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FCIC memo of staff interview with John Chrin

John Chrin

Patrick Kelly

Mark Wolinsky

Mina Simhai

Jon Armstrong

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MEMORANDUM FOR THE RECORD

Event: Interview of John Chrin - Executive in Residence and Research Fellow and Lehigh University, and formally the managing Director and Co-Head of the Financial Institution's M&A Group at JP Morgan

Type of Event: Interview

Date of Event: 4/28/2010

Time: 4:37p.m. to 5:11pm

Team Leader: Tom Krebs

Location: FCIC Small Conference Room

Participants – Non-FCIC: John Chrin, Eric and Matt Poutler from Paul Weiss, Pat Kelly Counsel at JP Morgan and Mark Wolinsky from Wachtell, Lipton, Rosen & Katz LLP

Participants – FCIC: Mina Simhai, Jon Armstrong

Summary of the Interview: This was an interview with John Chrin about the acquisition of Bear Stearns by JP Morgan. Mr. Chrin primarily spoke about the events leading up to the acquisition and the challenges that had to be overcome in order to make the deal go through.

This is not a transcript and should not be interpreted as such.

Were you the principle person that lead the due diligence effort in connection with the purchase of Bear Stearns?

I was one of leading internal investment bankers to the Client JP Morgan.

How many people were on the Due Diligence team?

Several hundred.

What was your role?

As a M & A specialist my Job was to work with clients and their team to help pull things together and synthesize all the info that was coming in and help make a recommendation as to if a deal should be made and if so the pricing and structure around the transaction.

Did you actually review the documents?

I would have looked as some information, but individual mortgages no.

What was your recommendation?

Bases on information that we had at the time we should proceed, but that varied over the next 74 hours. There was a point on Sunday morning that we told Jamie there was too much risk for shareholders. They spent a good deal of time trying to come up with something... Ultimately, the recommendation was to proceed, but with the structure that got announced to the market place.

Can you walk us through the events timeline?

I was involved Friday mid-day. I was not involved in the bed loan facility to Bear. I was asked to pull together and lead the due diligence team. I spent early Friday calling out to colleagues to get appropriate experts. I went through Saturday with periodic checks from all the teams... And other senior executives that were part of the decision making with regard to where we were... We as a group determined once a structure was put in place on Sunday around noon time. Then we put in place the papering for the transaction.

What were the risks that were raised?

They were special things [like the] truncated nature of due diligence and the time frame and the size of the balance sheet, asset risk—how to price the assets, litigation and other off balance sheet risk, liability and funding risk—did you have the capacity to fund assets, operational or franchise risk—how to manage the atrophy in the business.

What were you worried about with the atrophy?

The guarantee that was included was meant to provide comfort for clients of Bear.

What was the length of time of the guarantee?

It was up to a year and it began as soon as the transaction was announced and signed.

Was it a contingent guarantee?

Yes, but they had to constantly resubmit the deal to the shareholders to get them to vote. They wanted to make sure they protected the business so it would not go into atrophy. And as a part of the deal the Bear had to keep taking the deal to shareholders to vote. If they voted it down JP would take it back to them again and again.

When they had to take it back again did Bear change the conditions of the deal?

The deal was the same deal. They just wanted to wear down the share holders.

Was the guarantee changed in the amended version?

It was modified slightly. The term was shortened. You can't look at the change on its own. The changes had to be viewed in the context of totality—what both parties got out of the deal.

What were some of the key changes in the deal?

One would be the modification of duration of the guarantee. The second was the issuance by Bear—39.6% of the pro forma shares to JP Morgan at purchase price that was consistent with the new price that JP Morgan was going to pay. There were also changes in the break-up or termination language around the deal—specifically the option to purchase the headquarters.

The FED also did better because they got them to take a billion dollar loss. Bear was willing to trade off and get a better deal for its share holders verses JP who was willing to pay more to have a higher degree of certainty that they would get a shareholder vote to go ahead with the deal.

So, they went from 2 to 10 to make it more likely that the share holders would approve the deal?

Yes, that was the biggest driver.

Was there any indication before share prices went up that Bear Sterns shareholders were not going to approve the deal?

Having gone through that 48 hours there was no one else out there.

Where did the original \$2 a share come from?

It was taking all of the facts and information that was gathered and also assessing just what you could do to get a deal done.

Did you learn new info about Bear or shareholders that caused the share prices to go up?

Yes, the market price of Bear Stearns common stock. The marking(?) was voting very strongly that two dollars was not enough and there needed to be more money put on the table.

What did they find out about the mortgage portfolio during the due diligence that was done over the weekend?

That it was large and there were some similar and different that assets to JP Morgan.

Was there anything in the mortgage portfolio that JP Morgan was concerned about?

Yes, when looking at the mortgage risk JP had on its own books and the assets that they would take on if they didn't deal with Bear there was a level of uncomfortableness that would have forced us to come back and tell Paulson we can't do a deal.

What type of assets were giving you pause?

There were mortgage related assets and there could be any type of mortgage or derivatives related to mortgage assets.

Were there some types of assets within the mortgage related assets or the size of the portfolio that was for causes for concern?

The size of portfolio in totality and what that would mean pro forma in terms of JP Morgan's balance sheet. Also there was some concern with the less liquid group of assets that would have potentially been placed on JP Morgan's balance sheet.

How was it determined what assets would go into Maiden Lane?

New York FED and JP discussed that back and forth. The Fed said no in some areas. For instance the Fed said no you can't take international assets. What was finalized was that you would have domestic mortgages that were investment grade...

What was the original ask price on the size of the assets that went into Maiden Lane?

\$60 billion

How was it decided which 50 percent would go into Maiden lane?

The specifics of that I don't know.

Were you involved with the NY FED with what assets would go into Maiden Lane?

I was on the conference calls where a framework was set up and agreed to.

When was agreement reached?

Early Monday morning. It was a very contentious back and forth—what was in what was out. It was done late in the morning. It included very senior people within both the organizations. The FED also had their advisor involved.

Was it hard to agree on the parameters on Sunday?

The tension that existed would be consistent with any type of traditional commercial transaction that would take place between two parties.

How were the Maiden Lane assets valued?

They were valued as of the March 14th value that Bear had on their books last day of business.

Was that a point of contention between the parties?

No

Was there any dispute of significance over the value on the assets?

No

Did JP Morgan look at the way Bear Stearns valued their assets?

As part of the due diligence yes they would have looked at the evaluation.

Was JP Morgan their tri-party clearing bank for REPO?

Yes

Was that a factor because they already knew their assets?

That would be speculative. I really don't know.

Did the JP Morgan board need to approve transaction before it was announced on Sunday night?

There was a board meeting. (Attorneys Interrupt) There was a board meeting on Sunday relating to the transaction.

Did JP Morgan have all the information needed from Bear in order to inform the board of directors?

Bear gave us everything they could. Given the information we had, we were comfortable that it would be a reasonable transaction for JP Morgan shareholders.

Talk about the Fed conversations and how the FED got involved in transaction?

The NY FED extended the initial facility to Bear. They also had a vested interest from a systemic perspective that everything was under control.

Can you talk about the initial facility that was done through JP Morgan?

I read about it on Friday morning like everyone else.

So for the liquid assets of Bear, do you have a sense of how many ended up with Maiden Lane?

I don't know.

Were there any CDO squared within the Maiden Lane facility?

I don't know.

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