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JPMORGAN AND THE DODD-FRANK ACT

Jamie Dimon, CEO of JPMorgan Chase & Co., sat in his office preparing for the company's 2010 Q3 earnings conference call on October 13 and wondering how to address the inevitable questions related to financial reform. It had been just over two months since the Dodd-Frank Financial Reform and Consumer Protection Act (Dodd-Frank Act) had been passed, and there was still much uncertainty as to how JPMorgan should address the reforms. JPMorgan had reported stronger than expected EPS in the third quarter, but analysts were more concerned about what strategic initiatives Dimon would implement in response to the Dodd-Frank Act. The act had introduced wide-ranging and industry-changing reforms that were aimed primarily at fully integrated financial institutions such as JPMorgan. While most of the rulemaking would be forthcoming from regulatory authorities, Dimon knew it would be best to address these issues immediately to protect shareholders by avoiding uncertainty.

Reactions to Reform

In the months following passage of the Dodd-Frank Act, many experts offered mixed reactions. Some argued that the legislation would be ineffective because it failed to protect consumers adequately and did not do enough to curtail the "too big to fail" attitude. Others felt that the act overreached and was not an appropriate response to the preceding financial crisis. Most notably, Ed Yingling, president of the American Bankers Association, regarded the reforms as haphazard and dangerous. "To some degree, it looks like they're just blowing up everything for the sake of change," he said.[1]

On the opposite end of the spectrum, various experts claimed the Dodd-Frank Act was the perfect solution to simplify an overly complex financial system. According to FDIC Chairman Sheila Bair:

[1] Binyamin Appelbaum and Brady Dennis, "Legislation by Senator Dodd Would Overhaul Banking Regulators," *Washington Post*, November 9, 2009.

This case was prepared by Adam Risell (JD/MBA '11) and Professor George (Yiorgos) Allayannis. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.
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> Market concerns about a meltdown of the financial sector should be diminished because, under the Dodd-Frank Act, the FDIC should have advance access to the information necessary to have a plan in place to resolve large, complex financial companies in an orderly fashion. The new resolution powers, the enhanced regulatory and supervisory cooperation mandated in the law, and the resolution planning authority provide an infrastructure to end "too big to fail." Regulators simply have no authority to do bailouts anymore. Applying high standards for transparency and simplification of overly complex financial firms must be pursued aggressively to make this a reality.[2]

The Changed Regulatory Environment

The Dodd-Frank Act took on the regulatory environment. By adding the Financial Stability Oversight Council (FSOC), a system-wide regulator, and expanding the powers of the Federal Reserve, the act had the biggest impact on the nation's largest financial institutions. Companies such as JPMorgan were now subject to more intense regulatory oversight and stricter prudential standards. The FSOC had the ability to gather information and examine financial firms it deemed systemically important in order to monitor and identify risks to the stability of the financial system. Additionally, the FDIC now had the power to closely examine important firms in connection with its resolution authority.

New resolution authority

In response to the bankruptcy of Lehman Brothers that began in 2008 and was still ongoing at the time the Dodd-Frank Act was passed nearly two years later, Congress created the Orderly Liquidation Authority (OLA). The OLA provided the framework for an FDIC-managed resolution of systemically important firms that failed. The primary purpose of the OLA was to ensure a rapid and orderly windup of the most complex financial firms without taxpayers bearing the expense. Instead those firms that fell under the purview of the OLA were required to bear the expense of the failure of one of their competitors. Systemically important firms also would be required to periodically submit resolution plans, now cynically referred to as "funeral plans."

New Capital Requirements

The costliest elements of financial reform were likely the resultant regulatory capital requirements. While not specifically spelled out in the act, regulators needed to install more stringent capital requirements as a result of the legislation. These new requirements forced banks to hold more loss-absorbing equity against their assets to protect against future losses. Additionally, Congress required regulators to establish standards that were countercyclical.

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[2] Phil Mattingly, "Blair Says Frank Dodd May Prevent Financial Crisis," http://www.businessweek.com/news/2010-09-02/bair-says-dodd-frank-may-prevent-financial-crisis.html (accessed August, 22, 2011).

