BETTER MARKETS

BANKING

FACT SHEET

Jamie Dimon is Still Dancing in the Streets One Year After JPMorgan Chase's Acquisition of First Republic Bank

April 30, 2024

It has been a year since First Republic Bank ("First Republic") with nearly $230 billion in total assets became the second largest bank failure in U.S. history. It has also been a year since JPMorgan Chase ("JPMorgan"), the United States' largest bank, got even larger, more powerful, and more systemically dangerous with the acquisition of First Republic in a sweet deal with the Federal Deposit Insurance Corporation ("FDIC"). In the transaction, JPMorgan purchased most of First Republic's assets and assumed its deposits as well as certain other liabilities. JPMorgan benefitted greatly from the transaction, while other banks—including community banks, communities, taxpayers, and the American people were harmed and forced to bear the cost. First Republic's failure is estimated by the FDIC to have cost nearly $16 billion.

Adding to concerns that the acquisition of First Republic further solidified the dangerous too-big-to-fail ("TBTF") epidemic in our country, JPMorgan's Chief Financial Officer Jeremy Barnum said that federal regulators encouraged JPMorgan to bid on First Republic's assets; according to Barnum, JPMorgan "did not seek out this deal." Similarly, Jamie Dimon, JPMorgan's Chief Executive Officer, characterized the purchase of First Republic as an act of goodwill to help the banking system and the American people in a time of need, stating:

> Our government invited us and others to step up, and we did. . . . Our financial strength, capabilities and business model allowed us to develop a bid to execute the transaction in a way to minimize costs to the Deposit Insurance Fund.

This raises serious questions about the advantages that the megabanks have in bidding for failing banks, compared to their smaller counterparts. While the FDIC must select the bid that results in the lowest cost transaction, megabanks have structural advantages such as larger balance sheets and experience with merger and acquisition transactions.

JPMorgan and Dimon greatly benefitted from the acquisition of First Republic, including from an FDIC-subsidized loss-share agreement that reduced the risk and cost of the transaction to JPMorgan. In short, JPMorgan will be shielded from a majority of losses that result from certain First Republic loan portfolios, if borrowers do not make payments. Instead, the FDIC's Deposit Insurance

Fund (“DIF”) will incur the losses. Beyond this sweetheart deal, the acquisition itself perpetuates TBTF and seriously endangers financial stability.

Shortly after the takeover of First Republic, JPMorgan started to prove that the acquisition was indeed done for its own self-interest, announcing plans to close 21 of the 84 acquired First Republic branches, for example, leaving countless depositors with no local branch at which to conduct banking business. Furthermore, 1,000 First Republic employees were informed that they were being laid off on June 1, 2023, just one month after First Republic’s failure.

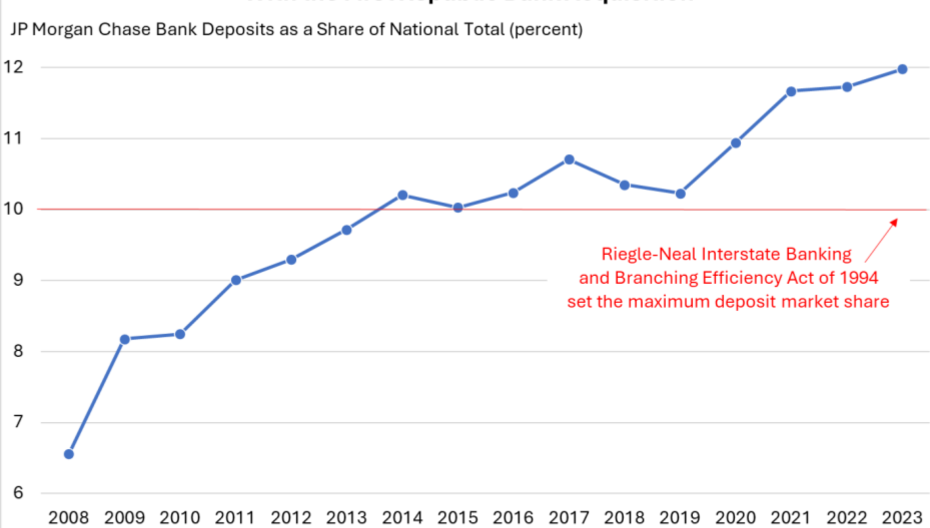
As recently as January 2023, Acting Comptroller of the Currency Mike Hsu, had warned of the challenges and risks of the largest banks in our country becoming larger, more complex, more dangerous, and more difficult to manage, supervise, and potentially resolve in failure. However, just five months later, the Office of the Comptroller of the Currency (“OCC”) approved JPMorgan’s takeover of First Republic. This decision took advantage of a special provision in the law that allows regulators to overlook the standard guidelines for transactions involving failing banks. Seemingly contradicting Hsu’s concerns, the OCC concluded that the merger transaction:

