

JP Morgan Chase and Bear Stearns Harvard Case Solution & Analysis

WHAT IS JP MORGAN CHASE?

- Largest bank in the U.S (\$2.4 trillion in assets)
- Active in a wide variety of financial services, deposits, car loans, mortgage, credit cards, stocks, and bonds
- James Dimon, President & CEO



What happened to the statute of limitations?

- There is only a 6 year statute of limitations in federal law for securities and commodities fraud
- However, under the legislation enacted in 1989 help deal with saving & loan crisis, prosecutors have a 10 year statute of limitations

Is anyone going to jail?

- Maybe, the law suits and investigations are still going on
- \$13 Billion Civil Settlement with Justice Department
- 2015: Agreed to another \$500 million settlement to investors

HISTORY OF JPMORGAN CHASE

- In began early 1799 with Bank Manhattan Co. merger
- In 1871, JP Morgan & Co finance American rail system, Brooklyn Bridge, and the Panama Canal
- JP Morgan merged with Chase in 2000
- Other banks such as Washington mutual, Bank One, Bear Stearns merged
- Bear Stearns was on verge of failure

JP Morgan Chase



The Aftermath

- Borrowers were loosing their mortgages
- Private investors purchased mortgage backed securities
- Prompted a huge loss for JP Morgan Chase bank
- Two law suits, Justice Department & New York Attorney General (civil charges)

What went wrong?

- In March 2008, to prevent the firm from collapsing they began to facilitate billions of loans
- Bear Stearns' sale of \$17.58 billion of mortgage securities that proved defective during the U.S. housing and financial crises
- Giving out bad loans (e.g. people with weak credit, small down payments, low income)
- Email of one of the employees, "Have 1594 loans to do in 5 days"

What went wrong? (Part II)

- Washington mutual was also allowing a substantial number of mortgage loans that did not follow the underwriting standards.



Was JPMorgan the only firm doing this?

- No! 17 other banks had similar charges such as Bank of America

How did everyone find out?



- Alyne Fleishman went from a secret witness to a public whistle blower due to no one receiving prison time.
- JP Morgan previous deal manager
 - Stayed quiet for 6 years

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**Washington
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