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Essentially, Congress wanted capital standards that were more stringent during times of economic expansion to curb unrestrained growth but were also more relaxed during downturns to encourage continued economic activity. There was still much uncertainty, however, as to what level of capital would be considered adequate during times of expansion.

Another issue raised in establishing new prudential standards was that of liquidity. During the crisis several financial firms, although adequately capitalized, were on the brink of collapse because they lacked enough liquidity to satisfy redemptions by short-term creditors. Liquidity referred to the cash that banks have available to pay off creditors while bank capital was the equity that was used to absorb losses but was not necessarily cash. While the Dodd-Frank Act did not specifically require regulatory action with respect to liquidity, discussions at the most recent Basel Convention indicated that liquidity standards could be forthcoming in the near future.

Loss of trust preferred securities

Trust preferred securities (TruPS) were hybrid instruments that allowed banks to issue securities that received Tier 1 capital treatment (capped at 25% of Tier 1) while being priced as debt. TruPS gave banks a viable and cheaper alternative to issuing common equity if they needed to raise Tier 1 capital. Since their introduction in the 1990s, TruPS had become an important part of the capital structure for many banks that used them as a way of raising growth capital. As a result of the Dodd-Frank Act, however, TruPS no longer received Tier 1 capital treatment, forcing banks to replace these securities with some other form of equity.

While banks were still forced to replace outstanding TruPS, the effect the act would have on new issuances was likely to be nil since the market for TruPS had largely dried up. During the crisis, investors stopped purchasing these securities as they lost faith in the issuing banks, and several banks failed. Also, the opacity of pooled TruPS caused them to suffer many of the same problems that CDOs experienced during the same period.

Contingent capital

A fairly new concept addressed by the Dodd-Frank Act was that of contingent capital. The act forced regulators to investigate the possibility that systemically important firms should hold a certain level of contingent capital in the form of debt that would convert to equity at defined points of distress. The idea behind contingent capital was to provide banks with an additional capital buffer when they needed it most. But the issuance of contingent capital presented several difficulties. Before the Dodd-Frank Act, there had only been two issuances of contingent capital securities by a bank,[3] and the uncertainty of conversion in a distressed scenario made pricing the bonds somewhat difficult. In the end, bank executives needed to carefully examine their options in case regulators required them to issue some form of contingent capital in the future.

[3] Lloyd's Group in 2009 and Rabobank America in 2010.

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The Volcker Rule

The much publicized and controversial Volcker Rule was aimed primarily at complex derivatives and the investment activities of financial institutions. As a result of the Dodd-Frank Act, certain derivatives were now required to be traded on exchanges rather than over the counter. Also some derivative instruments carried collateral posting requirements. The most divisive aspect of the Volcker Rule, however, was the provision that banned proprietary trading by banks or institutions that owned a bank. But the act did not clearly define what constituted prop trading, and bank executives had begun exploring such options as spinning off their prop trading units or moving their prop traders to client-based parts of the firm. Additionally, the act limited the aggregate investments financial firms could hold in hedge funds and private equity funds to only 3% of their Tier 1 capital.

Asset Securitization

In response to the rampant securitization that directly contributed to the financial crisis, the Dodd-Frank Act required regulators to establish standards regarding economic risk retention for originators and securitizers. The goal of this provision was to encourage stronger underwriting standards and due diligence on the part of those parties selling the securities by requiring them to hold the same assets they were selling on their books.

Conclusion

As Jamie Dimon reflected on the recent financial reform, he contemplated the many ways that his firm would be affected. He also wondered what strategic initiatives he should implement to address the new legislation. He considered the effect the reforms would have on the competitive environment as well. He questioned whether JPMorgan should use this as an opportunity to acquire smaller banks that didn't have the scale to deal with the increased regulatory costs or whether they should be looking to shrink in scope and scale?

