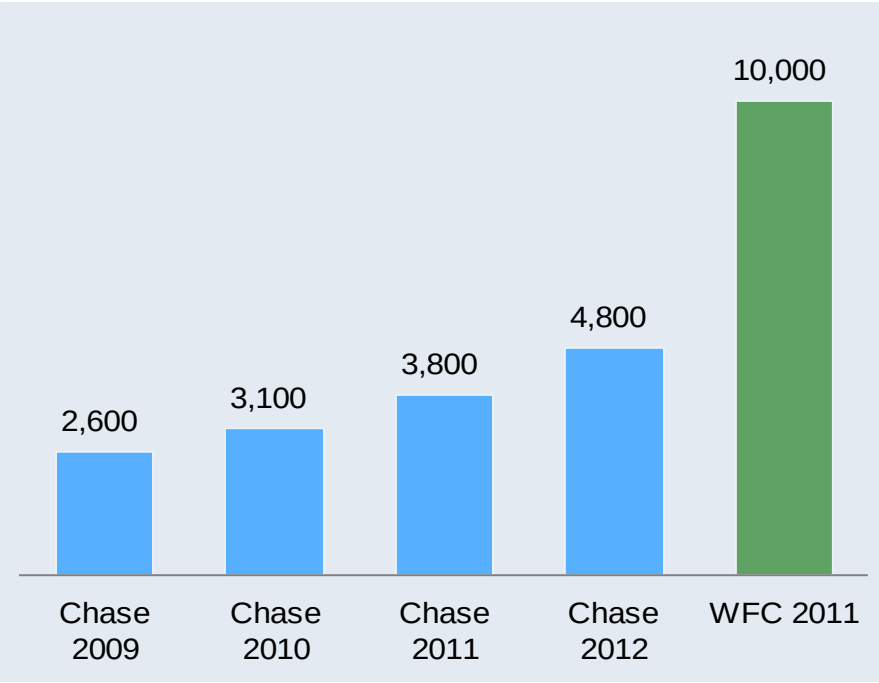
- Lowest rates in history and HARP led to recent robust refinance market
- We expect market mix to be weighted to purchase in a more normal rate environment
- Focus on growing share in purchase to capitalize on market growth
- Well positioned to take share in purchase market
  - 5.7mm existing Chase mortgage households
  - 6.1mm existing eligible Chase banking relationships with no mortgage relationship
  - 75k real estate agent relationships in business banking
  - Strong recruiting of purchase-focused loan officers
  - Increasing lead in customer satisfaction versus top competitors

Mortgage production – Retail model differentiation

2011 Retail fundings / loan officer / month



Number of loan officers (EOP)



Sources: Company filings and investor presentations

Commentary

- Chase loan officer productivity exceeds major competitors
- Loan officers substantially located at branches
- Marketing investment drives leads to branches and call center

Commentary

- Opportunity to increase sales force to match competitors
- Added +/- 700 loan officers in 2011
- Additional +/- 1,000 loan officers in 2012 is additional run rate annual pretax earnings of $100mm+

Mortgage origination economics

Business drivers

- Sales force size/productivity
- Marketing effectiveness
- Customer experience
- Operational efficiency and capacity flexibility
- Underwriting and process quality

Risks

- Repurchase expense
- Market risk exposure to MBS rates
- Competitor capacity/margin positioning
- Purchase market does not recover
- Regulatory and GSE changes

- Execution of business drivers creates attractive returns over the cycle
- High returns in peak refinance years
- Lower returns in "normal" years

Normalized target income

Market volume	$1.5T +/-
Market share	15% +/-
Chase volume	$225B +/-
Chase pretax margin / $ volume	65bps +/-
Chase pretax income	**$1.5B +/-**

Repurchase update

Realized losses and reserve

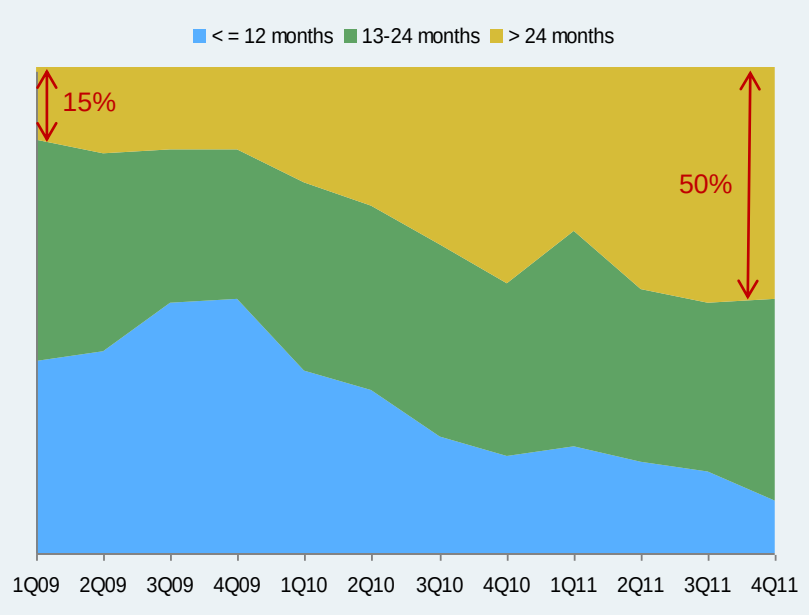
	4Q10	1Q11	2Q11	3Q11	4Q11	FY10	FY11
Realized losses ($mm)	$349	$215	$215	$314	$390	$1,360	$1,134
Reserve ($B, EOP)	$3.0	$3.2	$3.2	$3.2	$3.2	$3.0	$3.2

