

# Chapter 1

## The Dimon Way

*When you are running an institution . . . you are only one piece of it. I feel like I'm riding a bronco and hanging on for dear life.*

— JAMIE DIMON, SPEECH BEFORE THE YALE CEO SUMMIT

On yet another bloody day on Wall Street in early October 2008, the carnage glowed red on financial news screens as the Dow Jones Industrial Average plunged to even lower levels in one of the worst weeks in its history. With an hour and a half to go before the market closed, when it would achieve the dubious distinction of the Dow settling below 9,000 for the first time in five years, Jamie Dimon stepped out of his office on the executive floor of the JPMorgan Chase building on Park Avenue in the heart of Manhattan and led the way to a conference room. In his shirtsleeves, but his blue tie still on, Dimon had worked up to the minute of a scheduled interview. The once-crisp white shirt he wore looked a bit rumpled from an already long day that had started very early.

Sitting at the far end of the table, Dimon spread out two pieces of paper in front of him: one a memo with a list of topics to be discussed, and the other his trademark  $8\frac{1}{2} \times 11$  sheet on which he keeps track of any number of things—especially information that people owe him. His intense blue eyes focused, Dimon glanced at the two pages and

then turned to the business at hand: a discussion in the midst of one of Wall Street's most tumultuous times.

"I used to make a joke that my daughter called up and she asked, 'Dad, what is this crisis about?'" Dimon commented, repeating a story that appears in his letter to shareholders in the 2007 JPMorgan Chase annual report, which is dated March 2008.

As the story in the chairman's letter goes, Dimon answered her by saying, "It's something that happens every five to ten years." Dimon's daughter—one of three, who range in age from late teens to midtwenties—replied, "So why is everyone so surprised?"

Repeating the story seven months after the chairman's letter appeared Dimon had a different punch line. "I used to say, 'It's normal. Why are people surprised?' I can't say that any more, because it's gone beyond the normal every six- or seven-year convulsion."

The credit crisis of 2007 turned into the cataclysm of 2008, creating mounting worries over the stability of the entire financial system. Question marks have hovered over names that were once sacrosanct as Merrill Lynch was sold, Lehman Brothers went bankrupt, and other players such as Goldman Sachs and Morgan Stanley sought capital infusions from strategic investors. An economy in recession raised the specter of increasing unemployment, which would lead to further losses in bank loan portfolios and charge-offs for credit card delinquencies. For Wall Street executives such challenges have become the daily reality.

Dimon shuffled the two pages in front of him, revealing a glimpse of the  $8\frac{1}{2} \times 11$  sheet that was covered with dozens of little rectangles in blue ink: follow-ups and to-do reminders that had been written down and then thoroughly crossed out. What could be behind all those inked-in boxes on the sheet of white paper, which bore the deep creases of having been folded and carried around in a shirt pocket? Perhaps calls made to or from Henry Paulson, who was Treasury Secretary at the time, or Federal Reserve Chairman Ben Bernanke to discuss the latest developments in the financial crisis that had engulfed Wall Street firms, creating risk and uncertainty for even the strongest players. Maybe progress reports on the integration of two major acquisitions that JPMorgan had undertaken in the past six months: first, the stunning \$1.2 billion rescue/takeover of beleaguered investment bank

Bear Stearns in March 2008, and then, in late September, the \$1.9 billion purchase of failed thrift institution Washington Mutual (WaMu), which had been JPMorgan's number one acquisition target. Or maybe the status of markdowns on mortgage trading positions and leveraged loans, and higher credit costs in home lending—which, as the bank would announce a week later, had resulted in a precipitous drop in profits for the third quarter of 2008.

No doubt there was much on Dimon's  $8\frac{1}{2} \times 11$  paper and on his mind. What had started out as a decline in housing prices and mounting losses in subprime loans had spread like a pandemic flu outbreak throughout the global financial services industry. By October 2008, worries about the credit risks posed by other players were causing banks to balk at lending overnight to each other. As the credit market froze, liquidity needed by businesses slowed to a trickle. A controversial \$700 billion rescue package sold hard by Secretary Paulson and passed by a white-knuckled Congress that feared catastrophe if no action was taken had done little in its early days to ease the crisis and stop the bleeding in the stock market.

While not unscathed from subprime and loan issues, JPMorgan has fared comparatively well. The bank actually grew during the credit crisis, thanks to the two acquisitions: the Bear Stearns rescue deal that was orchestrated by the federal government and the purchase of Washington Mutual from the Federal Deposit Insurance Corporation (FDIC) after WaMu became the largest U.S. bank failure in history.