He also needed to evaluate JPMorgan's extensive investments in private equity and hedge funds and its proprietary-trading unit. How should he address these portions of the firm? Should they be recategorized, spun off, or shut down entirely? Finally, there was the issue of regulatory capital. JPMorgan had been consistently well-capitalized, but more stringent requirements would force the firm to reevaluate its capital position, and Dimon was interested in seeing some of JPMorgan's important capital ratios. What was the best way to address the fact that capital requirements would now be countercyclical? Should JPMorgan run its own stress test similar to those run by the Federal Reserve during the financial crisis? He could have one of his analysts run various loan loss scenarios to see what the effect would be on the bank's Tier 1 common capital. Additionally, Dimon considered how he would address JPMorgan's outstanding trust preferred securities. Should they be replaced with common equity or earnings, or would JPMorgan still be well-capitalized even with the elimination of TruPS? And what role would

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contingent capital play in the bank's capital structure? These were only some of many issues that needed to be addressed in the coming months and even years, and he knew that the faster JPMorgan found solutions, the greater a competitive advantage it would have in the future.

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Exhibit 1

JPMORGAN AND THE DODD-FRANK ACT

JPMorgan Chase Balance Sheet

(in $000)

	2006 FY	2007 FY	2008 FY	2009 FY	2010 Q3
Period Ended	12/31/2006	12/31/2007	12/31/2008	12/31/2009	9/30/2010
Assets					
Cash and Due from Banks	40,412,000	40,144,000	26,895,000	26,206,000	23,960,000
Fed Funds Sold	18,045,000	1,592,000	2,850,000	76,000	212,000
Deposits at Financial Institutions	13,547,000	11,466,000	138,139,000	63,230,000	31,077,000
Securities Purchased, to Resell	122,479,000	169,305,000	200,265,000	195,328,000	235,178,000
Other Cash & Cash Equivalents	73,688,000	84,184,000	124,000,000	119,630,000	127,365,000
Cash and Cash Equivalents	268,171,000	306,691,000	492,149,000	404,470,000	417,792,000
Trading Account Securities	365,738,000	491,409,000	509,983,000	411,128,000	475,515,000
Available for Sale Securities	91,917,000	85,406,000	205,909,000	360,365,000	340,149,000
Held to Maturity Securities	58,000	44,000	34,000	25,000	19,000
Other Securities	6,359,000	7,153,000	6,852,000	7,325,000	9,354,000
Total Cash & Securities	732,243,000	890,703,000	1,214,927,000	1,183,313,000	1,242,829,000
Gross Loans Held for Investment	427,876,000	500,475,000	736,611,000	628,582,000	688,763,000
Loan Loss Reserve	7,279,000	9,234,000	23,164,000	31,602,000	34,161,000
Loans Held for Sale, before Reserves	55,251,000	18,899,000	8,287,000	4,876,000	1,768,000
Total Net Loans	475,848,000	510,140,000	721,734,000	601,856,000	656,370,000
Real Estate Owned and Held for Investment	NA	NA	2,897,000	2,056,000	3,530,000
Goodwill	45,186,000	45,270,000	48,027,000	48,357,000	48,736,000
Intangible Assets other than Goodwill	4,371,000	3,796,000	3,932,000	3,375,000	3,008,000
Total Intangible Assets	49,557,000	49,066,000	51,959,000	51,732,000	51,744,000
Loan Servicing Rights	7,546,000	8,632,000	9,403,000	15,531,000	10,305,000
Credit Card Rights	2,935,000	2,303,000	1,649,000	1,246,000	974,000
Other Loan Servicing Rights	0	0	0	0	0
Total Servicing Rights	10,481,000	10,935,000	11,052,000	16,777,000	11,279,000
Total Other Assets	83,391,000	101,303,000	172,483,000	176,255,000	175,843,000
Total Assets	1,351,520,000	1,562,147,000	2,175,052,000	2,031,989,000	2,141,595,000
Liabilities					
Total Deposits	638,788,000	740,728,000	1,009,277,000	938,367,000	903,138,000
Senior Debt	315,504,000	390,739,000	584,844,000	584,381,000	NA
Trust Preferred (FAS 150)	*12,209,000*	*15,148,000*	*18,589,000*	*19,615,000*	*NA*
Total Subordinated Debt	45,385,000	55,116,000	59,191,000	56,109,000	NA
Total Debt	360,889,000	445,855,000	644,035,000	640,490,000	737,441,000
Total Other Liabilities	236,053,000	252,343,000	354,856,000	287,767,000	327,186,000
Total Liabilities	1,235,730,000	1,438,926,000	2,008,168,000	1,866,624,000	1,967,765,000
Equity					
TARP Preferred Equity	0	0	23,787,000	0	0
Other Preferred Equity	0	0	8,152,000	8,152,000	7,800,000
Total Preferred Equity	0	0	31,939,000	8,152,000	7,800,000
Common Equity	115,790,000	123,221,000	134,945,000	157,213,000	166,030,000
Total Equity	115,790,000	123,221,000	166,884,000	165,365,000	173,830,000
Total Liabilities & Equity	1,351,520,000	1,562,147,000	2,175,052,000	2,031,989,000	2,141,595,000

