JP Morgan's Dimon Analyzes Today's Business Environment

Jamie Dimon
Chairman and Chief Executive Officer
JPMorgan Chase
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Soundbites: *Excerpts from Jamie Dimon's remarks:*

Financial Crisis: Financial conditions are getting more extreme, and I don't know if they will get even more extreme….At [JPMorgan] we try to be as conservative as can be, to protect the company for environments like this.
Housing: If I were a regulator or government official, I would be planning now for a really bad scenario in terms of continued housing price depreciation.
Major Lessons: Over this whole period of time of a bull market in homes, we should have been tougher on external mortgage brokers….We didn't see what was coming, because the housing market was so good, and there were no losses.
American Competitiveness: Sometimes I think that people believe that the United States has a divine right to success no matter what happens. But if we don't get these things right, it is not true. Good policy must be thoughtful; nonpartisan; based on analysis and facts; and conducted over a long period of time.
American Corporations: The vilification of business is starting to really irritate me. It's not just businesses, we vilify politicians, we vilify lawyers, we vilify doctors, we vilify everyone in this country now. There was a survey published, and it stated that there's only one profession that more than 50% of the population respects - and that's firemen …. Business needs to be more involved in Washington and not run away from that opportunity. It took me a while to come to that position. We need to acknowledge legitimate complaints about shortcomings or problems with procedures, policies, and products. There are many that need to be reformed. We need not embarrass ourselves, as when a lot of people argued against option expensing, like that was going to destroy technology and innovation in America …. We have to be nonpartisan and not completely self-serving, when we come to Washington. We should really try to constructively participate and do what is right for the country.

Vernon Jordan

Good evening ladies and gentleman. My name is Vernon Jordan, President of The Economic Club of Washington, and it's a pleasure to welcome you to the fourth event of the season. We have a record turnout, so much so that we had to order smaller chairs to accommodate the crowd. We very much appreciate this turnout at The Economic Club of Washington tonight.

I assume that part of the reason it was difficult to get you to keep quite is that you are all discussing this one heck of a week in America. The stock market went up and down, up 400 yesterday; an admiral of the Navy quit; and a Governor of New York resigned. It was one heck of a week. So, you can discuss it now because dinner is served. Thank you.

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Allow me to welcome you, once again, to the Economic Club's spring dinner. I would now like to recognize and acknowledge our event sponsors. While they are all listed in the program, I would like to acknowledge them anyway, in the hope that those of you who are not sponsors will want to be recognized next time. They are:

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The Economic Club of Washington welcomes James Dimon, the Chairman and Chief Executive Officer of JPMorgan Chase, to our forum and dinner here tonight. When I called Jamie to invite him here, he immediately accepted, for three reasons, I think. First, Jamie, my wife Anna, and I have been friends for a long time, and we worked closely with Jamie, as a director of Citibank, and I've worked with Jamie at American Express. Second, Jamie invited me to speak, early in his tenure at Bank One. I accepted, went to Chicago, and spoke. Jamie believes in reciprocity. Third, Jamie Dimon is my banker. So, fear that I might move my huge account to a competitor really really helps.

Jamie Dimon's meteoric rise to the pinnacle of the banking industry is legendary. After graduating *summa cum laude* from Tufts University and then the Harvard Business School, he signed on with Sandy Weill. The two became hugely successful in the financial services industry and together, they built Citigroup.

In 2000, Jamie was tapped to head Bank One. The bank was in the process of losing one billion dollars that year. Jamie led a dramatic and stunning turnaround: slashing expenses, reorganizing management, recruiting new talent, writing off bad debts, investing in 21^{st} century infrastructure, and providing the type of leadership that is the making of legends.

In 2004, Jamie Dimon was at it again. He engineered the merger of Bank One and JPMorgan Chase. Jamie was named President and Chief Operating Officer of the new bank, CEO the following year, and Chairman the year after that. As I was preparing this introduction, I could not help but think that John Pierpont himself would be very pleased that the leadership of the institution that he founded is in the hands of Jamie Dimon.

