JPMORGAN CHASE & CO.

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March 7, 2009

Neil M. Barofsky
Office of the Special Inspector General,
Troubled Asset Relief Program
1500 Pennsylvania Avenue, NW Suite 1064
Washington, D.C. 20220

Dear Special Inspector General Barofsky:

I write in response to your request for information dated February 6, 2009, regarding the use of funds received by JPMorgan Chase & Co. ("JPMorgan Chase" or the "firm") in connection with the Capital Purchase Program ("CPP") promulgated under the Troubled Asset Relief Program. Specifically, you request:

(1) a narrative outlining (a) JPMorgan Chase's anticipated use of funds received in connection with the CPP, (b) whether funds received in connection with the CPP were segregated from other institutional funds, (c) JPMorgan Chase's actual use of CPP funds to date, and (d) JPMorgan Chase's expected use of unspent CPP funds; and
(2) JPMorgan Chase's specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding, including any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

Use of CPP Funds

JPMorgan Chase did not apply for or seek the government's investment. But we recognized the importance of supporting the uniform application of this Program to promote stability and confidence in the financial markets and agreed to support the government's goal of obtaining the participation of all major banks. Accordingly, on October 28, 2008, in connection with the initial issuance of funds pursuant to the CPP, JPMorgan Chase received $25.0 billion and in return issued to the Department of the Treasury, (i) 2.5 million shares of Series K preferred Stock, and (ii) a Warrant to purchase up to 88,401,697 shares of the firm's common stock, at an exercise price of $42.42 per share, subject to certain antidilution and other adjustments. The Series K Preferred Stock bears cumulative dividends at a rate of 5% per year for the first five years ($1.25 billion per year) and 9% thereafter ($2.25 billion per year). The $25.0 billion investment from the Department of the Treasury was not segregated from other institutional funds.

The CPP funds we received strengthened JPMorgan Chase's already strong capital base, which is the foundation of all our lending activities. All of the firm's capital ratios were significantly in excess of the benchmarks established by the Federal Reserve for *well capitalized* bank holding companies even before the Department of the Treasury's direct investment. Specifically, as of September 30, 2008, the firm had total capital of $159 billion and Tier 1 capital of $112 billion. The firm's total capital ratio was 12.6%, and its Tier 1 capital ratio was 8.9%. Indeed, consistent with the firm's continual emphasis on maintaining a "fortress balance sheet," during the first nine months of the year and prior to the CPP, the firm 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. The Series K Preferred Stock qualifies as Tier 1 capital. Accordingly, as of December 31, 2008, after receipt of the CPP funds, JPMorgan Chase had total capital of $185 billion, and Tier 1 capital of $136 billion. The firm's total capital ratio increased to 14.8% and its Tier 1 capital ratio increased to 10.9%.

On February 23, 2009, JPMorgan Chase announced a reduction in its quarterly common stock dividend from $0.38 per share to $0.05 effective for the dividend payable April 30, 2009. This action will enable JPMorgan Chase to retain an additional $5 billion in common equity per year and will help further ensure that the firm's strong balance sheet remains intact even if conditions worsen significantly.

Subsequent to the receipt of CPP funds, JPMorgan Chase has continued 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 on October 28, 2009, our lending volumes have been significant, particularly in light of the rapidly deteriorating economic environment. More specifically, 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.).

- Over $20 billion in new credit extended (new commitments and renewals) to 8,000 small and mid-sized businesses, governments and non-profits. In addition, we committed to extend an incremental $5 billion to the government and non-profit sector over the next year, and JPMorgan Chase was the only investor willing to step up to purchase a $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.

In addition, JPMorgan Chase increased its 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, JPMorgan Chase's aggregate new lending for the fourth quarter was over $200 billion. In sum, JPMorgan Chase's consumer loan balances increased by 2.1 percent between the end of the third quarter and the end of the fourth quarter, while overall personal consumption expenditure in the country decreased by 2.3 percent over the same period.

