FEDERAL RESERVE SYSTEM

JPMorgan Chase Bank
New York, New York

Order Approving Acquisition of Trust Deposits

JPMorgan Chase Bank ("JPMCB"), a state member bank, has applied under section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(c)) ("Bank Merger Act") to acquire certain trust deposits from Bank One, National Association (Ohio), Bank One Trust Company, National Association, both in Columbus, Ohio, and Bank One, National Association (Chicago), Chicago, Illinois (the "Bank One Banks").[1]

Notice of the transaction, affording interested persons an opportunity to submit comments, has been given in accordance with the Bank Merger Act and the Board's Rules of Procedure (12 C.F.R. 262.3(b)). The time for filing comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in the Bank Merger Act.

JPMCB, with total assets of $662 billion, is a wholly owned subsidiary of J.P. Morgan Chase & Co., New York, New York, the second largest banking organization in the United States, with total assets of $803 billion. The Bank One Banks are subsidiaries of the Bank One Corporation, also in Chicago, the sixth largest banking organization in the United States, with total assets of

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[1] The proposal is part of a larger transaction that also involves the acquisition of trust appointments from the Bank One Banks by J.P. Morgan Trust Company, National Association, Los Angeles, California ("JPMTC"). JPMTC has applied to the Office of the Comptroller of the Currency ("OCC") for prior approval of that portion of the transaction.

$299 billion. JPMCB proposes to acquire certain trust relationships and related trust deposits from the Bank One Banks.

Competitive Considerations

The Bank Merger Act prohibits the Board from approving an application if the proposal would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking.[2] The Bank Merger Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any relevant market, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effects of the transaction in meeting the convenience and needs of the communities to be served.[3]

The Board has reviewed the competitive effects of the proposal in the relevant markets in light of all the facts of record, including the number of competitors that would remain in the markets, the relative market shares of JPMCB and the Bank One Banks, and other characteristics of the markets. The proposed acquisition would have no adverse effect on the concentration of banking resources in any relevant banking market. Moreover, the Board has received no objections to the proposal from the Department of Justice or the other federal banking agencies. In light of all the facts of record, the Board concludes that consummation of the proposed transaction would not result in a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive factors are consistent with approval.

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[2] 12 U.S.C. § 1828(c)(5)(A).

[3] 12 U.S.C. § 1828(c)(5)(B).

Financial and Managerial Factors

The Bank Merger Act requires the Board to consider the financial and managerial resources and future prospects of the institutions involved in this proposal. The Board has reviewed these factors in light of all the facts of record, including supervisory reports of examination assessing the financial and managerial resources of JPMCB, information provided by JPMCB, and public comments on the proposal.[4] In light of the managerial record of JPMCB and the small size of the transaction relative to JPMCB's total deposits and assets, and based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the institutions involved are consistent with approval of the proposal.

Convenience and Needs Considerations

In acting on a proposal under the Bank Merger Act, the Board is required to consider the effects of the proposal on the convenience and needs of the

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[4] A commenter opposing the proposal cited press reports of J.P. Morgan Chase & Co.'s connection to investigations, lawsuits, and settlements relating to Enron Corp., and asserted that these issues reflected unfavorably on the managerial resources of JPMCB. The Board has considered this comment in light of the measures that J.P. Morgan Chase & Co. has taken and is continuing to take to address these matters and strengthen the financial holding company's risk-management practices.

The commenter also provided press reports of litigation arising from the acquisition of a small number of mortgage loans from a mortgage broker by Chase Manhattan Mortgage Corporation, Edison, New Jersey ("CMMC"), a subsidiary of JPMCB, and asserted that JPMCB and CMMC lacked adequate policies and procedures for monitoring the acquisition of loans on the secondary market. The Board has considered this information in light of the number of loans involved; the information available to the management of JPMCB and CMMC at the time; the experience, policies, and procedures of the management of JPMCB and CMMC; and confidential supervisory information.

communities to be served.[5] The Community Reinvestment Act ("CRA") requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution's record of meeting the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods, in evaluating a proposal under the Bank Merger Act.[6]

The Board has carefully considered the convenience and needs factor and the CRA performance records of JPMCB in light of all the facts of record, including public comments on the proposal. A commenter opposing the proposal has alleged, based on data submitted under the Home Mortgage Disclosure Act ("HMDA"),[7] that CMMC, a subsidiary of JPMCB,[8] denied home mortgage loan applications from minorities more frequently than it denied applications from nonminorities in certain Metropolitan Statistical Areas ("MSAs").[9]

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[5] 12 U.S.C. § 1828(c)(5).

[6] 12 U.S.C. § 2901 et seq.

[7] 12 U.S.C. § 2801 et seq.

[8] CMMC became a subsidiary of JPMCB in March, 2002. Before that time, CMMC was a subsidiary of Chase Manhattan Bank USA, N.A., Newark, Delaware ("Chase USA"), an affiliate of JPMCB.