Source: SNL Financial as of 9/30/10

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Exhibit 2

JPMORGAN AND THE DODD-FRANK ACT

JPMorgan Chase Income Statement

(in $000)

	2006 FY	2007 FY	2008 FY	2009 FY	2010 Q3
Period Ended	12/31/2006	12/31/2007	12/31/2008	12/31/2009	9/30/2010
Interest Income	59,107,000	71,387,000	73,018,000	66,350,000	48,170,000
Interest Expense	37,865,000	44,981,000	34,239,000	15,198,000	9,271,000
Net Interest Income	21,242,000	26,406,000	38,779,000	51,152,000	38,899,000
Provision for Loan Losses	3,270,000	6,864,000	20,979,000	31,735,000	13,615,000
Trading Account Income	9,418,000	4,736,000	(9,791,000)	9,870,000	7,940,000
Investment Banking & Brokerage	NA	NA	NA	19,627,000	14,160,000
Other Noninterest Income	NA	NA	NA	18,749,000	12,846,000
Total Noninterest Income	38,756,000	40,523,000	26,321,000	48,246,000	34,946,000
Realized Gain on Securities	817,000	4,443,000	(16,000)	795,000	2,751,000
Nonrecurring Revenue	1,184,000	0	2,168,000	241,000	0
Compensation & Benefits	21,165,000	22,689,000	22,452,000	27,175,000	21,003,000
Marketing and Promotion Expense	2,209,000	2,070,000	1,913,000	1,777,000	1,862,000
Amrt of Intang & Goodwill Impair	697,000	684,000	638,000	629,000	422,000
Foreclosure & Repo	NA	NA	NA	1,400,000	798,000
Other Expense	14,764,000	16,087,000	18,761,000	20,495,000	20,499,000
Total Noninterest Expense	38,835,000	41,530,000	43,764,000	51,476,000	44,584,000
Nonrecurring Expense	8,000	173,000	(264,000)	1,156,000	550,000
Net Income before Taxes	19,886,000	22,805,000	2,773,000	16,067,000	17,847,000
Provision for Taxes	6,237,000	7,440,000	(926,000)	4,415,000	5,308,000
Extraordinary Items	795,000	0	1,906,000	76,000	0
Net Income	14,444,000	15,365,000	5,605,000	11,728,000	12,539,000
Preferred Dividends	4,000	0	674,000	1,327,000	485,000
Other Preferred Dividends after Net Income	0	0	0	1,112,000	0
Net Income Avail to Common	14,440,000	14,924,000	4,742,000	8,774,000	11,353,000
EPS after Extra ($)	4.04	4.33	1.35	2.26	2.84
Shares Outstanding - Fully Diluted (000s)	3,574,257	3,446,651	3,512,593	3,882,301	3,997,535

Source: SNL Financial as of 9/30/10

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Exhibit 3

JPMORGAN AND THE DODD-FRANK ACT

JPMorgan Chase Asset Quality and Capital Adequacy

(in $000)

