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FCIC memo of staff interview with Duff McDonald, Author

Duff McDonald

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Author/Creator

Duff McDonald, Thomas H. Stanton, Adam Paul, Randall Dodd, Steve Sanderford, and Matthew Cooper

Memorandum For The Record

Event: Interview with Duff McDonald, author of “Last Man Standing”

Type of Event: Group Interview

Date of Event: July 23, 2010.

Team Leader: Matthew Cooper

Location: Via Telephone

Participants – Commission: Tom Stanton, Adam Paul, Randall Dodd, Steve Sanderford

MFR Prepared by: Matthew Cooper

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Cooper began the interview by asking McDonald why JP Morgan Chase (JPM) emerged from the financial crisis in better condition than most financial institutions. He cited the “fortress balance sheet” approach. “It’s the buy straw hats in winter approach to capital management,” McDonald said. “The best time when to capitalize on opportunities is when everyone else is suffering.”

JPM’s CEO Jamie Dimon “had a focus on detail,” McDonald said. “They understood in 2007 that there was subprime problem and they notably pulled back from some of the securitization efforts.” McDonald added: “They were lucky. They were by coincidence rebuilding their securitization team at the time” when the market was going poorly and that also inhibited their trading in risky mortgage-based assets. The origination and securitization teams had been fighting, McDonald noted and thus the fortuitous reorganization. He added that Dimon would disagree that this was a cause for JPM slowing its engagement with risky mortgage-related assets.

Cooper asked about derivatives, noting that JPM is the largest dealer in OTC derivatives. McDonald noted that while JPMorgan Chase was the largest dealer of OTC derivatives “they were just the middle men” and thus was not facing huge exposure. “The key is that they’re not AIG,” McDonald said. “It’s really about them being a broker and not a speculator…They’re...good at hedging their risk.”

Stanton asked about JPMorgan Chase’s fortress balance sheet. McDonald noted that the conservative balance sheet had once been seen as a hindrance to JPM’s stock price. “Until Lehman was in trouble it was the success story of the decade. JPM under performed on an absolute profitability basis because they were more conservative.” McDonald noted that JPM nevertheless found itself in trouble, just less than other financial institutions: “They were making securitized products, no doc loans and irresponsible lending decisions but less than everyone else and they stopped sooner.”

McDonald attributed much of JPM's success to Dimon's strong leadership and eye for detail, something that's not easily replicated: "If a better future means we have to have Jamie Dimon running every company than we're in trouble."

As part of Dimon's eye for detail "he's had a reputation since [his tenure as head of] Bank one and being intent on consolidation of information systems." McDonald said that Dimon made sure that JPM be able to handle two acquisitions at a time" and that this helped speed the integration of Washington Mutual.

McDonald said that Dimon had handled the Bear Stearns acquisition adroitly by saying no to Bernanke, Geithner and Paulson twice before agreeing to buy Bear with $29 billion of government assistance.

Cooper thanked McDonald who offered to help more if need be.