FEDERAL RESERVE SYSTEM

JPMorgan Chase & Co.
New York, New York

Order Approving the Acquisition of Control of a Bank

JPMorgan Chase & Co. ("JPMC"), a financial holding company within the meaning of the Bank Holding Company Act ("BHC Act"), has requested the Board's approval under section 3 of the BHC Act[1] to acquire indirect control of Bear Stearns Bank & Trust ("BSB&T"), Princeton, New Jersey, a subsidiary of The Bear Stearns Companies Inc. ("Bear Stearns"), New York, New York.[2] JPMC proposes to acquire more than 25 percent of the voting shares of Bear Stearns and then merge Bear Stearns with a newly formed subsidiary of JPMC, with Bear Stearns as the surviving entity.[3]

Based on all the facts and circumstances, the Board has determined that an emergency exists requiring expeditious action on the proposal.[4] In making this determination, the Board has considered the market conditions and the financial condition of Bear Stearns, the parent company of BSB&T, as well as all the facts of

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[1] 12 U.S.C. § 1842.

[2] JPMC includes the intermediate holding companies through which it will own the shares of BSB&T. Although BSB&T is a "bank" for purposes of the BHC Act, Bear Stearns is not treated as a bank holding company under the act. Bear Stearns controls BSB&T pursuant to section 4(f) of the BHC Act, which exempts a company from treatment as a bank holding company if the company controlled certain "nonbank banks" prior to March 5, 1987. 12 U.S.C. § 1843(f). JPMC does not qualify for this exemption, however, and requires approval to acquire direct or indirect control of BSB&T.

[3] JPMC is permitted by section 4(k) of the BHC Act to acquire control of Bear Stearns and its nonbanking subsidiaries without obtaining prior approval from the Board. 12 U.S.C. § 1843(f). Because JPMC qualifies as a financial holding company, the BHC Act requires only that JPMC provide the Board notice within 30 days after acquiring control of Bear Stearns and its nonbanking subsidiaries. 12 U.S.C. § 1843(k)(6); 12 CFR 225.87.

[4] 12 U.S.C. § 1842(b).

record. The Board has provided notice to the primary federal and state supervisors of BSB&T and the Department of Justice ("DOJ"); all have indicated they have no objection to the consummation of the proposal.

JPMC, with total consolidated assets of approximately $1.6 trillion, is the third largest depository organization in the United States, controlling deposits of approximately $511 billion, which represent 7.4 percent of the total amount of deposits of insured depository institutions in the United States.[5] JPMC operates four subsidiary insured depository institutions in eighteen states[6] and engages in numerous nonbanking activities that are permissible under the BHC Act. JPMC is the sixth largest depository organization in New Jersey, controlling deposits of approximately $7.1 billion.

BSB&T operates in New Jersey and is the 45th largest depository organization in the state, controlling deposits of approximately $398 million. On consummation of the proposal, JPMC would remain the third largest depository institution in the United States, with total consolidated assets of approximately $1.6 trillion. JPMC would control deposits of approximately $511 billion, which represent 7.4 percent of the total amount of deposits of insured depository institutions in the United States. In New Jersey, JPMC would become the fifth largest depository organization, controlling deposits of approximately $7.4 billion, which represent

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[5] National asset, deposit, and ranking data are as of December 31, 2007. Statewide deposit and deposit ranking data are as of June 30, 2007. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

[6] JPMC's largest subsidiary bank, JPMorgan Chase Bank, National Association ("JPMC Bank"), Columbus, Ohio, operates branches in Arizona, Colorado, Connecticut, Florida, Illinois, Indiana, Kentucky, Louisiana, Michigan, New Jersey, New York, Ohio, Oklahoma, Texas, Utah, West Virginia, and Wisconsin. JPMorgan Chase Bank, Dearborn ("Dearborn Bank"), Dearborn, Michigan, operates only in Michigan. Chase Bank USA, National Association ("Chase Bank"), Newark, Delaware, operates as a credit card bank. JPMC also operates J. P. Morgan Trust Company, National Association, Los Angeles, California, which is an insured trust company.

approximately 3.8 percent of the deposits in insured depository institutions in the state ("state deposits").

Interstate Analysis

Section 3(d) of the BHC Act allows the Board to approve an application by a bank holding company to acquire control of a bank located in a state other than the home state of such bank holding company if certain conditions are met. For purposes of the BHC Act, the home state of JPMC is New York,[7] and BSB&T is located in New Jersey.[8]

Based on a review of all the facts of record, including relevant state statutes, the Board finds that the conditions for an interstate acquisition enumerated in section 3(d) of the BHC Act are met in this case.[9] In light of all the facts of record, the Board is permitted to approve the proposal under section 3(d) of the BHC Act.

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the

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[7] A bank holding company's home state is the state in which the total deposits of all subsidiary banks of the company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. 12 U.S.C. § 1841(o)(4)(C).

[8] For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. 12 U.S.C. §§ 1841(o)(4)-(7) and 1842(d)(1)(A) and 1842(d)(2)(B).

[9] 12 U.S.C. §§ 1842(d)(1)(A)-(B) and 1842(d)(2)-(3). JPMC is adequately capitalized and adequately managed, as defined by applicable law. There is no applicable age-requirement law in New Jersey, and BSB&T has been in existence and operated for more than five years. See 12 U.S.C. § 1842(d)(1)(B)(i)-(ii). On consummation of the proposal, JPMC would control less than 10 percent of the total amount of deposits of insured depository institutions in the United States and less than 30 percent of the state deposits in New Jersey. JPMC, therefore, would be in compliance with the relevant deposit cap under New Jersey law, which is 30 percent. 12 U.S.C. § 1842(d)(2)(B)-(D). All other requirements of section 3(d) of the BHC Act would be met on consummation of the proposal.