JPMorgan is among the industry's leading banks, along with Bank of America, Wells Fargo, and Citigroup. Of the four, Citigroup has been seen as the shakiest, after posting multiple quarters of losses. By January 2009, questions were also raised about the health of Bank of America. In early October 2008, however, the four were among the banks about to get a boost in capital from what was once seen as a highly unlikely source: the U.S. government. Just days after Dimon sat in the JPMorgan conference room, he would be one of several top-level banking executives who gathered around a different table in Washington for a meeting called by Secretary Paulson. At that meeting, the Treasury secretary would unveil a plan for the government to make equity investments in several banks, including JPMorgan, in return for preferred securities as

part of the \$700 billion plan to bolster the financial services industry. For the banks it was an offer they couldn't refuse.

JPMorgan didn't need the capital injection. After buying WaMu in late September 2008, the bank raised \$11 billion in a common stock offering. In a December 2008 interview with CNBC, Dimon said JPMorgan "didn't ask for it, didn't want it, didn't need it," referring to the government's investment. However, the government had asked nine banks to take cash infusions—quite possibly to avoid attaching a stigma to any one player or singling out a party that needed the capital more than the others.<sup>1</sup>

Although JPMorgan hadn't sought the government's cash, when operating in the cyclical banking business in the middle of a maelstrom, there is nothing as comforting as a capital cushion. Additional capital would result in an even greater ability to withstand a recession (which Dimon had been warning about for months) and would provide protection should matters go from bad to worse—and maybe even to severe.

By late 2008, Dimon's warnings appeared to be realized, as the stock market took a pummeling on recession worries and the need for yet another bailout—this time in the U.S. auto industry. JPMorgan shares tumbled as investors got out of the stocks of major banks, falling in late November to a six-year low below \$20 a share, far from its recent 52-week high of over \$50 a share. JPMorgan stock was also hit by news that it was cutting thousands of jobs in its investment banking division, as other firms were making similar (and in the case of Citigroup far more drastic) staff reductions.

Although JPMorgan Chase continues to face challenges from the financial crisis, it has translated operating strengths into strategy: gathering intelligence and sharing information across separate business lines and drilling deeply to identify risks and uncover potential problems. This management philosophy was probably reflected in a dozen different ways on Dimon's 8½ × 11 sheet of paper.

"The way he walks around with a sheet of paper with 50 bullet points on it in his front pocket," board member David Novak commented. "He writes something down; that gets done; he blocks it out. He's not only capable, he does the strategy and the execution as well as anybody. . . . For example, in the investment banking arena the numbers are so huge it would be very easy to do the chairman thing [of expecting others to know the numbers]. Jamie digs in there deep."

Dimon takes a detailed view of the business from the CEO level, although he sits many layers above the front line of operations. “Three of his greatest characteristics are he’s really smart, he has tremendous energy, and he’ll get into the details with anybody on anything. Most people who get to the level that he is at are prone to be superficial when it comes to running the business; they don’t have enough time or energy to get into the details,” observed Harvard Business School professor Paul Marshall.

Dimon admitted to being “a little nerdy” when it comes to getting into the details. “I don’t always do it, but I like to do it in some cases. I have to decide when to do it.” While he can dig into the minutiae when necessary and quickly discard what isn’t worth focusing on, associates say he’s not a micromanager. For one thing, JPMorgan Chase is simply too big. Instead, Dimon empowers executives and managers with a high degree of trust and accountability, with expectations that this will be transmitted through the ranks of the organization.

No matter how excellent the team, Dimon still takes the hands-on approach of a real numbers guy who is capable of doing analysis in his head, combined with the intuitive, gut-level sense of someone who grew up in the financial markets going back to the days when he worked summers in a brokerage office with his father and grandfather. The bold lettering in the lobby downstairs may read JPMorgan Chase, but make no mistake: This is the House of Dimon.

## **Running the House of Dimon**

Dimon is at the helm of a financial institution that boasts a legacy dating back more than two centuries and entwined with names like Rockefeller, J. Pierpont Morgan, and Aaron Burr, who founded the first predecessor bank in 1799. Burr, who was vice president under Thomas Jefferson, is well known for the infamous duel in which Alexander Hamilton, the first Treasury secretary, was mortally wounded. Replicas of the famous pistols are displayed in the JPMorgan lobby, while the originals—curious icons of the bank’s storied past—are displayed on the executive floor.