J.P. Morgan and Jamie Dimon have a lot in common: an appetite for big risks and bold decisions, a penchant for doing the unexpected, extraordinary intellect and breadth, and a disposition that does not suffer fools lightly. Like his predecessors, J.P. Morgan and David Rockefeller, Jamie is the quincentennial Renaissance-man. He's an astute business leader; he's a citizen of the world, with an uncanny depth of knowledge about our planet; and he's a passionate advocate of causes, as varied as the United Negro College Fund, the New York University School of Medicine, and the National Center on Addiction and Substance Abuse. *Time* magazine has called him "the rockstar of banking." *Fortune* magazine named him one of the world's most influential bankers of all time. I am proud to call him my friend.

Some of you, mostly my family, have heard me quote an old adage that a friend is the medicine of life. I am grateful, tonight, that there is a bottle, in my metaphorical medicine cabinet, labeled Jamie Dimon. Ladies and gentleman, my friend, Jamie Dimon.

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Jamie Dimon

Vernon, that's quite an introduction, I appreciate it. Vernon did call me up. He did say, "I would like you to come down to the Economic Club of Washington. If you don't, everyone I know is going to move their accounts from JPMorgan." When Vernon speaks of the medicine of life, what he forgot is a part of the story that I always remember. I had just gone to Bank One, just started the job, knew no one in Chicago, and had never met the management team. I'm sitting in my office the first Wednesday or Thursday, and Vernon calls up. He says, "I'm coming to town. I know no one up there is talking to you. I'm taking you to dinner." We had dinner, literally that first week, which I always appreciated, with Ann and the whole family.

Also, they always skip this part of my career: the guy for whom I worked for 17 years, fired me. There's a little gap, but during that little gap, both Ann and Vernon were extremely helpful to me and my wife. I remember him, or Ann, I forget which one, explaining to my wife: don't ever get mad, just do the best you can and move, otherwise, your life will be controlled by something that you cannot do anything about. I really appreciate that introduction.

I'm going to cover a lot of things tonight. I am willing to answer any questions when we are done. Someone said, "Anything?" Absolutely, I just got my last of three teenage daughters into college. How many of you have teenage daughters? I would be happy to answer any questions; I think we've done it successfully, so far.

It’s also a little hard here because in this room I have a board of directors, but also I have regulators. Think of them as the super senior board of directors, something like that and a lot of them are here. From Foreman Jerry Hawk, Undersecretary of Treasury Bob Steel, to Sheila Bair, so I have to be a little careful. I’m not going to complain about regulation, put it that way.

The other thing is that Sharon Rockefeller is here. We were talking about David Rockefeller and John Pierpont Morgan. You know, if I had one wish when I got this job, it is that my grandfather and all my immigrant grandparents could have seen this. Unfortunately he died, but it is an unbelievable thing what this country still represents. But also, we have Mr. West, who sold his company to Bank One Weaver Brothers, a bank, many years ago.

I’m going to talk about five subjects. I’m going to cover JPMorgan really quickly. Its unbelievably proud heritage, a thousand companies, from the Weaver Brothers, to Bank One, First Chicago, Chase, Chemical, Manny Hanny, Marine Bank, and Indiana Fletcher. I’m kind of the steward of this company while I’m here. There is an unbelievably proud heritage, and it exists for customers. I always remind people, that is why a business is there and to do the best it can. So, I really do consider myself customer service representative number one. If any of you here have a problem, you can feel free to call or email. You will get a response from me or my office, because we will make sure to do the right job for you all the time. By the way, Sharon, I’m doing the best I can.

I’m going to talk a bit about the future by reminding people that businesses make mistakes, including us. We’ve made a few. Not as bad as some of the others, but we should never feel great because the slide says, “we suck less.” We want to do a great job everyday.

So, the five subjects I’m going to cover quickly to leave plenty of time: the Financial Crisis; Housing; some Major Lessons out of it; a little about American Competitiveness; and one last statement, which is going to be a semi-political statement about American Corporations.

Financial Crisis. My daughter called me up a while back, she’s in college, and she said, “Dad, what’s a financial crisis?” I was really happy, because I thought she was reading the papers. I know the Chairman of Gannett is here. I always get *USA Today*, because I thought I could get my kids to read the newspaper if there were pictures. It didn’t work, if you have teenage kids. Without trying to be funny, I said, “It’s something that happens every 5 or 6 years. The fact is, it does. We had the 2001 internet bubble, and put in the back of your mind, when that bubble burst $4 trillion of market capital was lost. We had the 1997 Asia, Russia and Long Term Capital Management crises; 1990 real estate savings and loans; in 1987, the market crashed, 25% in one day; and the last real recession in this country was in 1982. You are talking about unemployment hitting 10% prime, 21.5%, and those were tough days. And 1974 was even worse.