[9] The commenter also alleged that CMMC's purchase of certain mortgage loans on the secondary market enabled predatory lending by an unaffiliated consumer lender. The Board notes that on discovering that a small number of home mortgage loans acquired by CMMC presented appraisal and valuation problems, which caused borrowers to hold mortgages with balances greater than the value of their homes, CMMC took remedial steps, including discontinuing its relationship with the originator of those loans and offering to assist the affected homeowners by reducing interest rates and principal balances.

A. Record of Performance under the CRA

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations 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.[10]

JPMCB received an "Outstanding" rating at its most recent examination for CRA performance by the Federal Reserve Bank of New York, as of July 9, 2001.[11] Examiners noted that JPMCB had excellent levels of community development lending and qualified investments and was considered a leader in providing community development services.

B. HMDA Data and Fair Lending Record

The Board has carefully considered the lending records of, and HMDA data reported by, JPMCB, CMMC, and Chase USA in light of the comments received.[12] The commenter alleged, based on 2002 HMDA data, that CMMC disproportionately excluded or denied African-American and Hispanic applicants for

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

11 In addition, Chase USA received an "Outstanding" rating from the OCC, as of March 3, 2003. Examiners commended Chase USA's community development lending and flexible loan programs and noted that Chase USA's responsiveness to the credit and community development needs of its assessment area, through high levels of qualified investments and grants, was excellent.

12 The Board included data submitted by Chase USA in its review because, as noted above, Chase USA was the parent of CMMC until March 2002.

home mortgage loans in the Benton Harbor MI; Boston, MA; Dallas, TX; Detroit, MI; Raleigh, NC; Richmond, VA; San Francisco, CA; St. Louis, MO; and Washington, DC MSAs.[13] The commenter asserted that CMMC's denial ratios for minority applicants were higher than for nonminority applicants, and that those denial disparity ratios compared unfavorably with that of the aggregate of lenders in the MSAs.[14]

The Board has reviewed data reported by JPMCB, CMMC, and Chase USA for all HMDA loans for the two-year period beginning January 1, 2001. The denial disparity ratios reflected in the HMDA data reported by JPMCB, CMMC, and Chase USA in 2002 generally were more favorable than, or comparable with, the ratios reported by the aggregate of lenders in nine of the ten markets reviewed. The ratio approximated, but was somewhat less favorable than, that of the aggregate in the Boston MSA.

The HMDA data do not indicate that JPMCB, CMMC, or Chase USA has excluded any segment of the population or any geographic area on a prohibited basis. The Board, nevertheless, is concerned when the record of an institution indicates disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data

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[13] In response, JPMCB noted that the commenter's analysis was based on data from only a few MSAs and included only conventional home purchase loans originated by CMMC in 2002, and that the sample, therefore, was too small to represent JPMCB's overall mortgage lending performance.

[14] The denial disparity ratio equals the denial rate for a particular racial category (for example, African American) divided by the denial rate for whites.

cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about covered loans.[15] HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its community's credit needs or has engaged in illegal lending discrimination.

Because of the limitations of HMDA data, the Board has considered these data carefully in light of other information, including examination reports that provide on-site evaluations of compliance with fair lending laws by JPMCB and its predecessor bank, Chase Manhattan Bank.[16] Examiners found no evidence of prohibited discrimination or other illegal credit practices at JPMCB, Chase Manhattan Bank, Chase USA, or CMMC.

The record also indicates that JPMCB and CMMC have taken several affirmative steps to ensure compliance with fair lending laws. Management at JPMCB and CMMC conduct comparative file reviews for most of their loan products. JPMCB and CMMC have a secondary review process that includes regression analysis of all applications to identify possible instances or indications of disparate treatment, and JPMCB indicates that when inappropriate underwriting decisions are identified, it takes prompt corrective action, including sending offers of credit to individuals whose applications were denied in error. In addition, an

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[15] The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

[16] JP Morgan Chase Bank was formed after the merger of Chase Manhattan Bank and Morgan Guaranty Trust Company in the fourth quarter of 2001.

independent review team, under the direction of the fair lending unit, reviews applications identified by the regression analysis and reports its findings to the audit department quarterly.

The Board also has considered the HMDA data in light of other information, including the CRA performance records of JPMCB, Chase Manhattan Bank, and Chase USA. The Board concludes that, in light of the entire record, JPMCB's record of performance in helping to serve the credit needs of its community is consistent with approval of the proposal.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. Approval of the application is specifically conditioned on receipt of all required regulatory approvals. For purposes of this action, the commitments and conditions relied on in reaching this decision are conditions imposed in writing by the Board and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth 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,[17] effective October 30, 2003.

(signed)

Jennifer J. Johnson
Secretary of the Board

17 Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.