Commentary

- FY11 realized losses of $1.1B with reserves of $3.2B
- Realized losses trended higher in 2H11 as GSE demands accelerated
  - GSEs have improved cycle times (reduced time between file request and demand)
  - ~90% of demands continue to come from 2005-2008 vintages
- While 2012 realized losses are expected to remain elevated, reserves will come down at some point
  - Newly delinquent loans have longer payment history, reducing likelihood of origination defect
- Outlook of +/- $350mm realized losses per quarter

Repurchase update

GSE new demands by pay history
(2005-2008 Vintages, hChase UPB, $mm)



GSE new loans to 90 days past due by burnout
(2005-2011 vintages, hChase, UPB $mm)

Commentary

- Loans going delinquent after 24 months of payment history are typically at a lower risk of repurchase due to rep and warrant defect
- ~50% of demands received in 2H11 have made more than 24 months of payments – Up from ~15% in 2009
- Cure rates (ability to remedy purported defect) have been 10-15 points higher on loans with greater than 24 months pay history
- New delinquencies have decreased significantly from 2009 peak; majority of newly delinquent loans in 2011 had more than 36 months of pay history

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Improving servicing profitability

Why we like the business

- Mortgage increases the value of the overall customer relationship
- Chase, as the 3rd largest servicer has the advantage of scale
- Macroeconomic fundamentals are improving, resulting in reduced default rates, and improving cost structure
- With appropriate operations and risk management, the MSR asset will deliver consistent attractive returns (15% ROE)

Areas of focus

- Achieve short term run-rate savings
  - Delinquent accounts decrease
  - Modification inventory reduced through borrower assistance initiatives
- Normalize servicing expense over time
- Regulatory environment, including Consent Orders and DOJ/AG related items
- Improve customer satisfaction
  - Deployment of NICE analytics for early escalation of customer issues