When you look at these crises, by the way, there's always something different and there's always something that is very common. I should also point out that several of these financial crises did not cause a recession. So, put that in the back of your mind for a second, too. When we were going through this, someone looked at investment banking results and said, "God, these investment results are volatile earnings!" I said to him, "You mean to tell me, you thought they were steady?"

Some of these are large global businesses, and businesses take risk. You want businesses to take risks. You want some businesses to fail, sometimes. That is a healthy system. So, I always say, look at all these things and measure them relative to cycles and relative to performance. The difference here was housing. We had a housing bubble; prices were up 50% to 100% over a 5- to 7-year period. Warren Buffett says, "When the tide goes out, you'll see who is swimming naked." So when the bubble burst, there was subprime, then CDOs, monolines, CIVs, and the tide is still going out. Total expected losses, higher than initially estimated, may be $200 billion. That's nothing compared with $4 trillion and nothing compared with some of the losses in the crises of other years. Put that in the back of your mind.

What's the same with these financial crises? A lot of volatility; risky assets re-price, like bond spreads and stuff like that; short-term funding can become very difficult; spreads change dramatically; a lot of fear; and the worst one is, there really is a specter of a recession. I want you to separate in your mind a little bit the financial conditions. When banks lose money or financial institutions lose money, you should not feel bad for them. Hedge funds are managed by wealthy people; it's not a big deal. What does happen though is that they start to create a financial environment that is hard for borrowers. So, you used to be able to get a subprime mortgage, and you can't get one now. Actually, JPMorgan is still making them and jumbo mortgages, too. If you are able to get a jumbo, it's going to cost you more basis points, and every business here is paying more for their money. Those financial conditions create a higher chance of a recession. They don't cause it.

Think of it as one factor, in addition to oil, trade, and company balance sheets, and then you have the specter of recession, which slows down the market. So, you have a kind of frozen market. If you ask me, will we have a recession? I think we are kind of in one now, but I'm more of the Yogi Berra School of management. Yogi Berra said, "It's really hard to make predictions, especially about the future." I have never seen people really predict the course for the economy. It is really complex. There are so many positives and negatives and other mitigating factors, and you can read all the same things I read.

However, financial conditions are getting more extreme, and I don't know if they will get even more extreme. I will give you a point of view at the end. I will point out that, for JPMorgan, we have always believed in a fortress balance sheet. I always tell people it is not a philosophical bent to be conservative. I always thought you should have a fortress balance sheet in this business, because bad things happen. A fortress balance sheet has plenty of capital, but it also includes conservative loan loss reserves. I would say that I'm one of two people trying to add loan loss reserves. The regulators like loan loss reserves and the SEC is tougher on loan loss provisions We are trying to make sure we have real controls around our on-balance sheet and off-balance sheet assets, to make sure our accounting is as conservative across the board as it can be. So, at least at this company, we try to be as conservative as can be, to protect the company and for environments like this. I think that is one of the best things you can do to be prepared for environments such as this.

Housing Crisis. Housing prices are down 10%, 12%, or 15%, depending where you go. California, Florida, and Nevada are much worse. In those states, unemployment has only gone from 4.5% to 6%, which is surprisingly low to me. There are predictions, by some very smart people, that it is going to get much worse in housing. It could go down another 10%, but some say another 25%, a total of 35%. That would be so unprecedented, other than the Great Depression, that it would be hard to estimate the impact. I think you do see a lot of things taking place to try to fix that, but you do have really frozen markets. Secondary markets are crippled. There's a lot of uncertainty. One of the reasons people aren't finding mortgages is because when you start to buy a mortgage, you think, "What's going to happen to housing? What about a recession?" You think, why take the risk? Until we sort some of this out, it may be hard to figure out what you should or should not own.

Banks, believe it or not, want to keep people in their homes. In a foreclosure, a lot of value is lost, and besides we have to mow the lawns. A lot of the good banks, I think, are trying really hard to do everything they can to keep people in their homes. That is a critical aspect.