The firm may be steeped in history, but today when someone says “JPMorgan Chase,” it is Dimon’s face that comes to mind. The 52-year-old

chairman with the youthful face and gray hair seems to be everywhere these days, on magazine covers, in numerous newspaper articles, in testimony before Congress on the financial crisis, and in television interviews. He has emerged as the man of the moment in the financial services industry by completing deals that rescued failed or failing institutions, and has earned respect as a Wall Street statesman. His name was even circulated in the media as being on Barack Obama's short list of potential nominees for Treasury secretary.

Dimon has reached a pinnacle on Wall Street at a time when the quality of leadership is being questioned. Although he is the frequent target of praise and kudos—including a “Legend in Leadership Award” from the Yale School of Management Chief Executive Leadership Institute in December 2008—Dimon does not seek out the spotlight, perhaps fearing that a misstep or mistake in these treacherous times is inevitable for anyone. As he told CNBC, “The pedestal is a terrible place to be. . . . I almost want to get knocked off the pedestal so I don’t have to hear this anymore.”<sup>2</sup>

Further, as he commented in his remarks at the Yale CEO summit, “If you all knew the truth—how many problems and mistakes we have, and mistakes I’ve made. . . .”<sup>3</sup>

It is these characteristics—the continual focus on what is or could be wrong, owning up to mistakes, and constantly identifying and managing risks—that make Dimon a leader. He has also demonstrated the willingness to be the bearer of bad news, no matter what the impact might be on the bank's stock in the short term, in the interest of full disclosure to all parties—from board members to employees to analysts to investors. In the CNBC interview, he warned about the prospects for “a tough ’09,” adding, “It’s all going to be unemployment driven. . . . Unemployment will drive commercial losses, real estate losses, all consumer product losses. They’ll follow the unemployment trend. If we’re lucky, it will have two more quarters of this and we’ll start to see a recovery. . . . It’s possible it’s going to get worse and we’re in for a tougher time.”

In the same breath as the warning came Dimon's assurance. “As a business, we have to be prepared. We can’t run that business saying, well, if it doesn’t get better, we’re in deep trouble. We have to run the business saying we can handle whatever the environment is going to be out there.”<sup>4</sup>

If there is any praise at all, Dimon would rather it be directed toward his team, which is where he gives any credit that's due. "When you are running an institution . . . you are only one piece of it. I feel like I'm riding a bronco and hanging on for dear life," he told the audience at the Yale conference.<sup>5</sup>

Dimon's inner circle includes a close group of executives, many of whom have been with him for years, including back at Citigroup in the 1980s and 1990s. Leadership at JPMorgan Chase consists of about a dozen executives who are members of the operating committee and on the next level below about 45 people on the executive committee. From his office on the 48th floor, Dimon makes the rounds every day to committee members who are in New York, stopping by for conversations lasting three or four minutes. Those outside New York are apt to get a short phone call. Although Dimon uses electronic communication, his preferred mode is personal and when possible face-to-face. He doesn't waste time, but sees these micro-meetings as the most efficient way to following up on issues across the bank's six business units.

Dimon doesn't confine his office visits or phone calls to the person in charge, expecting that executive to follow up with a direct report. Rather, he will reach out to anyone at any level who is involved with a project or task. These short spurts of communication occur throughout the business day, and make for an unusual, yet effective, management style.

In addition, the JPMorgan Chase operating committee meets every week for a half day, and then for a full day and dinner once a month. Dimon also holds monthly meetings with each business unit team for several hours. And in between, Dimon—whom colleagues describe as having a remarkable capacity for remembering questions and details even weeks later—keeps up a steady pace of short, in-person sessions.

When he's traveling to bank offices outside New York, Dimon insists upon speaking to employees, such as in a town hall meeting setting. He'll also schedule visits with senior management, local government officials, regulators, clients, the press, or anyone else deemed important for him to see.

The House of Dimon, however, is not a one-man band. It is an orchestra in which all players must be in tune and synchronized to avoid the kind of cacophony that envelops too many firms, where one division

doesn't know or even care what another is doing. At JPMorgan Chase, coordination and cohesion are paramount in order to carry out a global vision, which of late has focused on managing and growing a vast business from retail banking to investment banking in the midst of a financial crisis, and integrating two major acquisitions—all at the same time.