> [D]oes not increase risk to the stability of the United States banking or financial system as it facilitates the orderly resolution of an insured depository institution in default.

That determination by the OCC is what allowed JPMorgan to evade—again—the standard 10% deposit concentration limitation. While that limit has been too often ignored, it is in place for important reasons, including limiting TBTF and ensuring that increased consolidation in the banking industry among the megabanks does not cut off credit and other banking services to Main Street consumers and businesses.

Despite these concerns, the country’s largest bank— JPMorgan with nearly $4 trillion in assets at the end of 2023—has continued to grow even larger, more powerful, and more dangerous.

JPMorgan Chase's Deposit Market Increased to Nearly 12 Percent With the First Republic Bank Acquisition



Source: FDIC Summary of Deposits. Data are as of June 30 of each year.
Note: JPMorgan Chase Bank acquired Washington Mutual Bank FSB on 9/25/2008, Custodial Trust Company on 10/14/2011, JPMorgan Chase Bank, NA on 8/31/2015, Chase Bank USA, NA on 5/18/2019, and First Republic Bank on 5/1/2023.

This all underscores the very serious inadequacy of the current resolution planning process, as Better Markets has previously explained. This is a shocking failure considering the banking regulators claimed work on the resolution process over the past decade-plus. They have had ample time to have an effective resolution process in place and ready to go, particularly for relatively small banks like First Republic, Silicon Valley Bank ("Silicon Valley"), and Signature Bank ("Signature").

Moreover, before its failure, First Republic's viability had been a growing and highly visible concern for months, and the fact that its resolution was delayed until the eleventh hour when First Republic was spiraling downward is simply not good enough for the country's banking system or the American people. In 2023, the banking regulators proposed rules that would revise and strengthen the resolution process, but have yet to implement any changes as a result of those proposals. The only arguable progress has been the FDIC's recent publication of a report that explains its existing process for handling failing banks, but at the same time admits that its ability to resolve a global systemically important bank (GSIB) has not been tested. At the end of the day, our financial regulators must find a way to reliably resolve banks without contagion and without turning to JPMorgan and other TBTF megabanks as the default option.

Background

First Republic shared several risky traits with Silicon Valley and Signature, which both failed in March 2023:

1. rapid asset growth followed by rapid asset price declines because of rising interest rates,
2. a large share of uninsured deposits, and
3. severe liquidity challenges.

As of April 13, 2023, just prior to its failure, First Republic had nearly $230 billion in total assets, more than double its size five years earlier. First Republic reported total deposits of $176.4 billion as of December 31, 2022, of which about two-thirds or nearly $120 billion were uninsured. While not as dependent on uninsured deposit funding as Silicon Valley and Signature, First Republic's reliance on uninsured deposits was well above average. As has been repeatedly proven in the past, these uninsured deposits proved to be tremendously unstable, with more than $100 billion fleeing the bank in the first few months of 2023, ultimately leaving just $8.4 billion of uninsured deposits by April 28, 2023, a few days before failure.

Because banks use deposits to make loans, the loss of deposit funding created a desperate need for First Republic to increase borrowings to maintain its liquidity and continue daily operations of the bank. At year end 2022, First Republic had outstanding Federal Home Loan Bank ("FHLB") advances of $14 billion. First Republic increased its borrowings in the first four months of 2023 by more than 700% and as of April 28, 2023 held a combined $121.3 billion in outstanding FHLB and Federal Reserve borrowings. A consortium of the country's largest banks had also provided liquidity to First Republic as a show of support for and confidence in the banking system. On March 16, 2023, First Republic received a total of $30 billion in uninsured deposits from JPMorgan and ten other banks.