Board from approving a bank acquisition that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.

JPMC and Bear Stearns have subsidiary depository institutions that compete directly in the Metropolitan New York-New Jersey banking market.[10] The Board has reviewed carefully the competitive effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the market, the relative shares of total deposits in depository institutions controlled by JPMC and Bear Stearns in the market ("market deposits"),[11] the concentration level of market deposits and the increases in those levels as measured by the Herfindahl-Hirschman Index ("HHI") under the Department of Justice Merger Guidelines ("DOJ Guidelines"),[12] and other characteristics of the market.

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[10] The Metropolitan New York-New Jersey banking market is defined as Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester Counties, all in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, Union, and Warren Counties and the northern portions of Mercer County, all in New Jersey; Monroe and Pike Counties in Pennsylvania; and Fairfield County and portions of Litchfield and New Haven Counties in Connecticut.

[11] Deposit and market share data are as of June 30, 2007, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386, 387 (1989); National City Corporation, 70 Federal Reserve Bulletin 743, 744 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52, 55 (1991).

[12] Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The DOJ has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the Metropolitan New York-New Jersey banking market.[13] On consummation of the proposal, the market would remain moderately concentrated as measured by the HHI, and numerous competitors would remain in the market.

The DOJ has conducted a review of the potential competitive effects of the proposal and has advised the Board that consummation of the transaction would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the banking market where JPMC and Bear Stearns compete directly or in any other relevant banking market. Accordingly, the Board has determined that competitive considerations are consistent with approval.

Financial, Managerial, and Supervisory Considerations

Section 3 of the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered

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HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher-than-normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

[13] JPMC operates the largest depository institution in the Metropolitan New York-New Jersey banking market, controlling deposits of approximately $228 billion, which represent 29 percent of market deposits. BSB&T controls $398 million in deposits, which represents less than 1 percent of market deposits. On consummation, JPMC would remain the largest depository institution in the market, controlling deposits of approximately $228 billion, which represent approximately 29 percent of market deposits. Approximately 271 depository institutions would remain in the banking market. The HHI would remain unchanged at 1118.

these factors in light of all the facts of record, including confidential reports of examination and other supervisory information received from the relevant federal and state supervisors of the organizations involved in the proposal, and other available financial information, including information provided by JPMC.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the relevant companies involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and other subsidiaries. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the applicant organization after consummation of the proposed transaction.

The Board has considered the proposal carefully under the relevant financial factors. JPMC, its subsidiary depository institutions, and BSB&T are well capitalized and would remain so on consummation of the proposal.

The Board also has considered the managerial resources of the organizations involved and the proposed combined organization. The Board has reviewed the examination records of JPMC and its subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of the other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking law, including anti-money laundering laws. JPMC and its subsidiary depository institutions, as well as BSB&T, are considered to be well managed.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are the other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider the effects of the proposal on the convenience and needs of the communities to be served and to take into account the records of the relevant insured depository institutions under the Community Reinvestment Act ("CRA").[14]

As provided in the CRA, the Board has reviewed the convenience and needs factor in light of the evaluations by the appropriate federal supervisors of the CRA performance records of the relevant insured depository institutions. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.[15] Each of JPMC's subsidiary depository institutions that is subject to the CRA received an "outstanding" rating at its most recent CRA performance evaluation.[16] BSB&T currently does not receive a CRA evaluation due to the bank's designation as a special purpose bank by the Federal Deposit Insurance Corporation.[17]

The Board has considered carefully all of the facts of record, including reports of examination of the CRA records of the institutions involved and confidential supervisory information. JPMC's acquisition of BSB&T will enhance and maintain the

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[14] 12 U.S.C. § 2901 et seq.; 12 U.S.C. § 1842(c)(2).

[15] See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

[16] JPMC's lead bank, JPMC Bank, received an "outstanding" rating at its most recent CRA performance evaluation by the Federal Reserve Bank of New York, as of September 8, 2003. JPMC Bank converted to a national bank on November 13, 2004. The Board has consulted with the Office of the Comptroller of the Currency ("OCC"), which is now JPMC Bank's primary federal supervisor, about the bank's performance since its evaluation in 2003. J. P. Morgan Trust Company received an "outstanding" rating at its most recent CRA performance evaluation by the OCC, as of November 4, 2006. Chase Bank received an "outstanding" rating at its most CRA examination by the OCC, as of January 9, 2006. Dearborn Bank engages in cash management activities for its affiliated banks and is not subject to the CRA.

[17] 12 CFR 345.11.

level of service provided to the customers currently served by BSB&T. Based on a review of the entire record, and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor and the CRA performance records of the relevant insured depository institutions are consistent with approval of the proposal.

Conclusion

Based on the foregoing, and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its decision, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by JPMC with the conditions in this order and all the commitments made to the Board in connection with the proposal. For purposes of this transaction, these commitments and conditions are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The transaction may not be consummated before the fifth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or by the Federal Reserve Bank of New York, acting pursuant to delegated authority.

By order of the Board of Governors,[18] effective April 1, 2008.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

[18] Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Mishkin.