Mention the Bear Stearns deal, and Dimon relates with emotion the hundreds of people who went back to work the night the negotiations began, without being told to do so. Or the daily meetings held at seven o'clock each morning—and sometimes several times a day—in which every conceivable department, business line, and geographic region is represented. “If you saw the teams, it would blow your mind,” Dimon said proudly.

But it is clearly Dimon—off-the-charts intelligent, articulate, fast-talking, funny, and a bit profane at times—who leads the way.

## **The Rise, Fall, and Rise of Jamie Dimon**

Dimon has enjoyed two rises to the top and a crash in between. The protégé of former Citigroup chairman and CEO Sanford “Sandy” Weill, Dimon spent nearly 17 years helping to build a financial empire from a Baltimore-based consumer credit company. As Weill's company—known by the successive corporate names of Commercial Credit, Primerica, Travelers, and then Citigroup—made more and more acquisitions, Dimon's influence spread among the various businesses. His many titles while working for Weill included CEO of brokerage firm Smith Barney and co-head of the fabled trading firm Salomon Brothers, as well as president of Travelers and then Citigroup, where he was widely seen as the heir apparent to become CEO one day.

After locking horns one too many times with Weill—including a clash involving Weill's daughter, who had ambitions to be promoted into Citigroup's upper ranks—Dimon was fired in November 1998. He did not emerge from a self-imposed hiatus until the right job came along in March 2000, becoming CEO of Bank One, the ailing Chicago-based bank in desperate need of a turnaround. Dimon assembled a team and worked his magic to restore health and profitability at Bank One, which was sold to JPMorgan Chase in 2004. After serving



as president of JPMorgan during an interim period, Dimon ascended to the top job at the end of 2005.

While Dimon quickly established himself as one of the top executives on Wall Street, it was the takeover of Bear Stearns that catapulted his reputation to an entirely new level, followed six months later by the acquisition of Washington Mutual. The bailout of Bear Stearns as it teetered on the brink of bankruptcy was orchestrated by the U.S. Treasury Department and the Federal Reserve to avoid financial catastrophe. The Bear Stearns deal prompted comparisons between Dimon and another Wall Street banker: J. Pierpont Morgan, who 101 years earlier had brokered a deal among his New York banker brethren to save the day in the midst of the Panic of 1907. As the story goes, in order to convince his fellow bankers of the need to take action, Morgan locked them in his library and wouldn't let them out until they came up with an acceptable plan to provide liquidity to troubled banks and trusts that were experiencing waves of runs by panicked depositors.

As for Dimon and Bear Stearns, it was the JPMorgan team that locked themselves into war rooms, as it were, to scour the books and come up with the valuations as the clock ticked against them in order to announce a deal before the Asian markets opened. The takeover of Bear Stearns averted what would have been a catastrophic bankruptcy. And if anyone wonders what would have happened if that had occurred, all they need to do is see the mess of losses and the fear that froze up the credit markets when Lehman Brothers was allowed to fail six months later.

While the Bear Stearns rescue didn't save the day when it came to preventing the overall credit crisis, it earned its place in the column of deals that helped assure the marketplace—at least temporarily. When the federal government looked around to see who could pull off the transaction—essentially buying Bear Stearns over a weekend—JPMorgan Chase was the only candidate.

“The lesson is that financial crises can lead, obviously, to financial trouble, but also to a lot of economic trouble. You can minimize the economic trouble provided that there are people who can step up to the plate and become bold leaders,” observed Richard Sylla, professor of economics and New York University's Henry Kaufman Professor of the History of Financial Institutions and Markets. “In doing the Bear

Stearns deal, Jamie Dimon showed that he had some of the old J.P. Morgan pizzazz as the head of JPMorgan Chase.”

While the Bear Stearns acquisition stunned the financial world with the speed at which the transaction came together and the initial rock-bottom price of \$2 a share, JPMorgan has received its share of criticism and backhanded compliments as a “vulture investor.”<sup>6</sup> Observers have also questioned whether the \$29 billion in government backing to facilitate the deal was absolutely necessary.

Dimon has said buying Bear Stearns will be good for JPMorgan shareholders in the long term, but it was not an acquisition that the company would have made had it not been for the need to bail out that institution. “The sweat equity, the pain, and the suffering” have been very high—not to mention the Bear Stearns balance sheet that has had to be managed and risks brought into line. “It has cost us quite a bit more money to liquidate those portfolios,” Dimon explained. Add to that the escalating cost and sheer effort of integrating a huge investment bank in the middle of an all-out financial crisis.