Despite efforts to prevent failure such as the consortium deposits discussed above, First Republic's stock price showed that, like its depositors, equity investors had lost confidence in First Republic's viability. The bank's stock price was $122.50 per share on March 1, 2023. On April 24, 2023, First

Republic reported its first quarter 2023 financial results, including the severe loss of deposits described earlier, which in turn prompted additional deposit flight. By April 28, 2023, the stock price had plummeted to $2.33 per share, a drop of more than 98% in less than 60 days. Regulators finally decided that First Republic's operations were not viable[1] and closed the bank on May 1, 2023.

JPMorgan Acquired First Republic at a Deep Discount

JPMorgan was selected as the winner from the group of healthy banks that submitted bids for First Republic. The group of bidders included three other large banks: PNC, Citizens, and Fifth Third. JPMorgan purchased First Republic's assets, including $152 billion in loans and $30 billion in securities. Remarkably, the FDIC gave JPMorgan, the largest bank in the U.S. if not the world, a $50 billion five-year fixed rate loan to support the deal. Why that was needed remains unclear, but it was larger than the financing provided to First Citizens for the purchase of Silicon Valley. Table 1 provides a comparison of the JPMorgan acquisition of First Republic to other recent failed bank acquisitions.

Comparison of Key Metrics for Failed Bank Acquisitions

(dollar amounts in billions)	**JP Morgan Chase** *acquisition of First Republic*	**FirstCitizens BancShares** *acquisition of Silicon Valley*	**NY Community Bank (Flagstar Bank)** *acquisition of Signature*
Assets Acquired	$192.3	$106.6	$38.6
Liabilities Assumed	$121.7	$61.1	$36.6
Net Assets Acquired (fair value)	**$70.6**	**$45.5**	**2.1***
Purchase Price	$67.9	$35.7	$0.9
Estimated Gain on Acquisition	**$2.7**	**$9.8**	**$2.0**
Financing provided by FDIC	$50	$35	n/a
Interest rate on note	3.4%	3.5%	n/a

** Numbers do not foot due to rounding.*

Sources:

JP Morgan 10-Q, quarter ending June 30, 2023, Note 28.

https://jpmorganchaseco.gcs-web.com/node/570811/html

First Citizens BancShares, Inc. 10-Q, quarter ending March 31, 2023, Note 2.

https://d18rn0p25nwr6d.cloudfront.net/CIK-0000798941/4537d7e5-a324-45e5-a3c1-f8e43131b8be.pdf

New York Community Bancorp, Inc. 10-Q, quarter ending March 31, 2023, Note 3.

https://www.sec.gov/ix?doc=/Archives/edgar/data/0000910073/000091007323000046/fbc-20230331.htm

[1] The California Department of Financial Protection and Innovation Commissioner stated that combination of continuing deposit outflows and the inability of the bank to raise capital makes it unsafe and unsound, and therefore not viable.

At the same time as JPMorgan's acquisition of First Republic, JPMorgan repaid $25 billion in deposits from the ten other consortium banks that joined in the March 16th effort that temporarily provided First Republic with liquidity to operate.[2] Notably, JPMorgan's bid price was likely to have been boosted by this aspect of the deal. Although unlikely given the banking regulators' treatment of Silicon Valley and Signature, if First Republic been resolved in a transaction that did not include uninsured deposits, the eleven consortium banks —including JPMorgan—would have been at risk of losing their deposits at First Republic, which were uninsured.[3]

JPMorgan also entered into a loss-share transaction with the FDIC for the loans that it purchased. The FDIC provided JPMorgan with protection against 80% of the losses on single family residential mortgage loans for seven years and commercial loans, including commercial real estate loans, for five years. These portfolios amounted to nearly $120 billion as of the last financial reports filed by First Republic on March 31, 2023. The loss-share agreements mean that JPMorgan will only be responsible for 20% of any losses incurred on the loans in these portfolios for the five- and seven-year durations of the loss-share agreements. The FDIC is responsible for the remaining 80% of any losses. An estimate of the actual losses that the FDIC expects to incur is included in the nearly $16 billion cost estimate for the entire resolution——but if the losses exceed the original estimate, the funds will come from the DIF. Regardless, all insured banks shoulder the cost of this benefit to JPMorgan.