I also think that a lot of people are handing their keys back. They don't want the house anymore. I'm going to tell you about some of the mistakes we made to get into that position. If I were a regulator or governmental official, anyone of them, I would be planning now for a really bad scenario in terms of the continuation of house price depreciation and the negative impact it causes. We don't have the luxury to get around to and politicize it, if in fact it does get much worse. I am not going to go through them now, but I do think there are some things that can help the markets a little bit more, and I'm not asking for a bailout for JPMorgan or any other major bank.

Major Lessons. Some major lessons: mortgages used to have 20% down. So, over this whole period of time of a bull market in homes, we should have been tougher on external mortgage brokers. Their loss was always worse. We went from 80% to 85% to 90% to 95% loan-to-value (LTV), to less documentation, and a sort of creeping incrementalism called bad underwriting; it's totally to blame. We didn't see the results because the housing market was so good, and there were no losses. So, people just did more and more. When they had no more equity in the house, people just left the home. There is no longer a mortgage. If the house goes up in value, they get the benefit, if they don't, a lot of them walk. With all these losses, many people are simply leaving. Keep in mind, who is losing the money? I'm a Democrat and I don't want to get rid of housing, but it's the banks. The other people had no money in, so we have to be a little careful how we treat this situation. I'm a little surprised by the way, that there is little morality around people having to pay back their bills. I think that's almost true for corporations now, when they go bankrupt very readily.

Wall Street has a lot of illiquid assets. This is my own guess. A bigger part of an investment bank's balance sheet today is illiquid assets, or they become illiquid, involuntary illiquid: CMBs, warehouses, CDOs, subprime, leverage loans, and stuff like that. For a lot of these folks, they were funded short. So, that is the same banking problem we have had over, and over, and over. Long-dated illiquid assets funded short into hedge funds. The SIVs did it; the CDOs did it; they could not refinance it all back, so they had a little bit of a crisis. SIVs, honestly, there is no real business purpose for them. JPMorgan did not get involved in them for a lot of reasons, but I was surprised at the size of them and the impact. Most of them were really badly structured, but there also were some exceptions. CDOs, honestly, are just too complex. When you have to run a mainframe all night to do 700,000 Monte Carlo simulations to calculate the value of the securities, it's just too much. I'm not going to blame the rating agencies, because I honestly believe they made the same series of errors that were made by lots of other people.

New products will often cause issues. This is true for equities, foreign exchange, repurchase or repo markets, and now you have it happening in the subprime securities and CDOs. Some people think we are going to have it in some other new products, more in the settlement and clearance. This is a valid concern. We have spent a lot of time to make sure we do it correctly. At a dinner I attended, someone asked me, "Jamie, don't you worry about what happened at SocGen. In the back of your mind, don't you worry about rogue traders and derivatives and issues like that?" I said, "Hell no, the back of my mind, it's right here (in the front of my mind)." If you don't worry about that stuff, you are not thinking clearly. The only good news is at least we don't have to listen to the French complain about us that much.

A lot of the policies that regulators worry about, I think they know this, are pro-cyclical. They make it worse. Loan losses are at the most benign time in a credit cycle; the lowest loan losses, lowest capital, and the highest margin. This is true for loan losses, ratings, and capital, mark-to-market accounting, and we have to do something about that. Once it starts, banks have to cut back, people have to put up loan losses, capital gets removed, and there are very few policy measures that go the other way. On the financial side, by the way, by the end of the year, the financial side will have worked through a lot of this, meaning there is no more production of leverage loans, SIVs are being deleveraged, hedge funds are being deleveraged, no more CMBs, no more CDO, supply and demand will meet. This does not mean we will not have a serious event in housing or a recession. But some of this will work itself out. My guess is that 50% will get done rather quickly. Some of the problems that popped up have been resolved.

American Competitiveness. In the short-term, people talk about IPOs and accounting, Sarbanes-Oxley, litigation, they are all legitimate considerations. But I would never stand up in front of an audience and say, that's why JPMorgan is not doing well. It may cost us a little more money, reduce our return on equity (ROE) a little bit, but that's not the reason. I do want to talk about the long term and I think this is really serious. It's not going to affect me, while I'm at JPMorgan, but it will affect the future of this country.

