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## Counsel's Office, White House

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JP Morgan Transaction

THE WHITE HOUSE

WASHINGTON

March 17, 2008

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: KEITH HENNESSEY

SUBJECT: ~~THE FED/JP MORGAN TRANSACTION~~

*not clarified in*

*the same results as a "*

*Too late to fix - COS wants I to so into deal*

The point ~~missing~~ from this morning's discussion is that neither the Fed nor Treasury has the legal authority to purchase assets from Bear Stearns or JP Morgan. The transaction is therefore structured to ~~work like a sale~~, but technically it's in the legally ~~allowable~~ form of a non-recourse loan. *hermit*

**What they did**

The Fed is giving JP Morgan a "non-recourse loan" for \$30 B. A bundle of Bear Stearns assets (with a book value of \$30 B) will sit in a custody account at JP Morgan as up-front collateral for this loan. These assets will be sold<sup>1</sup> over time, and the Fed will get the proceeds of the sale.

So:

- if the assets eventually sell for \$25 B, the Fed will get \$25 B;
- if the assets eventually sell for \$35 B, the Fed will get \$35 B.

*is sound* *with explanation*  
Now the term "loan" is misleading because with a typical loan, as long as JP Morgan doesn't default, the Fed would expect to get back \$30 B plus interest. That is not the case here – the Fed will get back the sales value of the assets, whatever that value may be.

Thus, although it's technically and legally a non-recourse loan, it works just like a sale. This is why Secretary Paulson and others are saying "in effect, we (the Fed) own these assets."

<sup>1</sup> We expect a separate firm, Black Rock, will manage the actual sale.

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