JAMIE DIMON WANTS R-E-S-P-E-C-T

JPMorgan Chase's CEO thinks of himself as a cut above the average banker. But critics say he has more in common with his peers than he would like to admit.



BY ELINOR COMLAY AND **MATTHEW GOLDSTEIN** NEW YORK, FEB 4

THAT'S EATING JAMIE DIMON? At last week's World Economic Forum in Davos, Switzerland, the JPMorgan Chase chief executive once again lambasted the media and politicians for portraying all bankers as greedy evil-doers.

It was at least the 12th time since the start of the financial crisis that Dimon has complained about Wall Street critics painting all bankers as cut from the same cloth. But the timing of his latest outburst seemed odd.

In December, as part of President Barack Obama's bid to make nice with U.S. business

leaders, Dimon was invited to a private Oval Office one-on-one with the president to discuss the economy. Dimon and his wife Judy were also guests at the state dinner the White House arranged for Chinese President Hu Jintao last month. And one of Dimon's top executives, Bill Daley, was tapped by the president as chief of staff.

By most objective standards that's a lot of



love Obama has showered on Dimon, even though JPMorgan spent more money than any other Wall Street firm to lobby against key parts of last year's financial regulatory reform law.

If Dimon seems unusually thin-skinned, many industry insiders say, it is an indication of the importance the 54-year-old Queens, New York native places on his legacy -- and how that will affect his ability to forge a life beyond finance.

Dimon has worked hard over the years to sell investors and analysts on the notion that JPMorgan doesn't play by the same set of brass-knuckled rules as Goldman Sachs Group, Citigroup or even Bear Stearns -- which Dimon acquired with a healthy dollop of taxpayer help in the early days of the crisis.

He also likes to portray himself as a regular guy, who just happens to run a banking colossus.

But there's another side to the popular narrative about Dimon the Good and how he outperformed his peers by steering clear of things like subprime-backed mortgage securities. In reality, the main reason JPMorgan didn't load up on subprime debt as much as other banks was because it was slow to enter the market, critics say.

Critics point out that JPMorgan, even if it wasn't a leader in churning out collateralized debt obligations, provided some of the building blocks for these toxic securities through all the home loans and second mortgages it sold.

And despite his good-guy image, Dimon is just as aggressive as any banker when it comes to looking for ways to generate fees from credit cards and other staple consumer banking products.

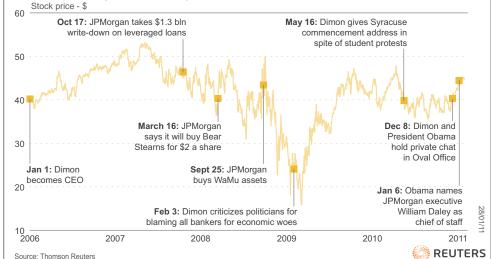
Indeed, JPMorgan under Dimon tried to make the most of its long relationship with convicted Ponzi king Bernard Madoff.

In a lawsuit unsealed on Thursday, the Madoff trustee alleges that the bank began drawing up plans in 2006 to sell structured notes tied to the returns of the many so-called feeder funds that funneled money to Madoff. The trustee, Irving Picard, said that JPMorgan went ahead with its structured note sales despite red flags -- because the "potential upside reward for investing through Madoff was simply too good to pass up even if there was a fraud."

In some ways what bugs Dimon when he gets tarred with the label of being just another banker is that it invites critics to take a fresh look at his stewardship -- not just of JPMorgan but of Bank One before it.

Dimon's tumultuous reign

Shares of JPMorgan have gone on a rollercoaster ride in the five years since Jaime Dimon became chief executive officer of the bank. But in the end, shares are selling for roughly the same price they were on the day Dimon took over.



Reuters graphic/Van Tsui

"FIVE YEARS AGO IF WE'D BEEN SITTING HERE, WE'D HAVE BEEN GOING, "WE HAVE THE BEST MORTGAGE MARKET IN THE WORI D"

SIX-PACK JAMIE

FOR HIS PART, he says the media has made too much of a falling out with the Obama administration. "I don't have hurt feelings," he said during an hourlong interview late last year in his office at JPMorgan's Park Avenue headquarters. "Whether they take my counsel, that's up to them. I never stopped talking to them."