I'm going to ask an interactive question, really quick, and you have to be honest. How many of you are really ticked off about the price of gas? Raise your hands if you are really ticked. Be honest. Ok, but you don't have the right to be. Nobody knows what it costs, you don't refine it. It's cheaper than that bottle of water over there. We are digging ten thousand feet into oceans to bring it up. We don't have a policy, or as someone said a policy by default, in energy. We've known since 1974 or whatever year it was, we haven't had a policy other than by default. I put energy and environment together. France has a well-thought through, well-executed over a long period of time, non-partisan policy to reduce their dependency on oil and to be more environmentally friendly. Brazil has had an energy policy. The United States does not. I would put in this category of major issues that can hurt this country dramatically: energy and environment; secondary education; infrastructure, from power grids to railroads; medical; trade; and I'm going to talk about pensions in a second. These are really serious.

Sometimes I think that people believe that the United States has a divine right to success no matter what happens. Believing that this is God's country, and we will be successful. But if we don't get these things right, it is not true. Good policy must be thoughtful; nonpartisan; based on analysis and facts; and conducted over a long period of time. What is the cheapest way to reduce CO_2 in the air? Does anybody know? It is insulation in the home. There's a positive return, and it wouldn't cost any money. One day we'll have policies that do the right thing. If as a policy matter we don't want people to make a lot of money, take it out of the payroll tax. So, if you spend an extra $2,000 on driving, the person who makes less money gets it back directly. We have to have thoughtful policies in theses categories.

We have to keep America vibrant and healthy. We have to keep our companies vibrant and healthy. We worry about competition from around the world, today. We do a case exercise at JPMorgan. It says, what if a big successful Indian bank takes over an American bank, can we compete? We have to be able to compete.

We have reduced trade. Most people would say trade has taken a billion to two billion people out of poverty. It's brought the world closer, it's a good thing. I'm a weak Democrat. I say this because I think they are a little crazy sometimes. When I listen to them talk against NAFTA, against trade…what in God's name are they really thinking? This is a good thing for the world. There are those that lose and we should have good industrial policy around that. But we can't have the Republican and Democratic Parties, both going against trade, when it's been so good for the world. If we don't, we won't have a healthy and vibrant country. I also remind a lot of people, if you are an Indian or Chinese company, what do they buy from us? Aircraft engines, airplanes, pharmaceuticals, semi-conductors, software, financial services; it is not a one-way street. We benefit enormously from all of that. I would hope that we would start to educate the public and not pander to the public about some of these issues. We should deal with the legitimate issues, there are some, but we must not destroy the beast that created all this.

The dollar, we are just sleeping in the bed we made. Why should we be complaining about the weakness of dollar, although it is good for some companies? When we have trade and federal deficits like we've had, you are going to have a weak currency. I remind the people in the financial business, does what we earn in a quarter reflect what we did that quarter? It's based on decisions we've made in the past seven years. That's what the dollar is. Then we give the dollar to foreign countries, some of it ends up in sovereign wealth funds. They buy Treasury bonds and they want to buy other things that you and I would want to do if we were doing that, but we say, "We don't like it. Take our dollars, but you can only buy Treasury bonds." There's something wrong about that. This money is perfectly legitimate, and they can invest it however they want. They've helped a lot of companies; fortunately, we are not one of them.

American Corporations. There are legitimate issues around states controlling American corporations. They are legitimate, but let's not make a mountain out of a mole hill. There is a lot of anger overseas because they believe they should be able to invest their money the way they want. Someone reminded me of the day that Calpers, which is a state-controlled fund, interfered in corporate governance, and we allowed that. I feel that we should be a little more rational about some of these things and make sure we do what is good to keep this country really competitive and really healthy. Then, maybe, have a debate how to share the wealth. I do think that's a legitimate thing for a democracy to talk about, a little bit.

Last thing, this is speaking for all the companies in this room, because I know I speak on behalf of all of you. The vilification of business is starting to really irritate me. It's not just business, we vilify politicians, we vilify lawyers, we vilify doctors, we vilify everyone in this country now. There was a survey that came out, it stated that there's only one profession that more than 50% of population respects and that's fireman. We used to have a lot more respect for people. It has gotten so bad. There was a survey done years ago and it asked, "How many people trust lawyers?" 80% don't. Then it asks, "Do you trust your lawyer?" 80% do. We are doing that almost across the board.