Foreclosure process update

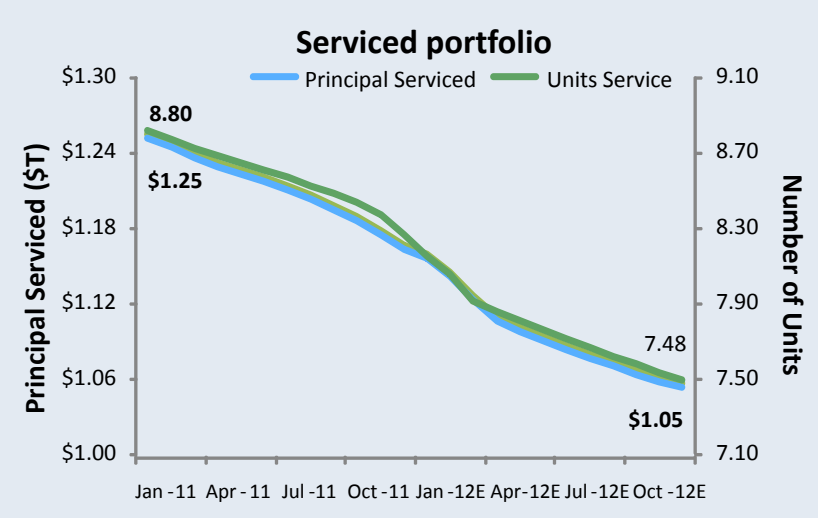
Doing more to prevent foreclosures

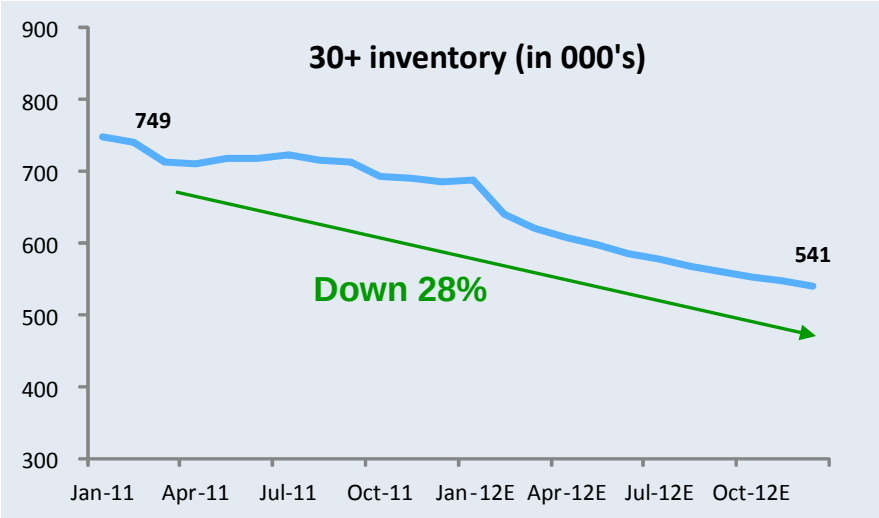
- Prevented twice as many foreclosures as have been acted upon
  - Offered over 1.2 million modifications and completed 452,000 since 2009
  - Foreclosure alternatives (short sales, Deed in Lieu) increased 22% over the prior year
- 82 Chase Home Ownership Centers (CHOCs)
- 15,000 borrower assistance and default servicing support staff
- Refinanced more than 1 million mortgages since 2010
- Met with over 273,000 struggling customers

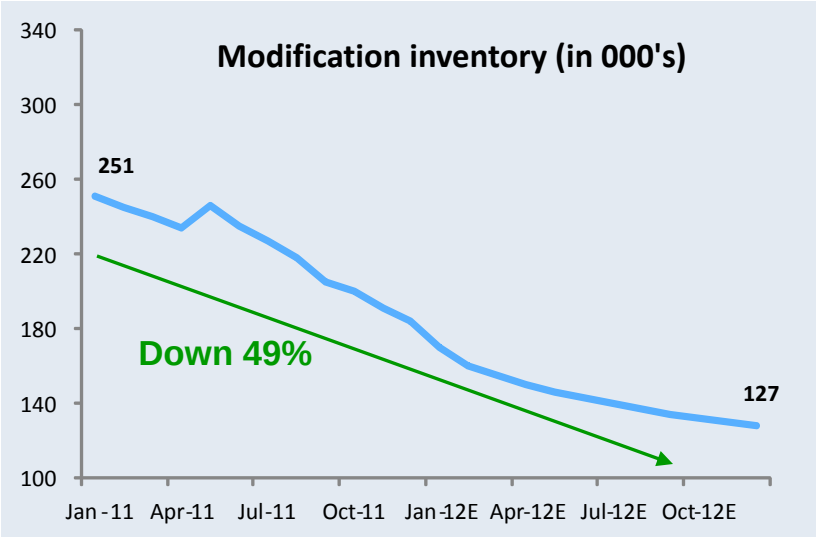
Key facts about foreclosures

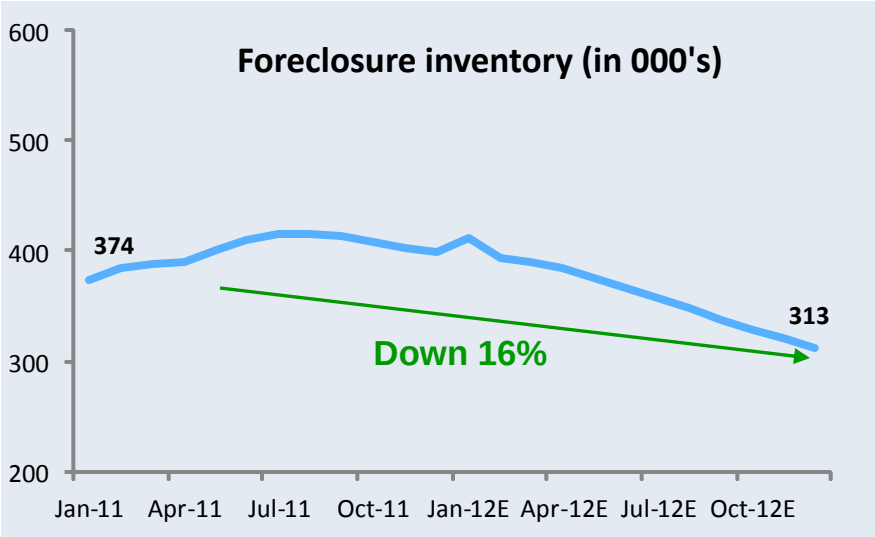
- Average delinquency at foreclosure is over 17 months
- Recent foreclosure sales showed the following customer/loan characteristics:
  - 54% non-owner occupied or vacant
    - Of which 80% were vacant at time of sale
  - 46% were owner-occupied