Yet try as he might to appear nonchalant about it, people who know Dimon say he cares deeply about what the political class thinks. They say he prides himself on having the ear of those in power.

People close to him say the criticism is especially painful because he sees himself as a financier/statesman along the lines of a Warren Buffett or Henry Paulson. If not quite doing God's work, what Dimon is doing, at least in his mind, is the next best thing. He is a corporate executive who plays on the world stage and at the highest political level.

The financial crisis allowed Dimon to step

out from the shadow of his former mentor Sandy Weill, the architect of Citigroup and the so-called supermarket bank. As the self-styled heir to John Pierpont Morgan's legacy, Dimon rescued Bear Stearns from bankruptcy and, along with the Federal Reserve, emerged as one of the lenders of last resort during the later stages of the crisis.

In fact, Federal Reserve Chairman Ben Bernanke came to believe that JPMorgan was the only one of 13 large financial institutions that was not at risk of failure in the fall of 2008, the Wall Street Journal wrote last

At times Dimon speaks as if he is running JPMorgan, where shares have risen just 14 percent since he became CEO in January 2006, for the betterment of the country and not just the interest of the second-largest U.S. bank's shareholders.

"I'm not as worried about JPMorgan as I am about our industry and our country," he told Reuters.

MORTGAGE REFORM

ONE WAY DIMON IS trying to put his country before his bank is by seeking to take the lead among his peers in calling for major reform of the U.S. mortgage market. Recently, he has taken to calling the U.S. mortgage situation a "mess" and in need of a top-to-bottom overhaul.

"Five years ago if we'd been sitting here, we'd have been going, 'We have the best mortgage market in the world," he told Reuters. "We should have standard national

laws. We don't. We should have standard foreclosure laws. We don't. Standard servicing clauses. We don't."

That's unusually frank talk for a banker. It's the kind of thing that has helped forge a bond between Dimon -- a registered Democrat -- and some of the more skilled politicians of his time. Among his confidants are former President Bill Clinton and former British prime minister Tony Blair -- two world leaders famous for their everyman approach to politics.

Blair, who for the past three years has worked for JPMorgan as a special adviser and recently traveled with Dimon on a trip to Africa, said in an interview that one thing he admires about Dimon is his straight talk and openness to honest disagreement.

"He's somebody who's direct," said Blair. "He's not somebody who'll sit in a meeting when someone says something he disagrees with quietly. He'll get up, he'll stand up and speak."

That image of a no-nonsense executive who doesn't put on airs can be seen in the low-key way Dimon has decorated his corner office, which boasts a panoramic view of the East Side of Manhattan. In keeping with his regular guy image, one of the items on his desk is a mug made by one of his now adult daughters many years ago. On his bookshelf, perched next to a copy of "Security Analysis," the legendary treatise on value investing written by Benjamin Graham and David Dodd, is a copy of John Grisham's thriller "The Broker."

But not everyone is sold on Dimon's carefully crafted regular guy image. Especially since he's a very rich regular guy, taking home more than \$66 million in cash and stock since 2006, in spite of taking no bonus in 2008 or 2009, according to data from Capital IQ.

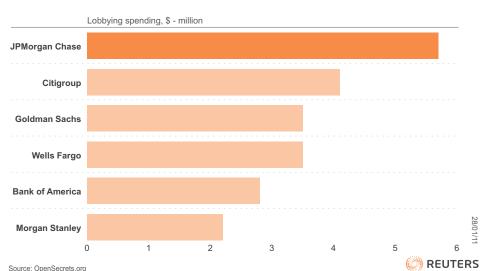
Janet Tavakoli, a Chicago-based derivatives consultant, said when Dimon was running Bank One, the Chicago-based lender that merged with JPMorgan Chase in 2004 and brought Dimon back to New York, he was ruthless in maximizing fees on credit cards --one of Bank One's staple businesses. While she conceded Dimon can be charming and open-minded, she said his main motivation is to do anything to maximize profits for his company -- whether it's fair to consumers or not.

Indeed, on Dimon's watch, Bank One's card unit settled a three-year investigation into alleged deceptive marketing practices and paid a \$1.3 million fine to state attorneys



REGULAR GUY: Jamie Dimon, CEO and chairman of JPMorgan Chase & Co, poses for a portrait in his office in New York December 22, 2010. **REUTERS/LUCAS JACKSON**

JPMorgan rocks Capitol Hill By a wide margin, JPMorgan outspent other U.S. banks on lobbying last year. The bank's lobbying effort in Washington coincided with the passage of the financial regulatory reform law.