We believe that JPMorgan Chase is using the CPP funding for the purposes Congress intended: to help restore liquidity and stability to the U.S. financial system, to help ensure the continued flow of credit to consumers and businesses, and to encourage modification of the terms of residential mortgages. In this regard and in addition to the lending activity described above, JPMorgan Chase purchased almost $60 billion of mortgage-backed and asset-backed securities to support the agency debt markets and provide liquidity in the housing capital markets. Further, working with Congress, JPMorgan Chase has intensified foreclosure prevention efforts. On October 31, we made major policy commitments to modify what we anticipate will be more than $70 billion worth of Chase-owned loans over two years, which we believe will save an additional 400,000 families from foreclosure, for an estimated total of 650,000 foreclosures prevented over four years. This initiative includes the projected opening of 24 regional counseling centers in areas with high mortgage delinquencies where counselors can work face-to-face with struggling homeowners. In January, we announced that JPMorgan Chase was extending its mortgage modification efforts to investor-owned loans we service – about $1.1 trillion of loans – significantly expanding the reach and effectiveness of our previously announced mortgage modification efforts. Further, JPMorgan Chase very recently agreed to an additional temporary moratorium on foreclosures as the government worked on the details of its own foreclosure prevention and financial stability plan.

In further response to your first request, please note that JPMorgan Chase submitted detailed information to the Department of the Treasury on January 30, 2009, in response to a request for information concerning JPMorgan Chase intermediation activities during the 4th Quarter of 2008. The information provided is an input for the Department of the Treasury's First Monthly Bank Lending Survey published on February 17, 2009. This was the first of reports that will be provided to the Department of the Treasury on a monthly basis. A second report was submitted on February 27, 2009.

Executive Compensation

As a participant in the CPP, JPMorgan Chase is subject to the executive compensation provisions of Section 111 of the Emergency Economic Stabilization Act of 2008 ("EESA"). Following the date of your letter, Section 111 was amended on February 17, 2009, by The American Recovery and Reinvestment Act of 2009 ("ARRA"). Prior to its amendment by ARRA, EESA section 111(b) directed the Secretary of the Treasury to require affected financial institutions to meet appropriate standards for executive compensation and corporate governance, including (a) limits on compensation that exclude incentives for senior executive officers to take unnecessary and excessive risks that threaten the value of the financial institution; (b) a provision for the recovery by the financial institution of any bonus or incentive compensation paid to a senior executive officer based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; and (c) a prohibition on the financial institution making any golden parachute payment to its senior executive officers during the period that the Department of the Treasury holds an equity or debt position in the financial institution. The Department of the Treasury subsequently issued an interim final rule codified as 31 CFR 30 in response to the requirements of EESA. Certain amendments to 31 CFR 30 were subsequently proposed by the Department of the Treasury but not published in the Federal Register.

Under EESA section 111 as amended by ARRA, the Secretary of the Treasury must require participants in the CPP to meet appropriate standards for executive compensation and corporate governance including:

- Limits on compensation that exclude incentives for senior executive officers to take unnecessary and excessive risks that threaten the value of the institution during the period in which any obligation arising from financial assistance provided under the program remains outstanding.
- A provision for the recovery by the financial institution of any bonus, retention award, or incentive compensation paid to a senior executive officer and any of the next 20 most highly compensated employees based on statements of earnings, revenues, gains or other criteria that are later found to be materially inaccurate.
- A prohibition on making any golden parachute payment to a senior executive officer or any of the next 5 most highly compensated employees during the applicable period.
- A prohibition on paying or accruing any bonus, retention award or incentive compensation other than long-term restricted stock that does not fully vest during the applicable period and is limited to 1/3 of the employee's total annual compensation, subject to certain exceptions. As applicable to JPMorgan Chase, this applies to senior executive officers and at least the 20 next most highly compensated employees.

Other provisions of EESA as amended require:

- The CEO and CFO to certify compliance annually with such standards as may be adopted by the Department of the Treasury.
- The financial institution to have an independent Compensation Committee of the board and that such committee meet at least semi-annually to discuss and evaluate employee compensation plans in light of an assessment of any risk posed to the institution from such plans.
- The board of the financial institution to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Treasury, which may include excessive expenditures on (a) entertainment or events; (b) office and facility renovations; (c) aviation or other transportation services; or (d) other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives, or other similar measures conducted in the normal course of the business operations of the financial institution.
- Annual shareholder approval of executive compensation.
- That affected financial institutions shall be subject to the provisions of section 162(m)(5) of the Internal Revenue Code, which, in general, requires that no deduction be claimed by the financial institution for remuneration for federal income tax purposes in excess of $500,000 annually for each senior executive officer during the applicable period.