Short term run-rate savings in 2012 – Driven by both volume declines and efficiency



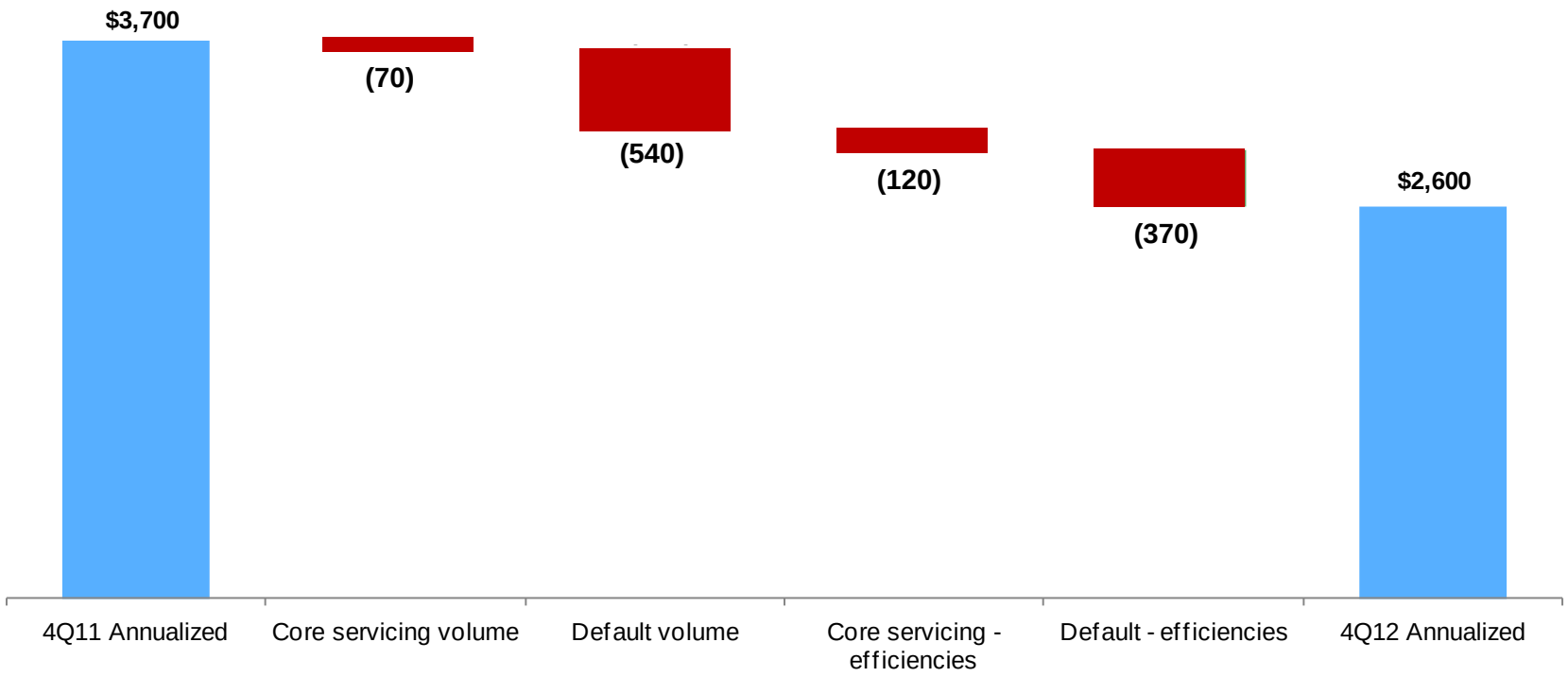






Achieve short term run-rate savings – More than $1B by 4Q12

Servicing and default expense ($mm)