	2006 FY	2007 FY	2008 FY	2009 FY	2010 Q3
Period Ended	12/31/2006	12/31/2007	12/31/2008	12/31/2009	9/30/2010
Asset Quality					
Nonaccrual Loans	2,077,000	3,282,000	8,953,000	17,564,000	15,503,000
Renegotiated Loans	0	8,000	986,000	7,843,000	13,082,000
Nonperforming Loans	2,077,000	3,290,000	9,939,000	25,407,000	28,585,000
Real Estate Owned and Repossessed Assets, Net	264,000	651,000	3,761,000	2,177,000	2,153,000
Nonperforming Assets	2,341,000	3,941,000	13,700,000	27,584,000	30,738,000
90+ Days Delinquent	1,753,000	2,043,000	3,275,000	4,355,000	4,080,000
NPAs & 90+ Day Delinquent	4,094,000	5,984,000	16,975,000	31,939,000	34,818,000
Loan Loss Reserve	7,279,000	9,234,000	23,164,000	31,602,000	34,161,000
Net Charge-offs: Bal Sht Lns	3,042,000	4,538,000	9,835,000	22,965,000	18,569,000
NPAs/ Assets (%)	0.17	0.25	0.63	1.36	1.44
NPAs & 90+ PD/ Assets (%)	0.30	0.38	0.78	1.57	1.63
Nonaccrual Loans/ Assets (%)	0.15	0.21	0.41	0.86	0.72
Nonaccrual Loans/ Loans (%)	0.43	0.63	1.20	2.77	2.25
NPLs/ Loans	0.43	0.63	1.33	4.01	4.14
Reserves/ NPLs (%)	350.46	280.67	233.06	124.38	119.51
Loan Loss Reserves/ Gross Loans (%)	1.51	1.78	3.11	4.99	4.95
Reserves/ NPAs & 90+ PD (%)	177.80	154.31	136.46	98.94	98.11
NPA & Loans 90+/ Tangible Common Equity + LLR (%)	5.57	7.18	15.99	23.30	23.45
NPA & Loans 90+/ Tangible Equity + LLR (%)	5.57	7.18	12.29	21.99	22.28
NCOs/ Avg Loans (%)	0.67	0.95	1.67	3.36	3.50
Loan Loss Provision/ NCO (%)	107.50	151.26	213.31	138.19	73.32
Capital Adequacy					
Total Preferred Equity	0	0	31,939,000	8,152,000	7,800,000
Common Equity	115,790,000	123,221,000	134,945,000	157,213,000	166,030,000
Total Equity	115,790,000	123,221,000	166,884,000	165,365,000	173,830,000
Total Intangible Assets	49,557,000	49,066,000	51,959,000	51,732,000	51,744,000
Tangible Equity	66,233,000	74,155,000	114,925,000	113,633,000	122,086,000
Total Equity/ Total Assets (%)	8.57	7.89	7.67	8.14	8.12
Tangible Equity/ Tangible Assets (%)	5.09	4.90	5.41	5.74	5.84
Tang Common Equity/ Tang Assets	5.09	4.90	3.91	5.33	5.47
Tier 1 Common Capital	68,085,000	73,741,000	86,908,000	105,284,000	110,842,000
Tier 1 Capital	81,055,000	88,746,000	136,104,000	132,971,000	139,381,000
Total Risk-based Capital	115,265,000	132,242,000	184,720,000	177,073,000	180,740,000
Total Risk-Weighted Assets	935,908,700	1,051,879,100	1,244,659,000	1,198,005,760	1,170,157,800
Leverage Ratio (%)	6.19	6.02	6.92	6.88	7.06
Tier 1 Common Capital Ratio (%)	7.27	7.01	7.00	8.79	9.47
Tier 1 Ratio (%)	8.66	8.44	10.94	11.10	11.91
Risk-based Capital Ratio (%)	12.32	12.57	14.85	14.78	15.45

