

What did \$13 billion just buy J.P. Morgan?



Emmanuel Dunand /AFP/GettyImages

JP Morgan Chase & Co headquarters in New York.

by Mark Garrison

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JPMorgan Chase will pay \$13 billion in a landmark deal with the U.S. federal government and states to settle claims it misrepresented the mortgage investments it sold. It's a staggering sum, billions more than other companies paid out in settlements involving the Gulf oil spill and prescription drug fraud.

It might actually be a pretty good deal for the bank.

Deep inside the lair of JPMorgan chairman and CEO Jamie Dimon, there have been meetings and more meetings, with the board, top execs, all focused on one question: Will they get their money's worth from this settlement? Observers say they might.

“The ability to be able to address this up front now, get beyond this uncertainty, even if it’s a large amount, actually has a value to it,” says Cornell Law School professor Charles Kenji Whitehead, formerly a high-level banking attorney. “The value is that you can now begin to focus on running the business and turning to any other problems that you might have to address.”

Then there’s the company’s reputation with customers and clients. That goes into the calculation of what business leaders call goodwill, which has its own line on corporate balance sheets. A big settlement is a bit like ripping off a bandage, getting all the pain out of the way at once.

“It gets it out of the news and they go on and continue to do business, so it’s probably a smart move for them,” says consultant Elliot Schreiber, who previously worked in strategy and communications for a number of large corporations.

Companies often calculate that they’d rather suffer a couple days of bad press, as opposed to months more coverage of a drawn-out legal fight.

The settlement doesn’t cover all of JPMorgan’s legal troubles, which include questions about its energy trading and Chinese business dealings. But the \$13 billion does take care of a big chunk of its housing crisis problems. And the final price tag may be smaller.

“The vast majority of settlements are deductible,” says Robert Wood, a tax attorney specializing in payouts like these. “Unless JPMorgan has bargained away that, they probably can deduct a lot of it.”

That means a chunk of the settlement could effectively be paid by you and every American taxpayer. Don’t hold your breath for a heartfelt thank you message next time you’re at a Chase ATM.

About the author

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