Volume

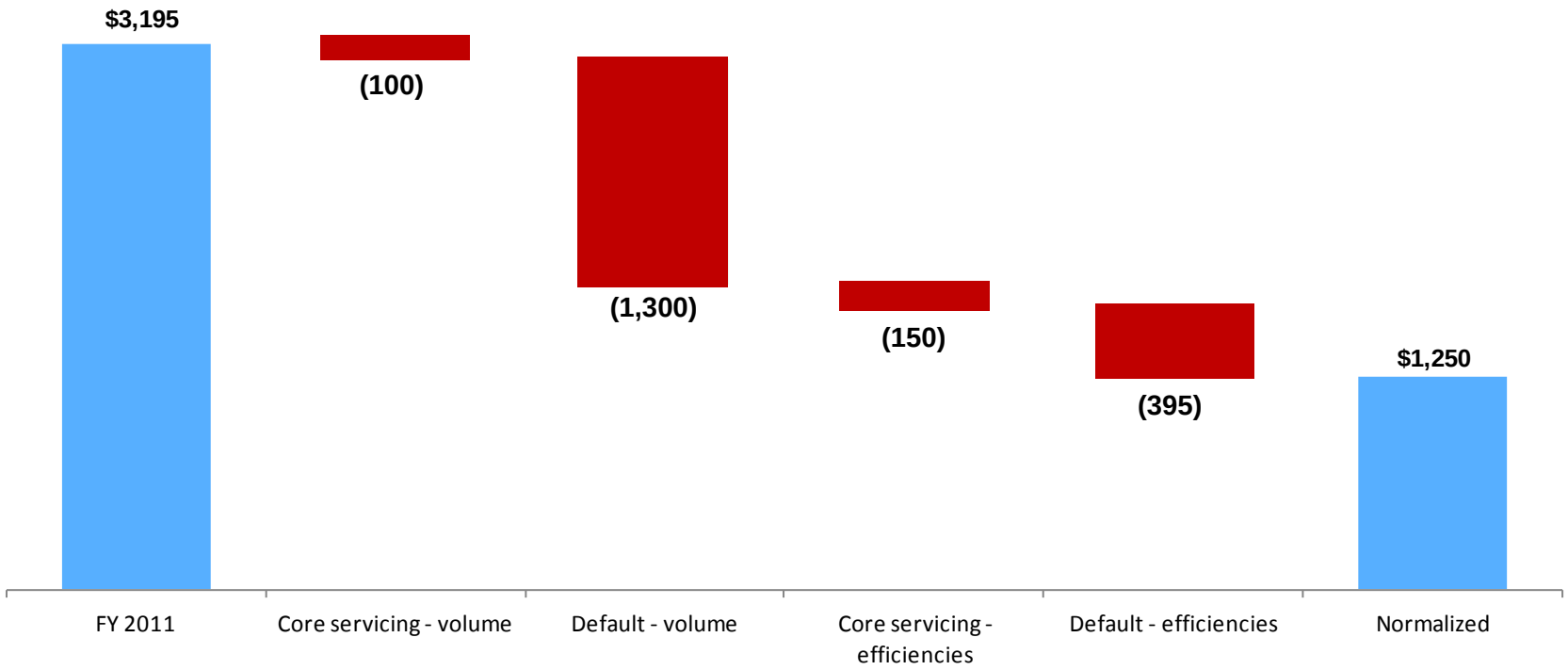
- Loan portfolio declines by 5-10%
- 30+ delinquencies decline approximately 25%
- Modification pipeline reduced

Efficiencies

- Consolidated site strategy
- Improved productivity through employee retention
- Non-compensation expense improvement primarily due to non-recurring costs and lower operational losses

Normalizing servicing expenses over time

Servicing and default expense ($mm)



Volume

- Core servicing
  - Loan portfolio declines by 10-15% to steady state of ~7.5mm units
- Default
  - 30+ delinquencies decline by 70-75% to steady state of ~200k units
  - Modification pipeline materially reduced

Efficiencies

- Process improvements and technology enhancements in core servicing and default
- Consolidated site strategy
- Improved productivity through employee retention
- Lower legal costs and operational losses

DOJ and State AG settlement

Impact to Chase

- ~$5.3B: ~$1.1B cash payment, ~$0.5B refinance program and up to ~$3.7B of additional consumer relief (primarily through modification programs)
- Limits the firm's liability related to
  - Servicing activities, including past foreclosure, loss mitigation and bankruptcy practices
  - Origination activities, including federal False Claims Act violations and federal consumer statute claims
  - MERS-related conduct, such as recording of assignments and standing in foreclosures
- Only New York, Delaware, and Massachusetts may maintain suits for MERS-related conduct. The settlement limits monetary remedies those states can seek against Chase, and precludes them from seeking to vacate past foreclosures for MERS-related conduct
- Does not release the firm from liability related to securitizations and whole loan sales, GSE/FHA/VA/PLS repurchase demands, pension fund claims, fair lending claims, and criminal actions. It also does not preclude suits against MERS as an entity or suits against Chase by county recorders for lost fees

Financial impact overview

- Estimated impact was covered in prior periods
- Modification programs
  - Modest impact on charge-off timing as a result of principal forgiveness – No change to loss guidance
- Refinance program
  - Impact of reducing borrower rates is expected to drive an immaterial decrease in net interest margin – Offset in reserves

Mortgage servicing economics

Business drivers

- Macroeconomics (unemployment, HPI, interest rates)
- Size and average life of servicing book
- Management of operational risk and efficiency of platforms
- Market risk management – MSR hedging

Risks

- Default costs expected to remain high for the medium term to handle modification and foreclosure volumes
- Market risk management
- Regulatory and GSE changes

Normalized target income

Average UPB	$1.0T +/-
Servicing & Other Revenue	45bps +/-
Amortization	22bps +/-
Servicing & Default Costs	13bps +/-
Pretax	**$1.0B +/-**

