April 2, 2009

Norma C. Corio
Managing Director
Treasurer

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Attention: Comments

Re: Special Assessments (RIN 3064-AD35)

Dear Mr. Feldman:

JPMorgan Chase & Co. ("JPMC") appreciates the opportunity to comment on the interim rule (the "Interim Rule") adopted by the Board of Directors of the Federal Deposit Insurance Corporation ("FDIC") imposing a 20 basis point emergency special assessment on June 30, 2009, and permitting further emergency special assessments to be imposed by the FDIC thereafter.

JPMC is a member of the American Bankers Association (the "ABA"), The Financial Services Roundtable (the "Roundtable") and The Clearing House Association L.L.C. (the "Clearing House"), all of which have submitted comment letters on the Interim Rule. While the comments from these groups suggest a number of different practical approaches to address the need to recapitalize the Deposit Insurance Fund (the "DIF"), they all argue strenuously against applying a one-time special assessment that will inevitably have a procyclical impact on the banking industry and the economy as a whole, and JPMC wishes to express its strong support for this view as expressed in those comments.

In particular, JPMC wants to stress the importance of three central issues:

Impact on Capital and Lending

First, a one time, unbudgeted assessment of 20 basis points (or any similarly significant amount) would have a direct and immediate impact on any bank's ability to increase lending at this critical point in the current economic crisis. For every $100 billion in a bank's assessable deposit base, the assessment would result in an immediate charge to earnings of $200 million. This charge could only be addressed in one of two ways. The bank could attempt to pass the charges along to depositors (although the current historically low interest rate environment would make that very difficult to do), but, in addition, lowering this already reduced return to depositors would also undoubtedly cause depositors to shift their assets into other types of investments. There

270 Park Avenue, 46th Floor, New York, New York 10017
Telephone 212 270 5176 Facsimile 212 270 1077 norma.corio@jpmorgan.com

is already evidence of such a shift, particularly out of deposits and into money market funds. Any acceleration of this movement would only reduce the ability of banks to increase their funding of new loans. However, if the bank did not try or was simply unable to pass this cost along to depositors, its only recourse would be to reduce earnings, with a resulting reduction in equity capital. At a time when banks are struggling to maintain profitability and build capital, this would be a bad enough result in and of itself, but in the larger picture, it would also weaken the effort to put more loans into the economy.

This is precisely the sort of procyclical impact that Congress cautioned against when it enacted the Federal Deposit Insurance Act of 1991, stating that the FDIC must (when determining the reserve ratio) "take into account economic conditions generally affecting insured depository institutions so as to allow the designated reserve ratio to increase during more favorable economic conditions and to decrease during less favorable economic conditions, notwithstanding the increased risks of loss that may exist during such less favorable conditions" and, perhaps even more importantly, "seek to prevent sharp swings in the assessment rates for insured depository institutions" (12 USC 1817(b)(3)(C). JPMC supports the suggestions detailed in the Clearing House and the Roundtable comments that propose various ways that would spread the assessment over a longer time period, with the related benefit that the FDIC would then be able to evaluate the ongoing need for any increase in assessment over that longer period. Whatever method the FDIC chooses to spread out any increases, however, JPMC wishes to emphasize that the method should be constructed to satisfy appropriate accounting rules, so that the banks would not still be required to absorb the ongoing expense all at once.

Sources of Funds for the DIF

Second, JPMC questions the need (or, indeed, even the ability) to calculate at this time the amount of funds which will eventually be needed to finally recapitalize the DIF, and therefore how to choose any specific one-time assessment rate to apply. There are currently a number of very significant variables in play which make the selection of 20 basis points a questionable choice. First, the legislation currently pending in Congress which would expand the FDIC's borrowing authority from $30 billion to $100 billion (legislation which JPMC strongly supports) should, if enacted, give the FDIC greatly enhanced flexibility to fund itself as particular situations require, and Chairman Bair herself has stated publicly that access to this additional funding could reduce the need for any special assessment by as much as 10 basis points. In addition, the FDIC has been assessing fees against banks and bank holding companies under the Temporary Liquidity Guarantee Program, and will increase these assessments going forward by adding certain surcharges to the assessments that these companies have paid and will continue to pay. Additional fees are also anticipated to be assessed as part of the PPIP Legacy Loans program. It remains to be seen what the total impact on the DIF will be of the availability of the funds collected by the FDIC under these assessments and surcharges.

In addition, JPMC understands that the beginning reserve position that has been used by the FDIC in its adequacy calculation has been adjusted for known uses to date

(e.g., Indy Mac), and has already been reduced by $22.4 billion for potential anticipated full year 2009 losses. Yet, at the same time, the calculation for reserves does not include any expected 2009 premiums paid to the DIF in the same period, which appears to be inconsistent in assessing current needs.

Consequently, JPMC strongly urges that the FDIC not impose on banks a possibly draconian charge before truly understanding how the DIF will be affected by all the funds which are potentially available to it. As discussed above, this further argues in favor of determining the necessary assessments, if any, on a periodic basis over the next several years.

Measurement Basis

Finally, JPMC wishes to emphasize its opposition to the suggestion that the FDIC move from measuring the special assessment against a bank's domestic deposit base to some other measurement standard, such as a bank's assets. The risk that is being insured is the risk of failure to pay deposits, and the insurance premiums to fund that insurance should reflect that risk. The implication JPMC sees in this suggestion is simply to make a change that will have the effect of increasing the special assessment payments which will be made by larger institutions, with no justification for such a result. JPMC believes that larger institutions already face a disproportionate share of the assessment burden because assessments are currently made on the basis of total domestic deposits (rather than insured deposits), which include the far larger corporate deposits held at larger institutions, even though these deposits are largely uninsured by the DIF. There is no justification for further increasing this burden by moving to a measurement standard that has no relationship whatever to the risk being insured.

JPMC deeply appreciates the need for the FDIC to maintain public confidence in the deposit insurance on which the banking system's depositors have relied for decades and that the continued credibility of the DIF is a central part of that confidence. However, JPMC also believes, for the reasons discussed in this letter and in the comments of the Clearing House, the Roundtable and the ABA, that this confidence can be maintained while avoiding the procyclical effects of the proposed special assessment.

Thank you for considering the views expressed in this letter.

Very truly yours,