By comparison, Washington Mutual has been a sweeter deal: more strategic in expanding the Chase retail network, especially to key states such as California and Florida. Although writing down loan losses on the Washington Mutual portfolio has hurt the JPMorgan numbers in the short term, the company sees growth potential in the years to come.

As an aside, Dimon mentioned receiving an e-mail from a JPMorgan employee whose sister works for WaMu. Dimon quoted the e-mail from memory, repeating the woman’s unsolicited observations about the JPMorgan team in the midst of the acquisition, saying, “‘Boy, these people move awfully quickly. They already made the management changes. They’ve announced all these HR programs and stuff like that. . . . They were fair and direct.’ And then she did a paragraph on Charlie”—JPMorgan Chase retail banking head Charlie Scharf—“that he stood up in front of the employees; that he took every single question. ‘He was honest. He was direct. He was can-do. He’s already gotten back to us on a couple of things.’” Smiling, Dimon added, “It just made me feel great.”

While Dimon and his team can take a bow for acting swiftly and strategically to build the company for the long term, they’re not afraid to take their lumps, either: admitting mistakes, taking write-downs when

necessary, and shoring up capital to withstand not only a prolonged credit crisis but a recession. Given the management philosophy that favors disaster preparedness, JPMorgan will likely weather this storm. It has battened down the hatches, as evidenced by its Tier 1 capital ratio, a key indicator of a bank's balance sheet strength. Tier 1 capital functions as the base equity capital of the bank and supports other levels of capital (such as preferred stock and debt). In the third quarter, JPMorgan's Tier 1 capital ratio stood at 8.9 percent, above its target range of 8.0 to 8.5 percent, and rose further to 10.8 percent in the fourth quarter. If things go from bad to worse, with a recession resulting in higher unemployment—and therefore more loan losses and credit card delinquencies—then expect Dimon and his team to do whatever it takes. That's the attitude that Dimon brought to Bank One, where he took \$5 billion in charge-offs and write-downs before finally staging a stellar turnaround. His philosophy hasn't changed: to get in front of the problem and tell the truth about what is happening.

"If problems exist, recognize them and take corrective steps immediately." That's how John Hall, a former Bank One board member, described one of the leadership strengths that Dimon exhibited at the Chicago-based bank. Hall, who headed the board committee that recruited Dimon to become CEO, also listed having a strong balance sheet, making sure the right leaders are in place, and keeping costs in line as some of Dimon's other management qualities.

"He'll go back to those principles regardless of what the implications are on the quarterly earnings," added Hall, who said he "thinks the world of Jamie."

"It's the cost of living up to those principles. Even if earnings don't meet the projection, he'll still say, 'That's what we're going to do.'"

For Dimon steps such as taking write-downs when necessary and always preserving the quality of capital are part of "doing the right thing," a phrase he uses a lot, whether to explain the rationale behind a certain action or to communicate the management philosophy. This little phrase carries big implications on everything from customer service to corporate governance to regulatory compliance. "If it's not the right thing to do, don't do it," Dimon said simply. "That goes through the whole company."

## What You See Is What You Get

Those who have known Dimon describe him as very direct and straightforward. In fact, two people used the exact same phrase: “With Jamie, what you see is what you get.”

And while his first name may be James, people the world over—from employees to shareholders to the guy on the street—call him Jamie. It reflects the kind of familiarity that Dimon cultivates and the accessibility he creates in the company where employees are encouraged to provide feedback, particularly of the critical nature. As Dimon sees it, if a marketing practice, a customer service issue, or anything else is detracting from the company’s goals or undermining its drive to be the best it can, he wants to know about it.

Steve Burke, president of Comcast Cable and a JPMorgan Chase board member, is among those who have known Dimon the longest. They met in the early 1980s at Harvard Business School where they were in the same section of students and quickly became friends. “I saw in him then the same things I see in him today. He’s very smart, of course. . . . It was very clear very early in the process that he was brilliant in business, and completely fearless and confident. He says exactly what he thinks, not mincing words. He’s very honest—with himself and about business issues. He’s got great integrity.”

Dimon’s downside is his impatient and often demanding nature, and a temper that can flare. While he has attracted a loyal team, there have been departures from executive ranks as well. Not everyone could—or should—work for Dimon, an intense, hard-driving executive.