With appropriate operations and risk management and market recovery, the size and mix of our serviced portfolio will deliver solid profitability

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Real Estate Portfolios simulation

Real Estate Portfolios — simulated ending loan balance run-off and net income ($mm)

	2009	2010	2011	2012	2013	2014
Ending Balances ($B)	$252	$223	$198	$178	$158	$144
Ongoing ($B)		*37*	*36*	*37*	*$39*	*42*
Legacy ($B)		*186*	*162*	*141*	*$119*	*102*
Revenue	$6,520	$5,547	$4,592	$4,100	$3,400	$2,900
Net charge-offs	8,343	6,450	3,805	3,000-4,000	2,000-3,500	1,000-1,500
Change in reserves	5,220	1,781	(230)			
Expense	1,847	1,627	1,521	1,300	1,200	1,000
Pre-tax net income / (loss)	**($8,890)**	**($4,311)**	**($504)**	**($1,200)-($200)**	**($1,300)-$200**	**$400-$900**

Commentary

- Future reserve actions not simulated
- Although NII will decline as portfolio runs down, expense and credit losses will also decline
  - As a result, the net losses today will become a modest positive contribution to earnings over time
- As portfolio runs off, ~$1B of capital per year could be freed up and re-deployed – Timing is impacted by pro-cyclicality of capital rules

Real Estate Portfolios

Real Estate Portfolios EOP loans as of 12/31/11 ($B)

	Non credit-impaired	Purchased credit-impaired	Total loans
Home Equity	$78	$25	$103
Prime Mortgage	$37	16	53
Option ARM	$7	26	33
Subprime Mortgage	$10	7	17
Total REP Loans[1]	**$132**	**$74**	**$206**
Fair Value Mark[2]	NA	9	9
Total Mortgage Banking Portfolio	**$132**	**$65**	**$197**
Loan loss reserve (LLR)	$8.7	$5.7	$14.4
LLR as % of loans / LLR + FVM as % of UPB PCI	6.6%	19.7%	NA

[1] Credit-impaired represents Unpaid Principal Balance (UPB), not book value
[2] Fair Value Mark (FVM) remaining is the original mark reduced by liquidation losses realized
Note: Table above excludes prime mortgage loans and student loans classified as held-for-sale

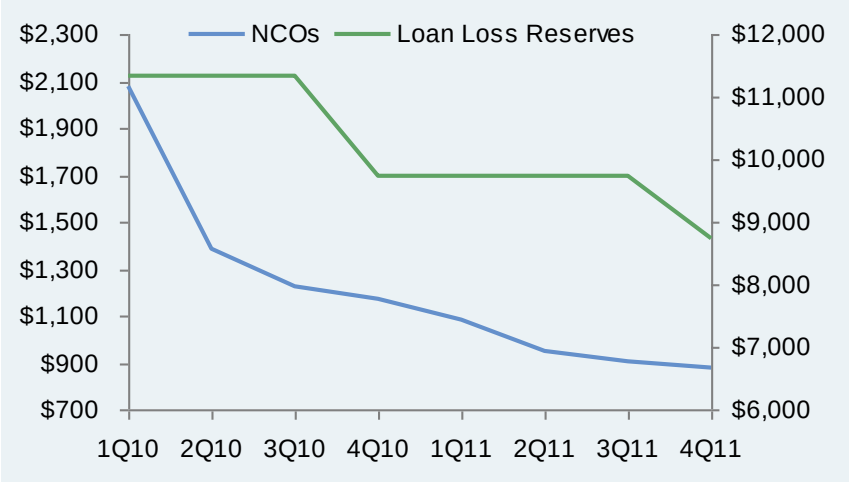
Commentary

- 6.6% reserve ratio on non credit-impaired portfolio
- Purchased credit-impaired portfolio is appropriately reserved for best estimate of remaining lifetime losses

Credit

Non-credit-impaired

Net charge-offs[1] vs. Loan loss reserve ($mm), excl PCI



[1] 4Q10 net charge-offs exclude the one-time impact of the $632mm adjustment related to the timing of when the Firm recognizes charge-offs on delinquent loans

- Total Mortgage Banking reserves of $8.7B (excluding WaMu purchased credit-impaired)
  - 4Q11 net charge-offs annualized of $3.5B
- Loss guidance: Mortgage Banking quarterly net charge-offs expected to be $900mm+/-

Purchase credit-impaired

- Current reserve and mark reflect ~$35B of lifetime losses, of which $21B has been realized to-date
- Further 8% HPI decline from current levels would result in a $1.5B impairment