Source: SNL Financial as of 9/30/10

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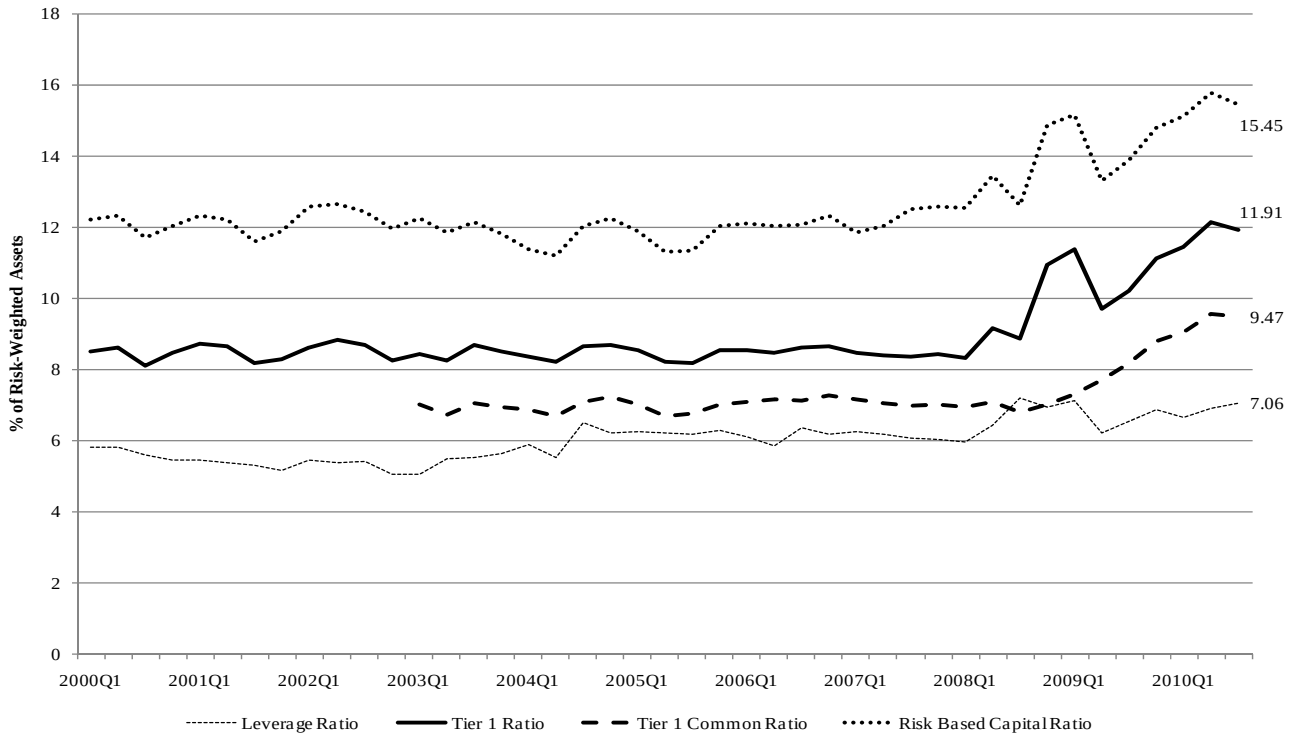
Exhibit 4

JPMORGAN AND THE DODD-FRANK ACT

JPM Regulatory Capital



Data source: SNL Financial (accessed 9/30/10).

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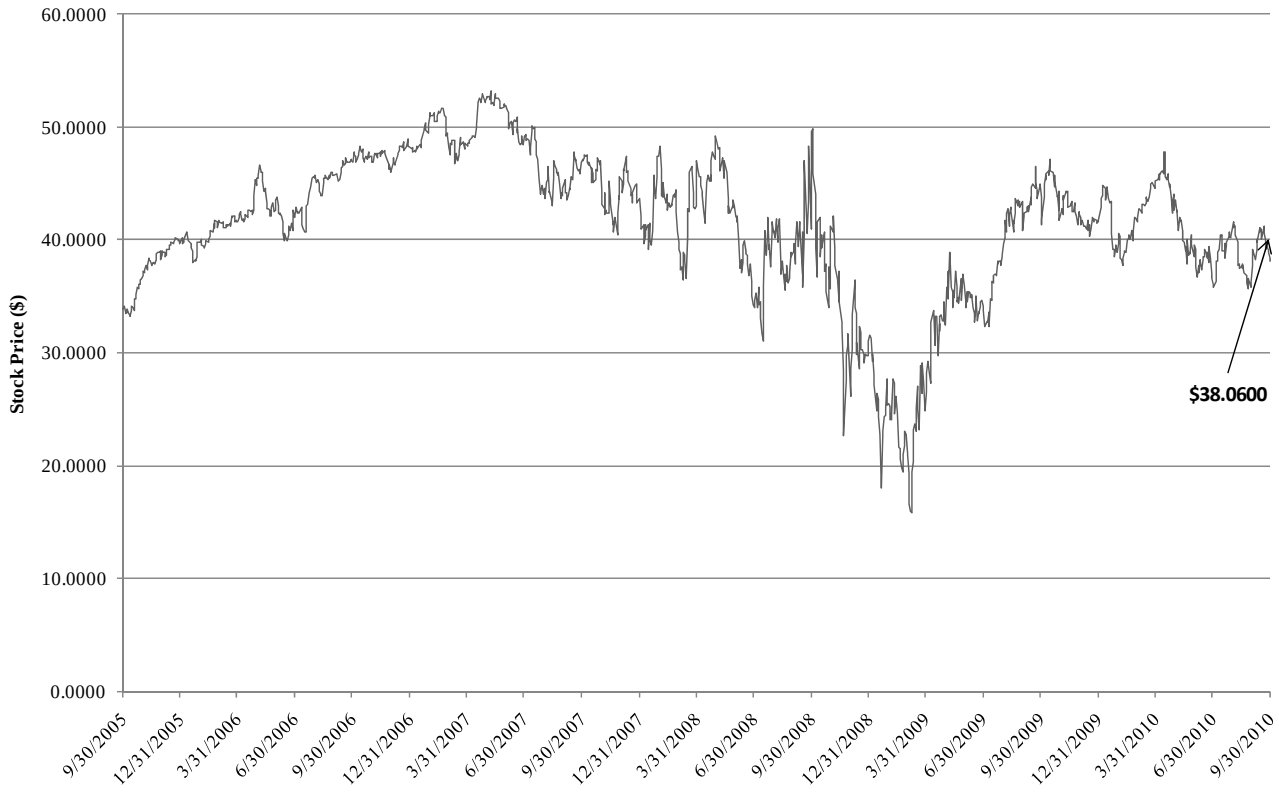
Exhibit 5