Reuters graphic/Van Tsui

general.

"In taking over a bank like Bank One, what was attractive to him was the credit card business," said Tavakoli. "Yes, he is a man of the people because he wants a hand in every wallet. His game is to get as many fees as possible."

In fact, in spending \$5 million on lobbying firms last year, JPMorgan was far more

aggressive than most financial firms in opposing several major elements of the financial reform bill, even as Dimon voiced his support for a system to wind down large banks and clear derivatives.

When he sat down with Reuters in December, Dimon was still smarting over a Federal Reserve proposal to crack down on debit card processing fees. He was also



PUBLIC ANGER: Demonstrators protest outside the JPMorgan Chase annual shareholders meeting in New York's financial district, May 18, 2010. REUTERS/ BRENDAN MCDERMID

reluctant to comment about Elizabeth Warren's work at the new consumer financial protection agency that JPMorgan and other banks had opposed. "I don't think the government should get involved in any pricing," Dimon said.

He has told analysts that if the debit-card changes go through as proposed, the bank will try to recoup the lost fees elsewhere, perhaps by charging customers monthly fees, or requiring higher minimum account balances.

Occasionally, Dimon's efforts to portray himself as above the Wall Street fray can seem wanting.

At the bank's annual meeting last year, he promised to address issues surrounding JPMorgan's controversial financing of companies engaged in mountain-top coal removal. Amanda Starbuck, a campaign director for Rainforest Action Network who questioned him at the meeting, said she was impressed with his knowledge of the matter -- but she told Reuters that almost a year later JPMorgan is still financing companies engaged in mountain-top removal.

Moreover, even as Dimon takes the high road on the current mortgage mess, he tends to downplay the role his bank played in the crisis. True, JPMorgan never sold loans with optional interest-rate payments and other gimmicks favored by some of its rivals. But as the third largest issuer of home

loans, JPMorgan certainly sold its share of dubious mortgages and, along with other large lenders last year, the bank temporarily halted foreclosures after it emerged it had processed some home seizures with faulty paperwork.

This apparent contradiction between Dimon trying to be both statesman on financial reform and a CEO looking out for what's best for his shareholders is one of the things people who know him say remains his big challenge. Especially if, as many people believe, Dimon has aspirations beyond finance that could lead to a life in politics or academia.

"Dimon's big test now will be whether he can figure out a way to influence public policy and direct his own bank," said former President Bill Clinton, who has come to know Dimon over the years. "Can he continue to make money for his shareholders and lead in a way to finance the resurgence of America?"

AVOIDING CDOS, PILING INTO SUBPRIME

INDEED, SOME OBSERVERS would argue Dimon really is more like his Wall Street peers than his recent career history might indicate.

He is often credited with being visionary in steering the bank away from the worst of the mortgage mess that laid low Bear Stearns and Lehman and brought Citi and Bank of America to the brink of bankruptcy. His supporters note that JPMorgan largely stayed out of the market for collateralized debt obligations backed by subprime mortgages -- a line of business that led to tens of billions in losses for Citi and Merrill Lynch.

"As a result of our steadfast focus on risk management and prudent lending, and our disciplined approach to capital and liquidity management, we were able to avoid the worst outcomes experienced by others in the industry," Dimon told the Financial Crisis Inquiry Commission in January 2010.

But some former JPMorgan investment bank executives say this version of history glosses over some significant missteps, even if they were less disastrous than those of his competitors. They say that JPMorgan's conservative culture was inculcated long before Dimon came on board -- and that while the investment bank stopped short of taking outsized risks on difficult-to-price structured debt, Dimon was driving the retail bank to deepen its exposure to risky mortgages.

"He didn't scrutinize risk at the retail bank in the same way as he scrutinized the investment bank," said hedge fund manager Bertrand des Pallieres, JPMorgan's former global head of credit.

For better or worse, he was also almost exclusively focused on the United States. Des Pallieres recalled a meeting Dimon held before the financial crisis with JPMorgan

investment bank executives in Europe. They wanted to expand the bank's Russian business and were asking Dimon for more capital. He rejected the request, arguing that his shareholders had more of a stomach for U.S. losses than foreign losses.

