JPMorgan to acquire most of First Republic after frantic rescue

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New York | JPMorgan Chase will acquire most of First Republic, the embattled California lender that US government officials had been racing to save for much of the past week.

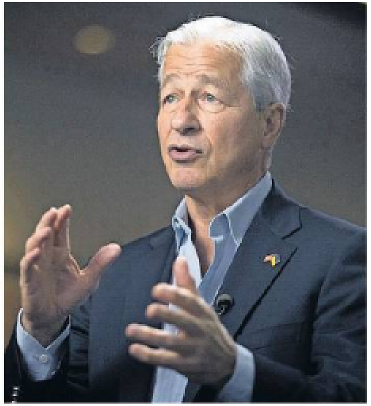
The Federal Deposit Insurance Corporation and California regulators, which announced the deal early on Monday morning local time, said they were simultaneously closing the bank and selling off all $US93.5 billion ($140.9 billion) of its deposits and most of the assets to JPMorgan.

The move makes San Francisco-based First Republic the second-largest bank failure in US history, after Washington Mutual in 2008 — marginally bigger than Silicon Valley Bank, the lender to start-ups and their investors that collapsed in March.

First Republic had $US229.1 billion in assets when it was taken over and had ranked as the nation's 14th largest lender at the end of last year.

Briefly taking over the bank allowed the FDIC to enter into a loss-sharing arrangement with JPMorgan on the unrealised losses in First Republic's loan portfolio that stemmed from the recent rise in interest rates. The FDIC estimated that the losses to its insurance fund will be about $US13 billion.

JPMorgan is acquiring $US173 billion in loans, and approximately $US30 billion of securities. It is not assuming First Republic's corporate debt or preferred stock.



Jamie Dimon: "Our government invited us and others to step up, and we did."
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"Our government invited us and others to step up, and we did," said Jamie Dimon, JPMorgan's chief executive. "Our financial strength, capabilities and business model allowed us to develop a bid to execute the transaction in a way to minimise costs to the deposit insurance fund."

JPMorgan will recognise a one time $US2.6 billion gain on the deal, but said it expects to spend $US2 billion on restructuring costs in the next 18 months.

First Republic had been teetering on the brink of failure for nearly two months, ever since the collapse of SVB undermined confidence in regional banks and sparked a $US100 billion deposit run at First Republic. Its business model, which relied on no-interest deposits to fund cheap mortgages to wealthy customers, was also squeezed badly by rising interest rates. While its funding costs rose rapidly, it also racked up large paper losses on its mortgage book and other long-dated assets.

The takeover and sale came after a frantic weekend in which the FDIC invited six financial firms to review detailed information about First Republic's assets and deposits. JPMorgan, PNC and Citizens were among the lenders who put in binding offers.

The deal means that all depositors, including those above the $US250,000 insurance limit, will retain access to their money when the bank's 84 outposts in eight states reopen as Chase branches after the weekend.

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