JPMORGAN AND THE DODD-FRANK ACT

JPM Stock Price: September 30, 2005–September 30, 2011



Data source: SNL Financial.

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Exhibit 6

JPMORGAN AND THE DODD-FRANK ACT

JPMorgan Chase Trust Preferred Securities (as of 9/30/10)

Subsidiary Trust Preferred					
Trading Symbol	Funding Type	Amount Outstanding (000)	Shares Outstanding	Original Issue Date	Maturity Date
JPM.GC	Subsidiary Trust Preferred	$ 500,000	500,000	1/15/1997	2/1/2027
ONE.NI	Subsidiary Trust Preferred	$ 250,000	250,000	1/31/1997	2/1/2027
JPM.GB	Subsidiary Trust Preferred	$ 300,000	300,000	3/4/1997	3/1/2027
JPM.JO	Subsidiary Trust Preferred	$ 250,000	250,000	8/5/1998	8/1/2028
ONE.MH	Subsidiary Trust Preferred	$ 475,000	475,000	8/30/2000	9/1/2030
JPM.O	Subsidiary Trust Preferred	$ 525,000	21,000,000	9/28/2001	10/15/2031
JPM.J	Subsidiary Trust Preferred	$ 1,000,000	40,000,000	1/31/2002	2/15/2032
JPM.K	Subsidiary Trust Preferred	$ 1,108,000	44,320,000	6/13/2003	6/15/2033
JPM.X	Subsidiary Trust Preferred	$ 400,000	16,000,000	9/26/2003	10/15/2033
JPM.YT	Subsidiary Trust Preferred	$ 475,000	475,000	9/23/2004	9/30/2034
JPM.Y	Subsidiary Trust Preferred	$ 550,000	22,000,000	9/29/2004	10/15/2034
JPM.GBN	Subsidiary Trust Preferred	$ 1,000,000	1,000,000	3/17/2005	3/15/2035
JPM.P	Subsidiary Trust Preferred	$ 500,000	20,000,000	5/26/2005	6/1/2035
JPM.GER	Subsidiary Trust Preferred	$ 500,000	500,000	8/3/2005	8/1/2035
JPM.GPA	Subsidiary Trust Preferred	$ 750,000	750,000	8/17/2006	8/1/2066
JPM.S	Subsidiary Trust Preferred	$ 562,500	22,500,000	9/28/2006	9/15/2066
JPM.GQO	Subsidiary Trust Preferred	$ 1,000,000	1,000,000	9/28/2006	9/15/2066
JPM.GZN	Subsidiary Trust Preferred	$ 1,000,000	1,000,000	1/26/2007	1/15/2087
JPM.GZO	Subsidiary Trust Preferred	$ 850,000	850,000	2/2/2007	1/15/2087
JPM.HEX	Subsidiary Trust Preferred	$ 750,000	750,000	5/24/2007	5/15/2077
JPM.W	Subsidiary Trust Preferred	$ 700,000	28,000,000	8/1/2007	8/1/2077
JPM.JBJ	Subsidiary Trust Preferred	$ 1,500,000	1,500,000	9/26/2007	10/1/2037
JPM.Z	Subsidiary Trust Preferred	$ 1,815,000	72,600,000	5/14/2008	5/15/2078
JPM.MSP	Subsidiary Trust Preferred	$ 1,000,000	1,000,000	10/27/2009	11/1/2039
JPM.B	Subsidiary Trust Preferred	$ 1,500,000	60,000,000	12/22/2009	12/22/2039
JPM.C	Subsidiary Trust Preferred	$ 1,500,000	60,000,000	4/1/2010	4/2/2040

