

Testimony of Jamie Dimon

Before the Senate Committee on Banking, Housing and Urban Affairs

April 3, 2008

Good morning Chairman Dodd, Ranking Member Shelby, and Members of the Committee. My name is Jamie Dimon and I am the Chairman and Chief Executive Officer JP Morgan Chase. I appreciate the invitation to appear before you today.

Mr. Chairman, your letter inviting me to testify asked me to address a number of issues relating to the JPMorgan-Bear Stearns merger. At the outset, I want to underscore a few key points about the transaction:

- First, we got involved in this matter because we were asked to help prevent a Bear Stearns collapse that had the potential to cause serious damage to the financial system and the broader economy.
- Second, we could not and would not have assumed the substantial risks of acquiring Bear Stearns without the \$30 billion facility provided by the Fed. While we wanted to help, and I believe we were the only firm ultimately in a position to help, we had to protect the interests of our shareholders.
- Third, this transaction is not without risk for JPMorgan. We are acquiring some \$360 billion of Bear Stearns assets and liabilities. The notion that Bear Stearns' riskiest assets have been placed in the \$30 billion Fed facility is simply not true. And if there is ever a loss on the assets pledged to the Fed, the first \$1 billion of that loss will be borne by JPMorgan alone.

* * *

Let me turn now to how we became involved in the effort to rescue Bear Stearns and avoid a financial crisis. On Thursday evening, March 13, Bear Stearns called to tell us that it might not have enough cash to meet obligations coming due the next day and needed emergency help. We contacted the New York Fed and learned that they were

aware of the situation and recognized that a Bear Stearns bankruptcy posed a serious risk to the financial system.

Working through the night and into Friday morning, the New York Fed agreed to establish a secured lending facility for the company, using JPMorgan as a conduit. But it became clear by the end of Friday that a comprehensive solution would be needed before the markets re-opened in Asia on Sunday evening.

We had teams of people working around the clock that weekend in an effort to determine what we could do to help. My perspective from the start was that we could not do anything that would jeopardize the health of JPMorgan. That would not be good for our shareholders, and it would not be good for the financial system. But I also felt that to the extent it was consistent with the best interests of our shareholders, we would do everything we reasonably could to try to prevent the systemic damage that a Bear Stearns failure could cause. I viewed that as the obligation of JPMorgan as a responsible corporate citizen.

By Sunday morning, we concluded that the risks were too great for us to buy the entire company on our own. We informed the New York Fed, Treasury and Bear Stearns of our conclusion. This wasn't a negotiating posture. It was the plain truth.

The New York Fed encouraged us to consider what kind of assistance would allow us to do a transaction. That is what we did. Finally, on Sunday evening, the private and government parties announced a plan with three core elements:

- First, JPMorgan would acquire Bear Stearns in a binding stock deal worth \$2 per share to Bear's shareholders.
- Second, the Fed would provide the merged company with a \$30 billion non-recourse loan, collateralized by a pool of Bear Stearns assets valued on Bear Stearns' books at the same amount.

- Third, JPMorgan would provide an unprecedented guaranty on billions of dollars of Bear Stearns trading obligations. This was done to assure the market that it could continue to do business with Bear Stearns and prevent a further run on the bank.

We hoped that the initial plan would save Bear Stearns and reassure the market that Bear Stearns would survive. But we also understood that we would have to monitor the situation closely. And it soon became clear that we had not done enough. Customers and counterparties continued to flee for two reasons: the market perceived our guaranty as too narrow; and it doubted that the \$2 offer price would be enough to get Bear Stearns shareholders to approve the transaction.

Discussions with Bear Stearns and the federal government in the week following the initial merger announcement led to a revised rescue plan with a package of five critical new elements designed to address these real concerns:

- First, we strengthened our guaranty to cover virtually all Bear Stearns products, customer relationships and subsidiaries.
- Second, in response to a request from the Fed, we gave it a separate guaranty of its loans to Bear Stearns.
- Third, we agreed to take the first \$1 billion of any losses that might ultimately flow from the Fed's \$30 billion non-recourse funding.
- Fourth, Bear agreed to sell 95 million newly issued shares to us, representing 39.5% of its voting stock.
- Fifth, to help achieve finality, we increased our offer to \$10 per share.

This amended plan worked. In the week following its announcement, the liquidity situation at Bear Stearns stabilized. And the day the revised plan was announced, Standard and Poor's raised Bear's credit ratings.

* * *

Let me say a word about the \$30 billion of collateral for the Fed. We are subject to a confidentiality agreement with the Fed in relation to those assets, so I am constrained in what I can say. But I can make a few general points: The assets taken by the Fed consist entirely of loans that are current and domestic securities rated investment grade. We kept the riskier and more complex securities in the Bear Stearns portfolio for our own account.

We did not cherry pick the assets in the collateral pool. The process of designating what collateral would be pledged was overseen by the New York Fed's advisor, BlackRock, a recognized expert in the field. While no one can predict how that portfolio will ultimately perform -- and, of course, it could actually increase in value -- if the portfolio declines in value, the first \$1 billion of that loss will be borne solely by JPMorgan.

* * *

Finally, let me turn briefly to the Committee's interest in the implications of this rescue for American taxpayers. The key point, in my view, is this: Bear Stearns would have failed without this effort, and the consequences could have been disastrous. The idea that the Bear Stearns fallout would have been limited to a few Wall Street firms just isn't so. People all over America -- union members, retirees, small business owners, and our parents and children -- are now invested in the financial system through pensions, 401(k)s, mutual funds and the like.

A Bear Stearns bankruptcy could well have touched off a chain reaction of defaults at other major financial institutions. That would have shaken confidence in credit markets that already have been battered. And it could have made it harder for

home buyers to get mortgages, harder for municipalities to get the funds they need to build schools and hospitals, and harder for students who need loans to pay tuition. Moreover, such a cascade of trouble could have further depressed consumer confidence and consumer spending, resulted in widespread job losses, and accelerated the current economic downturn.

* * *

Mr. Chairman, the events of the past three weeks have been extraordinary. I commend you and your colleagues for examining their implications for the future. One thing I can say with confidence: if the private and public parties before you today had not acted in a remarkable collaboration to prevent the fall of Bear Stearns, we would all be facing a far more dire set of challenges. Thank you and I look forward to answering your questions.