JPMorgan and most people here are great corporate citizens. We give away a $100 million a year in philanthropy. We lend $80 billion a year in connection to our CRA commitment, which is basically to support lower to middle income housing mortgages, business development zones, etc. We help welfare mothers get back to work; we give jobs to inner-city school kids; we invent ATM's that speak to the blind; and we are just one company. If you were in the Reserves and called into the service, we pay your salary for the full time because we can afford it. We think it is the right thing to do not to add financial hardship to the great personal hardship that you are going through. When the tsunami, earthquake, and hurricane hit, we sent money and people as fast we could. This is where I'm speaking for all of you, yet we vilify these companies. Who gets punished when they are unfairly punished? The shareholders, who happen to be our parents, labor unions, states, but we act like we are punishing the CEOs, which is not really the case.

Businesses need to be more involved in Washington and not run away from the opportunity. It took me a while to come to that position. We need to acknowledge legitimate complaints about shortcomings or problems with procedures, policies, and products. There are many that need to be reformed. We need not embarrass ourselves, like when a lot of people argued against option expensing, like that was going to destroy technology and innovation in America. I always tell people, "Did Henry Ford have options?" We do fine without them. We have to be nonpartisan, not completely self-serving, when we come to Washington. We should really try to participate and do what is right for the country.

I'm going to stop there and open the floor to any questions, comments, or issues that are on your mind.

Questions and Answers

Questioner: You gave the regulators and the rating agencies a pass when you were talking about the financial crisis. Why? Don't they have blame for some of our financial problems?

Mr. Dimon: Honestly, I think that in some of the problems I mentioned, they made the same mistakes that some big banks made, institutions made, and yes you can blame them. We love to blame people. A lot of big institutions always told me, "I don't buy anything based on ratings. We do our own work." It's always easy to blame other people. I think they have things to fix and yes, they made mistakes; they did not cause the problem, they added to it. Just like bad underwriting added to the problem by financing more houses, but in the end it didn't cause the problem.

Questioner: As a Democrat, what differences do you see between Senators Obama and Clinton?

Mr. Dimon: As a Democrat, they both seem to be very qualified individuals, hardworking. Other than that, I'm not going to answer the question.

Questioner: Are we in a recession or are we not?

Mr. Dimon: I already said, I thought we were. Look, I'm not a seer of recessions. I don't know, but it looks to me that what we are in right now, most people would call that a recession.

Questioner: Jamie, one of America's great exports in the last 20 to 30 years has been financial sophistication. As you look around the world, how do you see that competitive landscape changing? What parts of the world or countries do you think get that and are ramping up to be our competitors there?

Mr. Dimon: That's a very good question. I still think this country, not just in financial sophistication, even though some of the things didn't work exactly right, but in technology, use of technology and innovation, is still exceptional. I think it would be a mistake to think that the Indian companies are not doing it, the Chinese companies are not doing it, the European companies are not doing it, and companies in Brazil aren't doing it. They are all getting better, and that is a good thing for the world. It will create more for the world, but it is going to create a lot of tougher competition for us. So when we make a map for our board of future competition, we always mention those as being out there.

Questioner: You mentioned that we should not vilify businesses, but over the past few years, it seems that we have moved away from the principles of good business and have focused on the immediate and maybe the projections of what we say. Can business turn around and correct this image, so that we can get back to maybe looking at a balance sheet and not focusing on what the immediate results are and get to the point where we respect our businesses?

Mr. Dimon: Yes, first of all when you blanket brush businesses, I think it's unfair. I don't think that anyone of us, who are thinking and thoughtful people, should blanket corporations, people of color, women, and men. We are not all the same. There are some fabulously good people that do exactly what you say. There are some who didn't, who are going to change. Most business people I deal with have high integrity, and know it is not all about earnings; it's about building a company over a long period of time. There are some great standards for all of us. There are some companies that have been doing it year in and year out for a long period of time, and we study them. We think we can learn a lot by paying attention to those companies.

