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SPECIAL REPORT AMERICA'S MONEY CRISIS

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JPMorgan buys WaMu

In the biggest bank failure in history, JPMorgan Chase will acquire massive branch network and troubled assets from Washington Mutual for \$1.9 billion.

By David Ellis and Jeanne Sahadi, CNNMoney.com staff writers
Last Updated: September 25, 2008: 11:02 PM ET

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NEW YORK (CNNMoney.com) -- JPMorgan Chase acquired the banking assets of Washington Mutual late Thursday after the troubled thrift was seized by federal regulators, marking the biggest bank failure in the nation's history and the latest stunning development in the ongoing credit crisis.

Under the deal, JPMorgan Chase will acquire all the banking operations of WaMu, including \$307 billion in assets and \$188 billion in deposits.

In exchange, JPMorgan Chase (JPM, Fortune 500) will pay approximately \$1.9 billion to the Federal Deposit Insurance Corporation. Separately, JPMorgan announced plans to raise \$8 billion in additional capital through the sale of stock as part of the deal.

The acquisition is JPMorgan Chase's second major purchase this year following the mid-March acquisition of investment bank Bear Stearns, a deal that was also engineered by the government.

"We think it is a great thing for our company," JPMorgan Chase Chairman and CEO Jamie Dimon said in a conference call with investors late Thursday night.

As a result of the acquisition, the New York City-based JPMorgan Chase will now boast some 5,400 branches in 23 states.

Federal regulators who helped shepherd the deal said the transition for WaMu customers would be "seamless."

"There will be no interruption in services and bank customers should expect business as usual come Friday morning," FDIC Chairman Sheila Bair said in a statement.

The FDIC was also quick to point out Thursday evening that the WaMu-JPMorgan Chase deal would not have any impact to its insurance fund which covers customer deposits when banks fail.

"WaMu's balance sheet and the payment paid by JPMorgan Chase allowed a transaction in which neither the uninsured depositors nor the insurance fund absorbed any losses," Bair said.

The FDIC insures the assets held by the 8,451 institutions with a total of \$13.4 trillion.

WaMu had been one of the most hard-hit banks during the financial crisis after it bet big, like many of its competitors, on the strength of the housing market -- only to see its fortunes sour as housing prices fell.

Following ratings agency downgrades this week and a freefall in the company's stock, many analysts were speculating that the endgame for the embattled savings and loan was imminent.

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September 25, 2008 4:04 PM ET

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WaMu ([WM](#), [Fortune 500](#)) shares, which had finished 25% lower in Thursday trading, fell another 73% in after-hours trading on the news.

WaMu becomes the 13th bank to fail so far this year and earns the title of the nation's biggest bank failure by assets on record, ahead of Continental Illinois, which had about \$40 billion in assets when it failed in May of 1984.

Part of the \$307 billion in assets that JPMorgan Chase will absorb are WaMu's toxic subprime and option-ARM mortgages. JPMorgan Chase said it would recognize projected losses on the loan portfolio upfront by marking down the value of the loans by \$31 billion.

The fall of WaMu is the latest turn in a dizzying two weeks that has seen the bankruptcy of Lehman Brothers, the acquisition of Merrill Lynch by Bank of America ([BAC](#), [Fortune 500](#)) and the near collapse of insurance giant [AIG](#) ([AIG](#), [Fortune 500](#)).

The Seattle-based thrift had put itself up for sale last week. Several other large institutions, including Wells Fargo ([WFC](#), [Fortune 500](#)), Citigroup ([C](#), [Fortune 500](#)) and HSBC ([HBC](#)), reportedly had pored over the company's books.

Earlier Thursday, reports surfaced that WaMu had approached private equity firms about a potential takeover of the firm.

The widening credit crisis has prompted President Bush to seek from Congress extraordinary authority to spend as much as \$700 billion to bail out the nation's financial system by purchasing toxic assets from banks.

President Bush, in a televised address on Wednesday night, said the nation is in the middle of a "serious financial crisis" that threatens the economy. "The market is not functioning properly," Bush said. There is a widespread loss of confidence. America could slip into a financial panic." ■

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