Key themes addressed throughout the day

- Production business positioned for success
- Continuing to improve the customer experience
- Servicing – Building efficiencies for the future
- Real Estate Portfolios – Returning to profitability and returning capital
- Significant legacy issues behind us: Consent Orders and DOJ/AG Settlement
- Attractive earnings potential with 15% ROE through the cycle
- Our goal is to be the most efficient, profitable, and customer-centric mortgage business

Agenda

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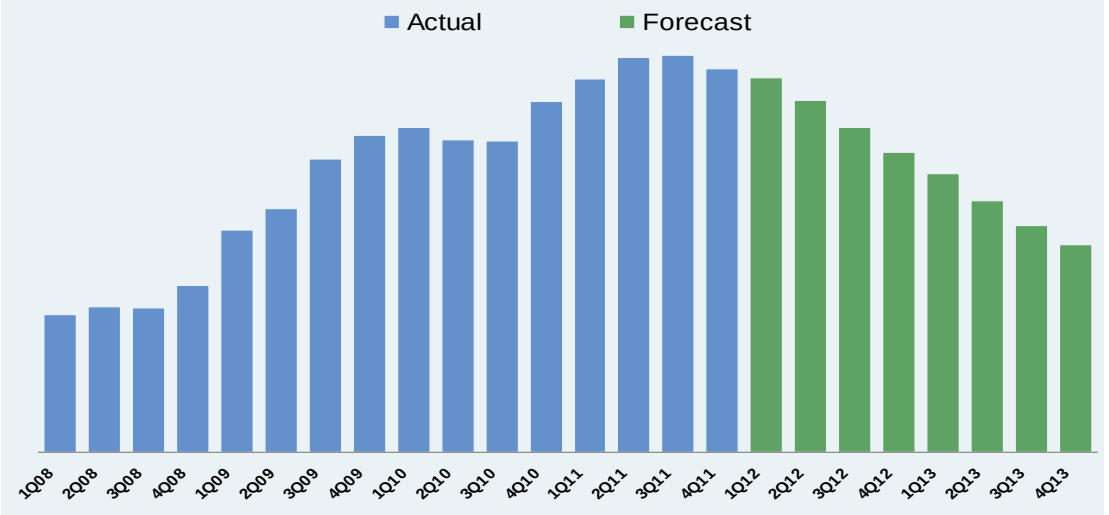
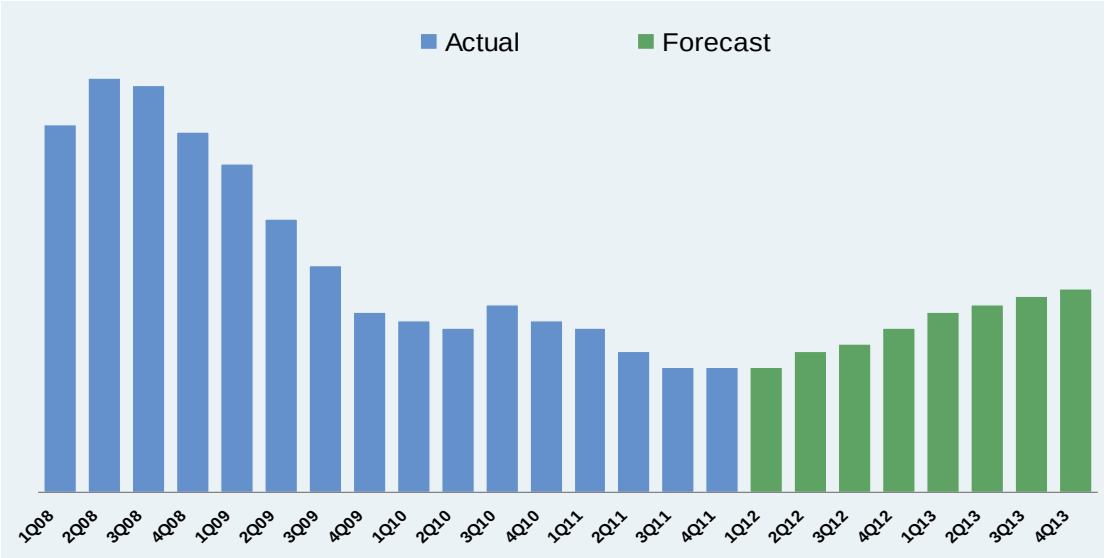
Foreclosure and REO trends – Total serviced

Units in process of foreclosure



Units in REO



- Foreclosure inventory will continue to decline as inflows of new delinquencies decline and outflows of foreclosure and short sales increase

- REO inventory forecast to increase as volume of foreclosure sales increase

Home Equity – Performance of 2nd lien relative to 1st lien

UPB as of 12/31/11 ($B), non-credit-impaired portfolio	
1st liens	$21.8
2nd liens	56.0
Total	**$77.8**

