



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 1, 2008

Kathleen A. Juhase, Esq.
Senior Vice President and
Associate General Counsel
JPMorgan Chase & Co.
277 Park Avenue, 19th Floor
New York, New York 10172

Dear Ms. Juhase:

This is in response to the request by JPMorgan Chase & Co. (“JPMC”), New York, New York, for (i) an exemption from section 23A of the Federal Reserve Act and the Board’s Regulation W¹ that would permit JPMorgan Chase Bank, National Association (“JPMC Bank”), Columbus, Ohio, to extend credit to affiliates and issue guarantees on behalf of affiliates, in connection with the acquisition by JPMC of The Bear Stearns Companies, Inc. (“Bear Stearns”), New York, New York; and (ii) relief from the Board’s risk-based and leverage capital guidelines for bank holding companies² in connection with the acquisition by JPMC of Bear Stearns. On March 16, 2008, JPMC entered into an agreement to acquire Bear Stearns.

Exemption from Section 23A and Regulation W

Section 23A and Regulation W limit the aggregate amount of “covered transactions” between a bank and any single affiliate to 10 percent of the bank’s capital stock and surplus, and limit the aggregate amount of covered transactions with all affiliates to 20 percent of the bank’s capital stock and surplus.³ “Covered transactions” include, among other things, the extension of credit by a bank to an affiliate and the issuance by a bank of a guarantee on behalf of an affiliate.⁴ In

¹ 12 U.S.C. § 371c; 12 CFR part 223.

² 12 CFR part 225, Appendices A and D.

³ 12 U.S.C. § 371c(a)(1) and 12 CFR 223.11 and 223.12.

⁴ 12 U.S.C. § 371c(b)(7) and 12 CFR 223.3(h).

addition, the statute and rule require a bank to secure its extensions of credit to, and guarantees on behalf of, affiliates with prescribed amounts of collateral.⁵

Section 23A and Regulation W authorize the Board to exempt, at its discretion, a transaction or relationship from the requirements of the statute and the regulation if the Board finds the exemption to be in the public interest and consistent with the purposes of section 23A.⁶ JPMC has requested that the Board exempt from section 23A and Regulation W, for a period of 18 months, certain covered transactions between JPMC Bank and its affiliates, up to an aggregate of 50 percent of the bank's capital stock and surplus, to facilitate the acquisition by JPMC of Bear Stearns.

The Board previously has granted other companies exemptions from section 23A and Regulation W that are similar to the exemption requested by JPMC. The Board has provided temporary exemptions to facilitate the orderly integration of merged companies,⁷ has provided exemptions to facilitate internal reorganization transactions,⁸ and has provided exemptions for banks that engage in securities financing transactions with their affiliates.⁹

The Board has determined to impose several conditions that would help protect JPMC Bank in connection with the exemption request:

- The exemption would apply only to extensions of credit by JPMC Bank to an affiliate and guarantees issued by JPMC Bank on behalf of an affiliate that (i) are fully collateralized; and (ii) are subject to daily mark-to-market and re-margining requirements.

⁵ 12 U.S.C. § 371c(c) and 12 CFR 223.14.

⁶ 12 U.S.C. § 371c(f)(2) and 12 CFR 223.43.

⁷ See, e.g., Board letter to Troland S. Link, Esq. (Deutsche Bank AG) dated May 28, 1999; Board letter to Ronald C. Mayer, Esq. (The Chase Manhattan Bank) dated August 18, 2000.

⁸ See, e.g., Board letter to Carl Howard, Esq. (Citigroup) dated June 30, 2006.

⁹ See, e.g., Board letter to Carl Howard, Esq. (Citigroup) dated August 20, 2007; Board letter to Courtney D. Allison, Esq. (Wachovia Corporation) dated June 12, 2007; Board letter to John H. Huffstutler, Esq. (Bank of America Corporation) dated June 7, 2005.

- JPMC must guarantee the performance of the affiliate for the benefit of JPMC Bank in connection with any exempt extension of credit or guarantee by JPMC Bank.
- In the second quarter of 2008, the exemption would be limited in the aggregate to 50 percent of JPMC Bank's capital stock and surplus. The amount of the exemption would then be reduced by one-sixth (that is, 8.33 percent of the bank's capital stock and surplus) in each subsequent quarter until the exemption expires after six quarters. For example, in the third quarter of 2008, the exemption would be limited in the aggregate to 41.67 percent of the bank's capital stock and surplus.
- The exemption would expire on October 1, 2009.

