

JPMORGAN CHASE & CO.

Statement of

Scott Geller

before the

House Financial Services Committee

United States House of Representatives

“Seeking Solutions: Finding Credit for Small and Mid-Size  
Businesses in Massachusetts”

March 23, 2009

Good morning, Chairman Frank, Congressman Capuano and Congressman Lynch. My name is Scott Geller and I am President of Middle Market Banking for the Northeast region at JPMorgan Chase and I am also responsible for our Financial Institutions Group nationwide within our Commercial Bank. I am pleased to represent our company at today's field hearing.

We at JPMorgan Chase are working hard to restore confidence to the U.S. financial system. Although the economic environment continues to be difficult, we have endeavored to responsibly deploy the TARP funds as Congress intended: to restore stability and provide liquidity to the financial system; to ensure credit flows to businesses and consumers; and to stabilize the housing sector by responsibly modifying as many mortgages as possible.

Each month, JPMorgan Chase provides to the Treasury Department a "snapshot" of the intermediation activity in which we have engaged as a result of our participation in the TARP. Although we have seen an increase in mortgage originations as a result of lower interest rates, demand for credit in most other areas remains low.

It is important to note that during a recession, it is normal to see generally flat to lower applications for loans across the board. However, we are lending. During January, we extended almost \$50 billion in new lines of credit and loans, including:

- More than \$16 billion to individual consumers including mortgages, student loans, auto loans, home equity lines, and credit card loans;
- More than \$30 billion in new and renewed commitments to mid-sized businesses and large corporations; and
- More than \$12 billion in purchases of mortgage-backed and other asset-backed securities.

We have also committed to extend an incremental \$5 billion in lending to the government and non-profit sector over the next year.

JPMorgan Chase also continues to implement our mortgage modification plan to keep as many homeowners in their homes as possible. This effort covers more than \$1.4 trillion of mortgages, having been expanded to include not only loans that we own ourselves but also investor-owned mortgages that we service. To date, we have modified over 330,000 mortgages and we plan to double this number by 2010. I am proud to say that the re-default rates we are seeing are significantly better than some of the numbers we have seen published by the regulators.

In addition to the numbers we have provided detailing our nationwide lending activities, I would like to talk about New England specifically. As you are aware, branches are

important to our middle market clients and you would generally not expect a bank to do much business in areas where it doesn't have a footprint. Although our commercial bank has an office in Boston, we do not have any branches in New England. As a result, our focus here has been on larger C&I clients, governments, non-profits, healthcare, and other companies that are less branch dependent. Keeping this in mind, let me address some of the issues we are facing and successes we are seeing in Massachusetts and nearby.

Overall, demand for commercial lending is down across the United States, as small- and mid-sized companies are rationally responding to the difficult economy by carefully managing their liquidity and spending less. The impact of the recession is being felt as businesses across the board see lower sales and are therefore reluctant to take on additional debt. The reduced pace of business activity has resulted in less demand both for working capital loans and fixed asset spending.

Although small, our book of business in New England actually grew by approximately 14 percent year over year, primarily because of healthcare and higher education. We have \$140 million in new or increased business in our pipeline, including a major transaction with a hospital here in Massachusetts. We have lending relationships with 108 New England companies and 16 of these relationships were added in the past year, an increase of more than ten percent. We also serve as a correspondent bank for twelve other financial institutions in New England.

Banks are a vital part of the overall lending picture, but it is important to note that the capital markets are very different today than they have been historically. Going into the current recession, banks accounted for only 20% of the lending activity that took place in our economy. Fifty years ago this number was as high as 60%. The difference was made up by money market funds, securitizations, and bond funds just to name a few. The erosion of this non-bank lending will continue to be a factor in the recovery almost regardless of what traditional banks can do on their own.

The depth and severity of the recession has obviously taken a toll on our business. Although we were profitable during 2008, our earnings were down 64% from the prior year. Our challenge over the next several months will be to continue serving our valued clients while managing our own credit and risk profile. The best way to do this in our view is to keep our lending standards prudent and to maintain a fortress balance sheet.

Our Tier 1 capital ratio at year-end was 10.9%, up from 8.4% at the beginning of 2008. Without the TARP funds this number would have been 8.9%. We have significantly increased loan loss reserves (up \$14 billion to \$24 billion).

In light of the ongoing uncertainty, we announced on February 23<sup>rd</sup> that we were cutting our quarterly common stock dividend to \$0.05 cents from \$0.38 cents per share. Taking this precautionary step will allow us to preserve an additional \$5 billion in common

equity per year. We took this step out of an abundance of caution to keep our balance sheet strong and to enhance our ability to continue the judicious extension of credit mindful of the market and credit risks that we all face. It is important to note that this action was not taken in direct response to TARP but was rather what we believed to be the most prudent course of action during this time of crisis.

Lending is our business, but it comes with a duty to lend responsibly. All of us at JPMorgan Chase are trying to meet the needs of creditworthy borrowers in a safe way, and we look forward to continuing to work with this Committee to find solutions to get our financial services industry, and our economy, back on track. Thank you again for the opportunity to appear today and I would be happy to answer your questions.