MAY 02
Jenna McNamee

JPMorgan steps in to acquire First Republic's assets as the FDIC placed it in receivership

Article

The news: After **First Republic Bank** was seized by the Federal Deposit Insurance Corporation (FDIC) early Monday morning, **JPMorgan** was selected to acquire most of the failed bank's assets, per a press release.

No systemic risk exception: On Sunday night, the FDIC asked for bids from potential buyers of First Republic Bank. On Monday morning, once the bank was in receivership, the FDIC immediately handed it over to JPMorgan.

- JPMorgan will acquire all of First Republic's $92 billion in deposits, and nearly all of its remaining assets, coming in at $229.1 billion. All 84 First Republic branches will operate as JPMorgan branches.
- It agreed to pay the FDIC $10.6 billion for the bank, return all of the deposits that 10 other banks had shared with First Republic in a previous attempt to save it, and eliminate the $5 billion it deposited at that time.
- The bank also entered a loss-shared agreement with the FDIC regarding a portion of First Republic's mortgage and commercial loan portfolio. The FDIC pledged to cover 80% of any losses incurred on the loans over the next five to seven years.
- JPMorgan won't acquire any of First Republic's corporate debt, and it will receive $50 billion from the FDIC in financing for the deal.

Because First Republic had a buyer lined up before it was placed in receivership, there wasn't a need for a systemic risk exception, and all uninsured deposits were safely transferred to JPMorgan. But the bank's collapse is still estimated to cost the Deposit Insurance Fund roughly $13 billion.

Implications to JPMorgan: JPMorgan said bidding for First Republic's assets was highly competitive, but its bid would incur the lowest cost to the federal Deposit Insurance Fund. CEO Jamie Dimon played a major role in orchestrating solutions to keep First Republic alive. So what does this acquisition mean for JPMorgan?

- The bank will record a one-time, $2.6 billion gain for the acquisition, but it's also anticipating about $2 billion in restructuring costs through 2024.
- Dimon welcomed the deal, saying it would be very good for the bank's shareholders and could accelerate its growth plans, especially in its wealth division. The bank currently holds $3.7 trillion in assets, and the deal will add over $200 billion more.
- JPMorgan's size has come into question—a federal law prevents banks from different states from completing a merger or acquisition if the acquiring bank would control more than 10%

of all insured deposits in the US. But this rule can be bypassed if the target bank is in default or in danger of defaulting.

The bank's shareholders appear to approve of the deal: JPMorgan shares were up more than 4% after it was announced.

Dual takeaways:

- Though JPMorgan shares are up, Dimon still has more to do than keeping shareholders happy. The bank faces allegations that it covered up links to the late sex offender Jeffrey Epstein. It's also dealing with the fallout of a failed fintech partnership and pressures to cease financing fossil-fuel related projects. Dimon's regrets over bailing out multiple banks during the 2008 financial crisis mean he'll be determined to prove this time is different.
- Meanwhile, financial regulators are standing on soapboxes preaching about the US financial system's stability and soundness. But First Republic's collapse clearly shows that consumers—especially the more wealthy and tech-savvy ones—are still spooked. Though interest rate risk hurt the bank, it would have likely survived if **Silicon Valley Bank** hadn't collapsed. First Republic wasn't dealing with a liquidity problem until consumers swarmed regional banks for their deposits—a clear indication that contagion is spreading.

*This article originally appeared in Insider Intelligence's **Banking Innovation Briefing**—a daily recap of top stories reshaping the banking industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*