What comes across in an interview, a speech, or a roundtable discussion with business school students is Dimon’s willingness to speak his mind—and sometimes venture into politically sensitive topics such as energy policy. He is never at a loss for words, whether telling stories from his career or explaining the state of the financial industry. He doesn’t speak cryptically and often uses metaphors and analogies to bring home the point. “If you are going to take a boat across the Atlantic, you don’t have to be a brilliant person to know that there are big storms on the Atlantic, and you’ve got to be able to survive them,” Dimon commented in the middle of a discussion on risk management. “And just because it’s sunny outside doesn’t mean you shouldn’t bring your life vest.”

Dimon adopts the same clear communication style whether he's addressing employees, shareholders, or Wall Street analysts, and his message has no sugarcoating or spin. Making a presentation at a UBS Securities investment conference in the second quarter of 2008, Dimon talked frankly about the current business challenges even though it was in the middle of the quarter.

"Many CEOs would wait until the end of the quarter, hoping things would get better," said Robert "Bob" Lipp, recently retired as a special adviser to JPMorgan Chase and a member of its board of directors. "They wouldn't want to discuss the bad news yet. But Jamie just got it right. There's credibility in that kind of management. Basically, he thinks it's just the right thing to do: to be very visible and quick with news that's not moving in the right direction—for example, when he disclosed losses on credit cards and upping reserves for loan foreclosures."

The same goes when Dimon speaks with employees, whom he enjoys meeting in town hall presentations, which energizes him as much as they motivate others. Rather than engage in "buck up the troops" sessions, Dimon tells it like it is as he answers questions frankly and listens to marketplace intelligence from those who are nearest to the customers.

"Jamie likes to talk to people. He wants to know them and what they think. He believes that accurate information is essential for everyone: investors, employees, newspaper reporters. And it won't be doctored up," Lipp continued.

Dimon makes no bones about his dislikes, especially the corporate speak that falls under the category heading of "b's" (including needless bureaucracy and cover-your-butt and blame-someone-else attitudes). His manner is refreshing to the point of being disarming. But when those blue eyes narrow a millimeter or so and suddenly he's asking the questions, it's best to have an answer—and preferably *the* answer.

## **Straight Talk about a Credit Crisis**

On that brutal day in the stock market in early October, which was fast becoming one of many with significant downdrafts, Dimon spoke with his usual frankness about the current financial crisis. All the various components and contributing factors—the proliferation of bad

mortgages to borrowers with questionable credit histories, the securitization of loans that escalated into complex derivatives that carried far too much risk, and much more—will be debated for decades.

“Some of the things are fundamental truths; they never change,” Dimon commented. “Too much leverage. Too much short-term borrowing.”

In his chairman’s letter summarizing 2007, Dimon listed several issues and insights from the financial crisis thus far—among them that structured investment vehicles (SIVs) served no business purpose and that subprime mortgages and subprime collateralized debt obligations (CDOs) were more dangerous than originally thought.

Previously obscure in the minds of many investors, SIVs and CDOs suddenly erupted into full-blown awareness. While they are not the only problems in the credit crisis, the proliferation of these types of investments showed just how far the financial world had gone in its insatiable quest for return—unfortunately at the expense of taking on far too much risk. Created as separate entities, SIVs shouldered off-balance-sheet exposure. The objective was to make money on arbitrage, meaning the difference between two assets. In this case, the SIV sold shorter-term debt such as commercial paper, medium-term notes, or subordinated capital notes. It then used that money to buy longer-term assets, such as asset-backed or mortgage-backed securities, which presumably would pay a much higher return than what the SIV would pay out on the shorter-term notes that it sold.

That worked fine until the market for the short-term debt suddenly dried up, and the income generated by longer-term asset-backed securities declined because of defaults. The riskier the longer-term assets held by the SIV were, the more imbalanced the equation became. When losses swamped the SIVs, the banks that had created these entities suddenly had to put the assets onto their balance sheets.