"His point was that expanding in Russia might be right for the business or it might be wrong, but it was not in line with the risks that his shareholders expected from JPMorgan," des Pallieres said.

Still, with hindsight it's clear that Dimon's approach to risk didn't help him entirely avoid the financial crisis. Even as the first rumblings of the crisis were sounding in the distance, he aggressively sought to boost Chase's share of the U.S. mortgage business.

At the end of 2007, after JPMorgan had taken a \$1.3 billion write-down on leveraged loans, Dimon told analysts the bank was planning to add as much as \$20 billion in mortgages from riskier borrowers. "We think we'd get very good spreads and ... it will be a drop in the bucket for our capital ratios."

By mid-2008, JPMorgan Chase had \$95.1 billion exposure to home equity loans, almost \$15 billion in subprime mortgages and a \$76 billion credit card book. Banks were not required to mark those loans at market prices, but if the loans were accounted for that way, losses could have been as painful for JPMorgan as credit derivatives were for AIG, according to former investment bank executives.

And a look at the investment strategy of the charitable foundation run by Dimon and his wife Judy shows the master banker was quite bullish on housing at least through 2007.

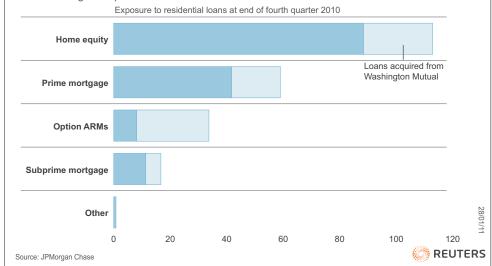
The foundation, with about \$11 million in assets, was invested in 2007 in some mortgage-related securities -- including packages of mortgage-backed debt issued by Fannie, Freddie, Federal Home Loan Mortgage Corp and Ginnie Mae.

For the period from December 2006 through November 2007, Dimon's foundation reported a series of losses on a variety of mortgage pools it had investments with, according to a federal tax return for the charity.

By 2008, Dimon had come to recognize what was going on with the mortgage market -- at least judging by the reconfiguration of this foundation's investments. A tax return for 2008 reveals that the bulk of the charity's investments were in JPMorgan notes and preferred stock. There's no mention of investments in mortgage securities in that year's filing.

JPMorgan's HELOC hot potato

The bank is second to Bank of America in exposure to home equity loans and other so-called second liens. And almost a fifth of those home equity loans were written by Washington Mutual, which JPMorgan acquired at the end of 2008.



Reuters graphic/Van Tsui

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http://link.reuters.com/heq72q

Yet, as JPMorgan was still digesting Bear Stearns and the financial crisis was reaching its zenith, Dimon still wanted to cover more U.S. main streets with Chase's blue octagon, even if that meant taking on more loans held by borrowers struggling to make ends meet as the recession deepened.

When Washington Mutual, the largest U.S. thrift, collapsed, JPMorgan snapped up its assets, ratcheting up its exposure to the struggling U.S. consumer overnight. Although JPMorgan was protected from the worst of WaMu's losses by a U.S. government guarantee, the deal was not without risks and some observers said that Dimon may have felt shareholder pressure to do the deal.

Dimon has said he believes the WaMu acquisition will end up being more expensive than the bank originally expected. He told Reuters he will address issues related to WaMu in his upcoming shareholder letter.

At the end of last year, JPMorgan held \$72.8 billion in bad loans from WaMu, almost a third of the bank's total residential mortgage book.

What's more, over half of JPMorgan's total housing exposure comes from \$113 billion in

home equity loans. And even as credit cards and subprime loans are improving, home equity loans are still going bad.

Indeed, some critics say the big four U.S. banks could suffer losses on home equity loans of up to \$200 billion in a worst-case scenario. As a point of comparison, JPMorgan had \$176 billion in shareholder equity at the end of 2010.

Dimon says JPMorgan, the third largest U.S. mortgage lender, supports reworking mortgages for worthy borrowers, but so far the bank has completed only 285,000 modifications. That is less than half of what Bank of America and Wells Fargo say they have done.

SUCCESSION

MORTGAGES ARE NOT Dimon's only problem. He may be setting up an in-house battle after announcing last year that his board is looking for a successor -- even though he says he has no immediate plans to stand down.