In summary, JPMorgan got a sweet deal from the FDIC with the purchase of First Republic. After accounting for the $50 billion loan from the FDIC and settlement of their initial consortium deposit, JPMorgan had to come to the table with less than $15 billion for First Republic, a bank with about $230 billion in assets as of March 31, 2023, as well as untold valuable banking franchises and relationships. The rest of the banking industry, including community banks, will end up paying for First Republic's failure and JPMorgan's gain.

Despite Claims of Disinterest in Failed Bank Acquisitions, the First Republic Purchase Boosted JPMorgan's Financial Results

In congressional testimony, Dimon has said that we must "get rid of anything that looks like too big to fail." Furthermore, in a letter to shareholders Dimon lamented the acquisition of Bear Stearns and Washington Mutual in 2008, saying that the actions were not motivated by profits but done to "support our country and the financial system." However, the facts show that those acquisitions were wildly profitable and beneficial to JPMorgan. Funnily enough, Dimon said the same type of things about the First Republic acquisition. Dimon said that the First Republic deal was simply the right thing to do and that he allocated 800 people to tasks related to the integration of the two banks. He said, "it was marginally beneficial for shareholders and good for the [banking] system."

---

[2] The other banks in the consortium included Bank of America, Wells Fargo, and Citigroup that contributed about $5 billion each; Goldman Sachs and Morgan Stanley that contributed $2.5 billion each; and PNC, U.S. Bancorp, State Street, and Bank of New York Mellon that contributed $1 billion each.

[3] As stated above, JPMorgan CEO Dimon met with Treasury Secretary Yellen reportedly to discuss how the private sector could support First Republic. Given that the banks deposited $30 billion shortly thereafter, it is reasonable to assume that this was discussed. It is not publicly known what was discussed nor what understandings anyone had regarding whether or not the banks deposit of uninsured deposits would be protected in the event First Republic were to fail.

It's unclear what Dimon means by "marginally beneficial," but the facts would suggest that the acquisition was very beneficial. JPMorgan reported very strong financial results in second quarter 2023, directly after the First Republic acquisition, even after accounting for the costs to acquire First Republic. The deal also added First Republic's network of wealth management offices in New York and California to JPMorgan, which will further boost JPMorgan's profits. And the benefits continue, JPMorgan's first quarter 2024 financial results, which beat expectations, are further proof that it has only benefited from the First Republic takeover.

JPMorgan's Acquisition of First Republic is Proof of the Currently Inadequate Resolution Planning Process and the Urgent Need for Regulators to Make Changes to Strengthen It

The weeks and months leading up to First Republic's failure were characterized by a scramble of regulatory and government efforts to stabilize and restore confidence in the banking system. It all appeared ad hoc. As Better Markets stated when First Republic finally failed, this bankruptcy again starkly illustrates the total failure of the resolution process required by the 2010 Dodd-Frank law. That this happened after more than a decade of planning supposedly undertaken by banking regulators to prevent exactly this type of emergency fire sale is simply shocking and inexplicable.

It is years past time that regulators force banks to have resolution plans (known as living wills) that will actually work when a bank fails. After the collapses of Silicon Valley and Signature, this latest bank seizure and sale makes clear that regulators have utterly failed to implement the Dodd-Frank law as written, designed, and intended. That must change and change fast, or the current egregiously flawed process for resolving banks will persist, which will continue consolidation in the banking industry, make the too-big-to-fail problem much worse, and reduce lending to communities and small businesses.

The American people deserve much better.

Better Banks | Better Businesses

Better Jobs | Better Economic Growth

Better Lives | Better Communities

Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity, and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth, and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

For press inquiries, please contact us at press@bettermarkets.com or (202) 618-6430.

SUBSCRIBE to Our Monthly Newsletter

FOLLOW US ON SOCIAL

2000 Pennsylvania Avenue NW | Suite 4008 | Washington, DC 20006 | 202-618-6464 | www.bettermarkets.org