Source: SNL Financial as of 9/30/10

Capital Adequacy Analysis

	Min Capital = 4%	Min Capital = 6%	Min Capital = 8%
Risk-Weighted Assets			
Tier 1 Capital			
Current Tier 1 Ratio			
TRUPs Outstanding			
Tier 1 Capital (after elimination of TRUPS)			
Post-TRUPs Tier 1 Ratio			
Minimum Tier 1 Ratio			
Minimum Tier 1 Capital			
Capital Surplus/(Shortfall)			

Data source: SNL Financial (accessed 9/30/10).

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Exhibit 7

JPMORGAN AND THE DODD-FRANK ACT

JPMorgan Chase Loan Loss Stress Test

Loan Portfolio 9/30/10

(Dollars in thousands)		% of Portfolio	Losses (%)[1]	Losses ($)
Closed-End First Lien 1-4	145,112,000	20.2	*8.5%*	
Closed-End Jr Lien 1-4	10,612,000	1.5	*25.0%*	
Revolving 1-4 Fam (HE Lines)	98,010,000	13.7	*11.0%*	
Commercial & Industrial Loans	102,181,000	14.2	*8.0%*	
Constr & Land Dev	5,483,000	0.8	*18.0%*	
Multifamily Loans	35,146,000	4.9	*11.0%*	
Comm RE Loans (Nonfarm/NonRes)	22,641,000	3.2	*9.0%*	
Credit Card Loans	126,919,000	17.7	*20.0%*	
Other Consumer Loans	61,961,000	8.6	*12.0%*	
Total Other Loans	109,502,000	15.3	*10.0%*	
Gross Loans & Leases	717,567,000	100.0		

Source: SNL Financial as of 9/30/10

Capital Adequacy Analysis

(Dollars in thousands)	Min Capital = 4%	Min Capital = 6%	Min Capital = 8%
Total Assets	2,141,595,000	2,141,595,000	2,141,595,000
Risk-Weighted Assets			
Tier 1 Common Capital			
Tier 1 Common Risk-Based Ratio (%)			
Gross Loans & Leases			
Loan Loss Reserves			
Current Loan Loss Reserves / Loan Ratio (%)			
Loan Losses			
Loan Losses under stress test			
Loss Rate on Loans (%)			
Losses as Percent of Loan Loss Reserves (%)			
Post Stress Test: Loan impact - Tier 1 Common Capital impact[2]			
Post Stress Test Loans & Leases			
Required Loan Loss Reserves / Loans Ratio (%)[3]	1.00	1.00	1.00
Required Loan Loss Reserves			
Excess Reserves			
Loan Losses - Reserve Excess			
Risk Weighted Assets			
Minimum Tier 1 Common Capital			
Current Tier 1 Common Capital			
Less: Losses - Reserve Excess			
Post Stress Tier 1 Common Capital			
Deficiency/Additional Capital Required			

1. Default rates used are based on the more adverse Supervisory Capital Assessment Program scenario according to the Federal Reserve

2. Loan losses decrease Gross Loans & Leases on the balance sheet by the full amount but only affect regulatory capital to the extent that they are greater than excess loan loss reserves (those reserves over and above the minimum amount that remains on the balance sheet)

3. The minimum loan loss reserve percentage represents the required reserve post-stress and is not a regulatory requirement but rather based on industry practice and historical loss rates of high quality loan portfolios

Data source: SNL Financial (accessed 9/30/10).

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