The likely in-house candidates to replace Dimon include Jes Staley, investment bank CEO, and Heidi Miller, now president of the bank's international business, who worked with Dimon for years at Citigroup. "The immediate team is pretty much the same cast of characters that he's been with for a number of years," said a person who has known and worked with Dimon for years.

While this stability of top management undoubtedly stood the bank in good stead

during the crisis, it also has bred a familiarity with Dimon's style of management that leads his staff to rarely question his decisions, said people familiar with Dimon's management team. (In an indication that some fear Dimon's wrath, a number of former JPMorgan executives declined to be quoted by name.)

Dimon's decision to raise the succession issue himself in his shareholder letter last year prompted speculation about when he might decide to leave.

In that light, some have wondered whether he might seek to do a transformational deal to seal his legacy, though Dimon said he doesn't feel any pressure to do this. "We can grow all our businesses organically, in the United States and overseas, and we're fine," he told Reuters.

Later, he said: "One day there will be an opportunity." He then added: "I think it's better to do that thing right in 10 years than rushing to do a bunch of stupid things in three years to say you did them."

He seemed wistful when talking about what he might do next, explaining that he thinks Wall Street CEOs will have a hard time getting a job in this president's administration.

Dimon said he could not see himself teaching full time, but he does enjoy going to Harvard Business School from time to time to give a lecture. "I get a kick out of that, I would do that," he said.

Clinton, on the other hand, sees other possibilities. "If he decides to get out of banking, I think he would be really good in politics."

(Reporting by Elinor Comlay and Matthew Goldstein; Editing by Jim Impoco and Claudia Parsons)



CLINTON SEES DIMON GETTING BANKS BACK TO BASICS

BY MATTHEW GOLDSTEIN NEW YORK, FEB 4

 $B^{\rm ILL\ CLINTON\ SAYS\ THE\ "jury\ may\ still}_{\rm be\ out"\ on\ whether\ behemoth\ banks}_{\rm like\ JPMorgan\ Chase\ are\ good\ for\ America.}_{\rm But\ the\ former\ president\ said\ he\ remains}$

But the former president said he remains a fan of Jamie Dimon, largely because the JPMorgan chief executive is one of the few top bankers willing to speak his mind and admit mistakes.

"I know that Jamie Dimon did not like everything in the financial reform bill, but

he supported higher capital requirements for banks," said the former president, during a half-hour phone conversation last month. "He has been more forthright than a lot of (bankers)."

Clinton is one a cadre of politicians and world leaders that Dimon, a registered Democrat, has befriended over the years. The list of political confidants, which includes former British Prime Minister Tony Blair and Chicago mayoral candidate and former investment banker Rahm Emanuel, has given Dimon high-level access to top

policy makers over the years.

In fact, on the day Clinton took time to talk to Reuters, he was preparing to head to Washington to meet his wife, Secretary of State Hillary Clinton, for the White House state dinner with Chinese President Hu Jintao. Also invited by President Barack Obama to the event were Dimon and his wife Judy.

Clinton said it's important for politicians not to ostracize bankers and to seek the counsel of people like Dimon. But he also said Wall Street financiers have an

obligation not to repeat the excesses that led to the financial crisis.

In the years leading up to the crisis, Clinton said banks "were raking it in, but it was coming in a way that didn't always better the economy as a whole."

As an example of finance with little or no economic substance, the former president singled out those collateralized debt obligations that were created by some

banks to enable hedge funds to place bets on the direction of the housing market.

"Remember that CDO deal Goldman Sachs got involved with? The thing that bothered me about it, and I'm not sure if it was illegal or not, was it was a bunch of people just betting" on housing, said Clinton. "There was no underlying benefit to society."

Clinton said the challenge for bankers

like Dimon is to get finance back to its roots and away "from gambling with money." While Clinton said Dimon "did a better job than most" in navigating the financial crisis, his challenge is figuring "out a way to get people to get loans with lower costs and higher quality products."

(Reporting by Matthew Goldstein; editing by Jim Impoco and Claudia Parsons)



COVER PHOTO: Jamie Dimon, CEO and chairman of JPMorgan Chase & Co, answers questions during an interview in his office in New York December 22, 2010.. REUTERS/LUCAS JACKSON

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