In addition, JPMC Bank would continue to be subject to the market-terms requirement of section 23B of the Federal Reserve Act with respect to its transactions with Bear Stearns. Section 23B requires that financial transactions between a bank and an affiliate be on terms that are substantially the same, or at least as favorable to the bank, as those that the bank would in good faith offer to nonaffiliates.¹⁰

Granting the requested exemption would have substantial public benefits. The exemption would assist JPMC in ensuring the funding liquidity of Bear Stearns and would facilitate the orderly integration of Bear Stearns with and into JPMC after the acquisition. In light of these considerations, the proposed extensions of credit and guarantees by JPMC Bank appear to be consistent with the purposes of section 23A and in the public interest. Accordingly, the Board hereby grants the requested exemption, subject to the conditions and limits discussed above.

Regulatory Capital Relief

JPMC also has requested that the Board provide JPMC with relief from the Board's risk-based and leverage capital guidelines for bank holding companies. Specifically, JPMC has requested that the Board permit JPMC, for a period of 18 months, to exclude from its total risk-weighted assets (the denominator of the risk-based capital ratios) any risk-weighted assets associated with the assets and other exposures of Bear Stearns, for purposes of applying the risk-based capital guidelines to the bank holding company. In addition, JPMC has asked the Board to permit

¹⁰ See 12 U.S.C. § 371c-1(a)(1); 12 CFR 223.51.

JPMC, for a period of 18 months, to exclude from the denominator of its tier 1 leverage capital ratio any balance-sheet assets of Bear Stearns acquired by JPMC, for purposes of applying the leverage capital guidelines to the bank holding company. The Board has authority to provide exemptions from its risk-based and leverage capital guidelines for bank holding companies.¹¹

JPMC has agreed to several conditions that would limit the scope of the relief request. First, JPMC proposes to exclude from its risk-weighted assets, for purposes of applying the Board's risk-based capital guidelines for bank holding companies, the risk-weighted assets of Bear Stearns existing on the date of acquisition of Bear Stearns by JPMC, up to a total amount not to exceed \$220 billion. The amount of the exemption will be reduced by one-sixth in each subsequent quarter. In addition to this scheduled straight-line amortization of the exemption amount, the amount of the exemption also will be reduced in the event that JPMC sells or otherwise transfers to third parties any of the specified Bear Stearns subsidiaries identified on the attached Schedule. The amount of the reduction in such event would be the amount of risk-weighted assets in such subsidiary at the time of transfer. This exemption would expire on October 1, 2009.

Second, JPMC proposes to exclude from the denominator of its tier 1 leverage capital ratio, for purposes of applying the Board's tier 1 leverage capital guidelines for bank holding companies, the assets of Bear Stearns existing on the date of acquisition of Bear Stearns by JPMC, up to an amount not to exceed \$400 billion. As with the risk-based capital exemption, the amount of the leverage exemption will be reduced by one-sixth in each subsequent quarter. In addition to this scheduled straight-line amortization of the exemption amount, the amount of the exemption also will be reduced in the event that JPMC sells or otherwise transfers to third parties any of the specified Bear Stearns subsidiaries identified on the attached Schedule. The amount of the reduction in such event would be the amount of assets in such subsidiary at the time of transfer. This exemption also would expire on October 1, 2009.

These regulatory capital exemptions would assist JPMC in acquiring and stabilizing Bear Stearns and would facilitate the orderly integration of Bear Stearns with and into JPMC. The Board notes that (i) JPMC would be well capitalized (as defined in section 225.2 of the Board's Regulation Y¹²) upon consummation of the acquisition of Bear Stearns, even without the regulatory capital relief provided by the exemptions; and (ii) JPMC has committed to remain well capitalized (as defined in

¹¹ See 12 CFR part 225, App. A, § III.A; 12 CFR part 225, App. D, § II.b.

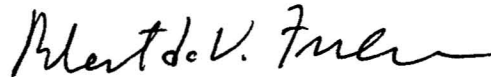
¹² 12 CFR 225.2(r).

section 225.2 of the Regulation Y) during the term of the exemptions, even without the regulatory capital relief provided by the exemptions.

In light of these considerations, the Board hereby grants the requested regulatory capital relief, subject to the conditions and limits discussed above.

These determinations are specifically conditioned on compliance by JPMC and JPMC Bank with all the commitments and representations made in connection with the exemption requests. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the requests and, as such, may be enforced in proceedings under applicable law. These determinations are based on the specific facts and circumstances of the existing and proposed relationships among JPMC, JPMC Bank, and Bear Stearns. Any material change in those facts and circumstances or any failure by JPMC or JPMC Bank to observe any of its commitments or representations may result in a different determination or in revocation of the exemptions.

Sincerely yours,



Robert deV. Frierson
Deputy Secretary of the Board

Attachment

cc: Federal Reserve Bank of New York
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation

SCHEDULE

Principal Subsidiaries of Bear Stearns

- Bear Stearns Asset Management Inc.
- Bear Stearns Securities Corp.
- Bear Stearns & Co. Inc.
- Texas Investment Holding Inc.
- Any other subsidiary of Bear Stearns that represented more than 10 percent of the total assets of Bear Stearns on the date of acquisition of Bear Stearns by JPMC