We understand that the Department of the Treasury plans to issue guidance and regulations to effect EESA as amended by ARRA, and we will take appropriate steps to comply with any regulations when issued. Pending such issuance, we note the following:

In December 2008 the firm's Chief Risk Officer met with the Compensation & Management Development Committee of the JPMorgan Chase Board of Directors (the "JPMC Compensation Committee") and reviewed with the JPMC Compensation Committee the risks that the firm faces that could threaten the value of the firm, including long-term as well as short-term risks. Elements of the firm's organizational structure, management practices and compensation programs that would discourage unnecessary or excessive risk-taking were reviewed. It was noted that the firm had previously reviewed its compensation practices based on draft best practices criteria of the U.K. Financial Services Authority published in October 2008 and concluded that JPMC's compensation programs reinforce many best practices principles.

If required by EESA, as amended, and applicable regulations, the JPMC Compensation Committee will certify as part of the 2009 proxy statement that it has reviewed with the Chief Risk Officer of the firm the senior executive officer compensation arrangements and has made reasonable efforts to ensure that such arrangements do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the firm.

With respect to provision for the recovery by the firm of any bonus or incentive compensation paid to a senior executive officer and any of the next 20 most highly compensated employees based on statements of earnings, revenues, gains, or other criteria that are later proven to be materially inaccurate:

- Each of JPMorgan Chase's named executive officers in our proxy statement dated March 31, 2008, have been required to sign an agreement to this effect. The same will be required for those persons who are the named executive officers in our proxy statement to be issued in 2009.
- The firm has a Bonus Recoupment Policy, attached as Exhibit 1, applicable to all employees, that is consistent with this requirement.
- All equity awards issued by the firm in 2009 have included and will include such provisions.
- Once the Department of the Treasury issues guidance for determining the next 20 most highly compensated employees, we will take such further action as is appropriate or required.

With respect to the prohibition on the firm making any golden parachute payment to a senior executive officer and the next five most highly compensated employees during an applicable period, we note that JPMorgan Chase does not maintain change in control or other special executive severance arrangements. Senior executive officers are eligible to participate in our broad-based severance plan, under which, as of April 2009, severance will be limited to 52 weeks of base salary. Further, vesting of equity awards does not accelerate upon termination of employment. Finally, JPMC intends to present for approval to the JPMC Compensation Committee a formal policy statement prohibiting golden parachute payments.

Internal Revenue Code section 162(m)(5), made applicable by EESA Section 111(b) (1), requires that no deduction be claimed by the firm for remuneration for federal income tax purposes in excess of $500,000 for each person covered by this limitation, which is based upon service as a senior executive officer during an applicable period. JPMorgan Chase has not yet filed tax returns for 2008 and intends to establish controls and procedures to comply with this limitation before doing so.

Regarding other matters required by EESA, as amended:

- JPMorgan Chase has a Compensation Committee that we believe meets currently applicable standards of independence. The JPMC Compensation Committee will schedule meetings at least semi-annually to discuss and evaluate employee compensation plans in light of an assessment of any risk posed to the institution from such plans.
- Not later than following the issuance of guidance by the Department of the Treasury, management intends to submit to the JPMorgan Chase Board of Directors for its review and approval a company-wide policy regarding excessive or luxury expenditures.
- JPMorgan Chase plans to submit to its shareholders in our 2009 proxy statement an advisory vote on executive compensation.

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As required by your request, I certify the accuracy of the statements, representations, and supporting information provided to the best of my knowledge, subject to the requirements and penalties set forth in 18 USC 1001.

Sincerely,

Stephen M. Cutler

EXHIBIT 1

Bonus recoupment policy

In the event of a material restatement of the Firm's financial results, the Board believes it would be appropriate to review the circumstances that caused the restatement and consider issues of accountability for those who bore responsibility for the events, including whether anyone responsible engaged in misconduct. As part of that review, consideration would also be given to any appropriate action regarding compensation that may have been awarded to such persons. In particular, it would be appropriate to consider whether any compensation was awarded on the basis of having achieved specified performance targets, whether an officer engaged in misconduct that contributed to the restatement and whether such compensation would have been reduced had the financial results been properly reported. Misconduct includes violation of the Firm's Code of Conduct or policies or any act or failure to act that could reasonably be expected to cause financial or reputational harm to the Firm.

Depending on the outcome of that review, appropriate action could include actions such as termination, reducing compensation in the year the restatement was made, seeking repayment of any bonus received for the period restated or any gains realized as a result of exercising an option awarded for the period restated, or canceling any unvested equity compensation awarded for the period restated. Consideration may also be given to whether or not any one or more of such actions should be extended to employees who did not engage in misconduct that contributed to the restatement.