Bear Stearns

Division of International Finance

Mr. Sheets, Director

Division of Banking Supervision and Regulation

Ms. Bailey, Deputy Director
Ms. Stefansson, Associate Director

Other Supporting Staff

FINANCIAL MARKETS -- Extension of credit to The Bear Stearns Companies Inc.

Discussed.
Approved.
March 14, 2008.

Today, the Board discussed the funding difficulties of The Bear Stearns Companies Inc. (Bear Stearns), New York, New York, which controlled a primary securities dealer, and the likely effects of its bankruptcy on financial markets, including secured funding markets. Board members agreed that, given the fragile condition of the financial markets at the time, the prominent position of Bear Stearns in those markets, and the expected contagion that would result from the immediate failure of Bear Stearns, the best alternative available was to provide temporary emergency financing to Bear Stearns through an arrangement with JPMorgan Chase & Co., also in New York. Such a loan would facilitate efforts to effect a resolution of the Bear Stearns situation that would be consistent with preserving financial stability.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of New York (New York Reserve Bank) to extend credit to JPMorgan Chase Bank, National Association (JPMC Bank), Columbus, Ohio, on a nonrecourse basis to provide financing to Bear Stearns, and, if the Reserve Bank in consultation with Chairman Bernanke determined it was appropriate, to other primary securities dealers, when the Reserve Bank finds that adequate credit accommodations are not available to the borrower from other banking institutions. The credit should be secured to the satisfaction of the New York Reserve Bank and should not exceed a period of 28 days. The Board also approved the New York Reserve Bank's recommendation that the credit to JPMC Bank to provide financing to Bear Stearns be extended at the rate for discounts and advances under the primary credit program (primary credit rate).

As required by the Federal Reserve Act when fewer than five Board members were available to approve an extension of credit to any individual, partnership, or corporation under section 13(3) of the Federal Reserve Act, all available Board members then in office unanimously determined, in connection with the authorization of the extension of credit, that (1) unusual and exigent circumstances existed; (2) Bear Stearns, and possibly other primary securities dealers, were unable to secure adequate credit accommodations elsewhere; (3) this action was necessary to prevent, correct, or mitigate serious harm to the economy or financial stability; (4) the other Board member in office could not participate in the Board's action by any reasonable means at the time Board action was required (Governor Mishkin was unavailable because he was in transit from Helsinki, Finland, from 6:20 a.m. EDT to 5 p.m. EDT); (5) this action was required before the other Board member could return and/or participate by any available means; and (6) any credit extended will be payable on demand.

Participating in these determinations and voting for these actions:
Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh and Kroszner.

Background: None.

Implementation: Press release, March 14, 2008, and Record of Determinations under 12 U.S.C. § 248(r)(2) (approved by notation voting on April 3, 2008).

Jennifer J. Johnson
Secretary

PRESS RELEASE

Statement on Financing Arrangement of JPMorgan Chase's Acquisition of Bear Stearns

March 24, 2008

At the closing of the merger, the Federal Reserve Bank of New York ("New York Fed") will provide term financing to facilitate JPMorgan Chase & Co.'s acquisition of The Bear Stearns Companies Inc. This action is being taken by the Federal Reserve, with the support of the Treasury Department, to bolster market liquidity and promote orderly market functioning.

The New York Fed will take, through a limited liability company formed for this purpose, control of a portfolio of assets valued at $30 billion as of March 14, 2008. The assets will be pledged as security for $29 billion in term financing from the New York Fed at its primary credit rate.

JPMorgan Chase will bear the first $1 billion of any losses associated with the portfolio and any realized gains will accrue to the New York Fed. BlackRock Financial Management, Inc. will manage the portfolio under guidelines established by the New York Fed designed to minimize disruption to financial markets and maximize recovery value.

Summary of Terms and Conditions Regarding the JPMorgan Chase Facility ››

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PRESS RELEASE

Summary of Terms and Conditions Regarding the JPMorgan Chase Facility

March 24, 2008

The Federal Reserve Bank of New York ("New York Fed") has agreed to lend $29 billion in connection with the acquisition of The Bear Stearns Companies Inc. by JPMorgan Chase & Co.

The loan will be against a portfolio of $30 billion in assets of Bear Stearns, based on the value of the portfolio as marked to market by Bear Stearns on March 14, 2008.

JPMorgan Chase has agreed to provide $1 billion in funding in the form of a note that will be subordinated to the Federal Reserve note. The JPMorgan Chase note will be the first to absorb losses, if any, on the liquidation of the portfolio of assets.

The New York Fed loan and the JPMorgan Chase subordinated note will be made to a Delaware limited liability company ("LLC") established for the purpose of holding the Bear Stearns assets. Using a single entity (the LLC) will ease administration of the portfolio and will remove constraints on the money manager that might arise from retaining the assets on the books of Bear Stearns.

The loan from the New York Fed and the subordinated note from JPMorgan Chase will each be for a term of 10 years, renewable by the New York Fed.

The rate due on the loan from the New York Fed is the primary credit rate, which currently is 2.5 percent and fluctuates with the discount rate. The rate on the subordinated note from JPMorgan Chase is the primary credit rate plus 450* basis points (currently, a total of 7 percent).

BlackRock Financial Management Inc. has been retained by the New York Fed to manage and liquidate the assets.

The Federal Reserve loan is being provided under the authority granted by section 13(3) of the Federal Reserve Act. The Board authorized the New York Fed to enter into this loan and made the findings required by section 13(3) at a meeting on Sunday, March 16, 2008.

Repayment of the loans will begin on the second anniversary of the loan, unless the Reserve Bank determines to begin payments earlier. Payments from the liquidation of the assets in the LLC will be made in the following order (each category must be fully paid before proceeding to the next lower category):

- to pay the necessary operating expenses of the LLC incurred in managing and liquidating the assets as of the repayment date;
- to repay the entire $29 billion principal due to the New York Fed;
- to pay all interest due to the New York Fed on its loan;
- to repay the entire $1 billion subordinated note due to JPMorgan Chase;
- to pay all interest due to JPMorgan Chase on its subordinated note;
- to pay any other non-operating expenses of the LLC, if any.

Any remaining funds resulting from the liquidation of the assets will be paid to the New York Fed.

Statement on Financing Arrangement of JPMorgan Chase's Acquisition of Bear Stearns ››

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**Correction: A previous version of this document incorrectly stated the rate on the subordinated note from JPMorgan Chase as the primary credit rate plus 475 basis points. It is the primary credit rate plus 450 basis points.*