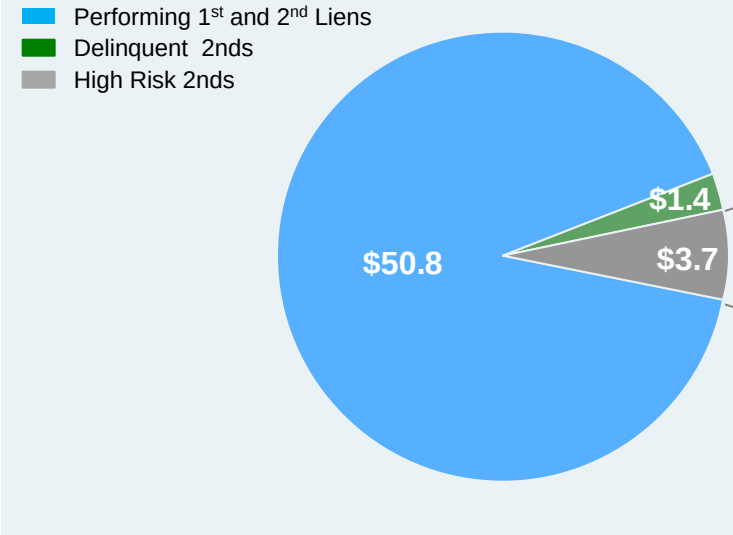
2nd Lien status	
Current 1st / current 2nd	$50.8
Current 1st / delinquent 2nd	0.3
Delinquent 1st and 2nd	1.1
Current 2nd / delinquent or modified 1st	3.7
Total	**$56.0**

Note: Current Mortgage defined as Current (excludes 1-29), while Current Home Equity is Current or 1-29 bucket to align with OCC definition

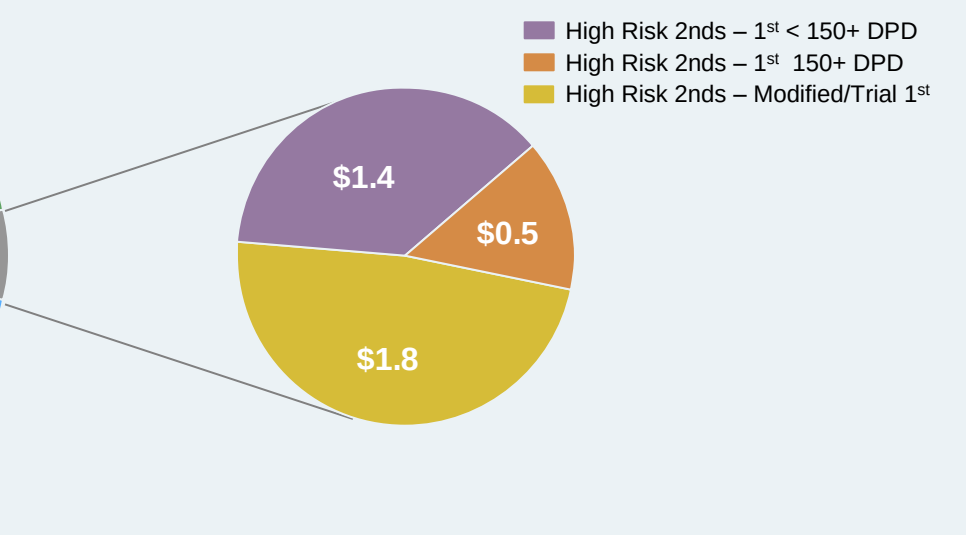
High risk 2nds – Performing 2nds behind troubled borrowers

Excluding purchased credit-impaired loans

2nd Lien Home Equity UPB ($B) - Dec11



High Risk 2nd Liens ($B) - Dec11



Performing 1st and 2nd liens

CLTV	UPB	Estimated lifetime loss rates
<=80%	$24.5	~ 1%
80-100%	12.2	4-5
100+%	14.1	12-15
Total	**$50.8**	**6% +/-**

Note: grossed up based on 35% match rate

High Risk 2nd liens

1st Lien status	UPB	Estimated lifetime loss rates	>100+% CLTV
Modified	$1.8	~40%	65%
<150+ DPD	1.4	~50	40
150+ DPD	0.5	~95	53
Total	**$3.7**	**55% +/-**	**53%**

Note: grossed up based on 35% match rate

We have considered the status of 1st lien and equity position of borrowers in our reserves

Note: ECLTV for Home Equity 2nd Liens and ELTV for 1st Lien Home Equity (Change made in 3Q11). ECLTV = estimated combined loan to value considering all available lien positions related to the property which we own or service
Current ECLTVs are calculated using original appraised value adjusted using the latest HPI published by Moody's Economy.com
Missing ECLTV & Missing FICO allocated based on Non Missing
Current Mortgage defined as Current (excludes 1-29), while current Home Equity is Current or 1-29 bucket to align with OCC definition