Questioner: A central aspect of this contraction we are going through is an effective shutdown of foreign capital coming into this country. They've just ceased buying the securitized private assets that we used to sell, and this has cut off an enormous amount of credit. What steps do we need to take as a country to regain the confidence of these foreign investors?

Mr. Dimon: I actually don't completely agree with that, because foreign investors have put tens of billions of dollars into American banks and investment banks. They still buy, of what we can see, a lot of Treasuries. They have become a lot more conservative about mortgages, but not just them, I say it's everybody. In fact, people have told me, "I've gotten rid of all my money funds, sold all my commercial paper, I'm not doing anymore of the same, I'm putting my money into T-bills." It gets pulled out the system by us. People acting rationally on their own, that's part of the pro-cyclical form I'm speaking about. This has happened almost every single time in most of the crises I mentioned. I think it will come back. The yield curve helps, fiscal policy is going to help, monetary policy is going to help, getting paid a lot more to go long or to take risks is going to pay, and a steep yield curve is going to help. But it may just take a while to prepare, there's no magic to it, unfortunately.

Questioner: You mentioned that we have a weak dollar, primarily because of our balance of trade deficient and our deficit spending as two of the causes. It is very complex. Assuming we don't correct these in the near term, and we have a prolonged time where these two events are occurring and we have a weak dollar relative to foreign currencies, what effect do you see that having on our economy over a longer period of time?

Mr. Dimon: You want a strong dollar, but a strong dollar is based upon a strong economy, which is based on good fiscal and monetary policies over an extended period of time. That's what we are paying the price for. If you go company by company, some companies are doing great because the dollar is down. You could name one after another: the agricultural business is doing great because of the commodities prices. There are people that it helps repair by having a weaker dollar. That's why you don't have the Secretary of the Treasury saying that they want it because it basically it means you have a weak economy.

So, the stronger the economy, the better the policies, the stronger the dollar, and the quicker we get there the better. Remember, the strength of the dollar is looking forward, not just because of interest rates, but for when the economy will recover.

Questioner: How long will the slide exist in the housing market? You said we are at 10% to 15% of value. Do you see it rebounding in the next cycle?

Mr. Dimon: No, I honestly don't know. We do scenarios. There's a very smart analysis done, I forget who did it, that shows if you take new home construction, the fact that 1 million or 1.5 million more homes are needed, American population is grouping by 3 million or 4 million a year, the destruction of homes, the inventory, the purchasing, the availability to buy, that it will be sometime in the first or second quarter of next year that supply and demand will balance out. The big caveat is that it really does depend on whether or not we have a recession and how bad that recession gets. That will obviously make it longer, if the recession is worse.

Questioner: Would you comment on the job that the Federal Reserve is doing under its new chairman, and how effective you think it is.

Mr. Dimon: I think that they are very smart, thoughtful people. I think that they are trying to come up with new ways to finance and deal with these problems. I won't go through them all, but the TAF, the thing they did yesterday, they've reduced rates dramatically; they can obviously reduce them more if they think it's necessary. I think they are doing as good a job as you could think. The only complaint I hear is that they could have done it 2 weeks earlier. I'm just not sure those 2 weeks would have mattered that much, except maybe a little psychologically. I think that they are fully engaged and trying to understand, help, ameliorate, and mitigate any real bad downside.

Questioner: You made a point about contrasting the deterioration in wealth created or caused by the tech-bubble burst. Four trillion dollars, I think the number you said, is as compared to the relatively small amount of wealth or losses that have been created because of the sub-prime crisis. Could you speculate as to why there's such a disproportionate reaction to this recent crisis?

Mr. Dimon: Yeah, that's a good question, which I'm sure is going to be studied for a long time. In the stock market crash, there was a lot of money spread everywhere. I think the average household owned $30,000 in stock and it went down maybe $10,000. So, it didn't necessarily cripple what they were doing and it didn't cripple financial institutions. This one is directly hitting financial institutions, and there's a little of the multiplier factor. If they lose money, they can lend a lot less money, like eight times less. That's been causing a bit little of fear and panic out there. So, there are these things which can be looked at why this could be more serious.

Also, I mentioned subprime losses, and the market loss has been far greater. So that these subprimes ended up in a lot of securities, people won't touch the securities at all, and so you can argue that there have been far bigger losses than three hundred because people want nothing to do with those securities, or they have to be paid a lot more to buy them.

