

March 16, 2008

NEW YORK - Just four days after Bear Stearns Chief Executive Alan Schwartz assured Wall Street that his company was not in trouble, he was forced on Sunday to sell the investment bank to competitor JPMorgan Chase for a bargain-basement price of \$2 a share, or \$236.2 million.

The Federal Reserve and the U.S. government swiftly approved the all-stock buyout, showing the urgency of completing the deal before world markets opened. **The Fed also essentially made the takeover risk-free by saying it would guarantee up to \$30 billion of the troubled mortgage and other assets that got the nation's fifth-largest investment bank into trouble.**

So far, **global banks have written down some \$200 billion worth of securities slammed amid the credit crisis** — more write-downs could come. Last week, a bond fund controlled by private equity firm Carlyle Group faltered near collapse because of investments linked to mortgage-backed securities.

The stunning last-minute buyout of Bear Stearns was aimed at averting a bankruptcy and a spreading crisis of confidence in the global financial system sparked by the collapse in the subprime mortgage market. Bear Stearns was the most exposed to risky bets on the loans; it is now the first major bank to be undone by that market's collapse.

JPMorgan Chase & Co. said it will guarantee all business — such as trading and investment banking — until Bear Stearns' shareholders approve the deal, which is expected to be completed during the second quarter. The acquisition includes Bear Stearns' midtown Manhattan headquarters.

At almost the same time as the deal for control of Bear Stearns was announced, the Federal Reserve said it approved a cut in its lending rate to banks to 3.25 percent from 3.50 percent and created another lending facility for big investment banks. The central bank's official meeting is on Tuesday. Before the emergency move to lower the discount rate, which is the rate at which banks lend each other money, the Fed was widely expected to again cut its headline rate by as much as a full point to 2 percent.

"Having taking Bear Stearns out of the problem category, and the strong action by the Federal Reserve, we would anticipate the market will behave quite differently on Monday than it was Thursday or Friday," Cavanagh said.

JPMorgan's acquisition of Bear Stearns represents roughly 1 percent of what the investment bank was worth just 16 days ago. It marked a 93.3 percent discount to Bear Stearns' market capitalization as of Friday, and roughly a 98.8 percent discount to its book value as of Feb. 29.