Questioner: One of the things we're been saying in terms of the mortgage crisis, and we are trying to help homeowners that are facing all sorts of foreclosure issues, is that mortgages and other financial products have been getting more sophisticated. What do you see as the most effective way to raise the level of financial literacy in the United States?

Mr. Dimon: That's a great question. First of all, I agree with you that there should be more financial literacy. I think that a lot of banks and institutions, financial institutions roundtable, financial institutions forum, have taken us on to something, but what can we actually do? I think personally, it's all education. Teach the basics of finance, save some money, don't take too much risk, buy insurance when you need it, save for the future, what is a 401(K), how you finance a house, and not leave it to pure word of mouth. It's really education and it should start sometime in junior high or high school to educate. Also, to provide it to people who are doing those things, than to go somewhere and learn about it. I believe in working with institutions, like you, to come up with programs to do exactly that.

Questioner: Please speak to implications from the rise in the price of oil.

Mr. Dimon: First of all, I don't know how much of the oil price is speculation. If you talk to most of the people who know oil, they would tell you that there is not an undersupply, that there's plenty of oil, that there's plenty of refining, and that it's not a problem. There's also a report last week that showed people are buying less gas now, using less gas, they've already starting to make the adjustment and that's just driving less. They have not had the chance to replace to smaller cars, like people did after 1979. I think people react to price quickly. I'm hoping that the next President, whoever it is, makes it part of a long-term policy, a thoughtful, do-it-right across the board policy, and it can't be something that gets changed every 2 years, or every 4 years, or with every

Presidential Administration. I'm hopeful that it will happen, although I'm bit of an optimist. You may think I'm foolish to think that.

Thank you very much. I enjoyed it, and good luck to all of you.

Vernon Jordan: Thank you. Jamie, I forgot to mention that there's no honorarium, but I don't think money is your problem. So, in grateful appreciation for your spectacular presentation tonight, The Economic Club of Washington would like to present you with this American Eagle from the Steuben Collection, with our thanks and gratitude. We are adjourned, thank you.

Jamie Dimon is Chairman of the Board and Chief Executive Officer of JPMorgan Chase & Co. Mr. Dimon became Chairman of the Board, effective January 1, 2007, following his appointment as CEO on January 1, 2006. He also assumed the title of President upon the company's merger with Bank One Corporation on July 1, 2004.

Mr. Dimon began his professional career at American Express Company, serving as Assistant to the President from 1982 until 1985. He then joined the team that launched the strategy for Commercial Credit Company in 1986, when the consumer lending company was spun off from Control Data Corporation. He served as Chief Financial Officer and an Executive Vice President, and then President. A completely restructured Commercial Credit made numerous acquisitions and divestitures, substantially improving its profitability. Most significantly, in 1987, it acquired and changed its name to Primerica Corporation, which in 1993 acquired The Travelers Corporation and was renamed Travelers Group.

At Travelers, Mr. Dimon was President and Chief Operating Officer for 7 years. He was named Chairman and Chief Executive Officer of its Smith Barney Inc. subsidiary in 1996, having previously been the firm's Chief Operating and Chief Administrative Officer. In 1997, with the merger of Smith Barney and Salomon Brothers, he became Co-Chairman and Co-CEO of the combined firm. In 1998, he was named President of Citigroup Inc., the global financial services company formed by the combination of Travelers Group and Citicorp in 1998. In addition, he served as Chairman and Co-Chief Executive Officer of Salomon Smith Barney Holdings Inc., the investment banking and securities brokerage subsidiary.

In 2000, Mr. Dimon was named Chairman and CEO of Bank One, where in 4 years he engineered a dramatic turnaround—taking the bank from a half-billion-dollar loss in 2000 to record earnings of $3.5 billion in 2003.

A *summa cum laude* graduate of Tufts University, Mr. Dimon holds an MBA from the Harvard University Graduate School of Business, where he was a Baker Scholar. He serves on the boards of directors of the Federal Reserve Bank of New York, Harvard Business School, and the United Negro College Fund, among other organizations. Mr. Dimon and his wife, Judy, have three daughters.

Information about JPMorgan Chase is available at www.jpmorganchase.com.