JPMorgan avoided SIVs. The only one it ever had, dating back several years to when it bought Bank One in 2004, was sold long before the credit crisis. Rival Citigroup was the lead issuer in what was estimated to be a \$500 billion market. According to a September 2008 *Fortune* article, the SIV meltdown has forced Citigroup to take \$58 billion worth of SIVs back on its books. HSBC Bank’s SIV exposure on its balance sheet totaled \$35 billion. For JPMorgan, the SIV exposure has been zero.<sup>7</sup>

Collateralized debt obligations (CDOs) are fixed-income securities that are linked to underlying debt instruments, including mortgages and other loans. When banks underwrite mortgages, the home loans are pooled together by investment banks. The cash flows generated by the loans are then used to pay off mortgage-backed bonds, which are underwritten by the investment banks. Further, mortgage bonds are often then turned into CDOs and sold off in tranches, or slices, depending on how much return investors want and, of course, how much risk they can handle. Then there was an instrument called a CDO-squared, which, as the name implies, is a CDO that is backed by a portfolio of other CDOs.

In an easy credit market in which home prices were still rising to enable borrowers to refinance their way out of cash flow crunches, these exotic mortgage-based derivatives seemed very attractive. But as soon as the housing market soured and subprime defaults began to rise, CDOs became part of the toxic mess that poisoned the system.

While JPMorgan has had its share of CDO losses, they have been far smaller than those of its peers. As *Fortune* reported, from July 2007 through the second quarter of 2008 JPMorgan took \$5 billion in losses on high-risk CDOs and leveraged loans, while Citigroup took \$33 billion in losses; Merrill Lynch, \$26 billion; and Bank of America, \$9 billion. “And in this market, losing less means winning big,” *Fortune* added.<sup>8</sup>

Beyond what was happening on Wall Street with SIVs and CDOs, Main Street had undergone a shift that also added to the risk in the marketplace. As Dimon noted in his letter to shareholders, the nature of home equity borrowing had fundamentally changed from a conservative means to get access to cash to taking a leveraged bet that home values would continue to increase.

When subprime default rates rose, the problem was not just a lack of creditworthiness among some borrowers. The escalation of home prices that had allowed refinancing to pay off more debt had stopped. With a decline in housing prices, overleveraged borrowers suddenly faced a mounting debt burden—and in the worst cases owed more than the house was worth.

As Dimon was quick to point out, the problem was not isolated to subprime mortgages alone. Prime mortgages and so-called Alt-A,

which is considered the next tier down from prime but still good quality, were also affected.

“Again here is a mistake we made,” Dimon said. “We didn’t extrapolate that [deterioration in subprime mortgages] really to Alt-A or prime mortgages, and we should have.”

The magnitude of the financial crisis of 2008 will yield lessons for decades to come. In the midst of it, we cannot comprehend the implications of all that has happened: the creation of derivatives that carried far more risk than Wall Street realized; the use of trillions of dollars of credit default swaps as a combination insurance and side bet on the creditworthiness of players; and the direct actions taken by the government that hark back to Roosevelt-era policies in the Great Depression. And just as the generations of the past warned that no one should forget the Crash of 1929 and the Great Depression that followed, one hopes the lessons of the current financial crisis don’t fade from memory anytime soon.

“Experience and judgment—I don’t think they’re replaceable. You go to a lot of businesses—they don’t remember how bad things can get. It takes someone who has been there,” observed Dimon, sounding very much like the avid reader of history that he is. “We will never forget the aftermath of the housing bubble, but 40 years from now, believe me, someone is going to forget again somewhere.”

## **Never, Ever Forget the Downside**

Jamie Dimon never forgets the downside. Sharp, witty, and engaged, he does not come across as a pessimist. His mind and his speech patterns crackle with intelligence and vitality. But he is always aware of the cloud—not just the potential for a silver lining. When his management team gathers, the focus is never on what is going well; it’s on the handful of problems that need to be addressed. Even in his communiqués to investors—from his first days as CEO of Bank One starting in late March 2000 through the present at JPMorgan Chase—Dimon points out the risks that the businesses face and what could have been done better.

“That’s the other thing: I think you have to be self-critical,” Dimon said, and then quoted longtime friend and colleague Bob Lipp: “Emphasize the negatives.”



“Look where you could be wrong; admit when you’re wrong. To me it’s important to do that because I want everybody to do that, so that we actually make a better decision the next time,” Dimon added.

The perpetual focus on the downside is part of Dimon’s overall conservatism when it comes to banking, such as stressing high levels of Tier 1 capital. “With regard to balance sheet management, Jamie is by nature a conservative person. He would always stress the importance of having ample capital and ample liquidity over goals like growing our revenue or market share,” commented James Crown, a JPMorgan Chase board member who also served on the Bank One board and helped lead the recruitment team that brought Dimon in as CEO.

Dimon is relatively young to be such a seasoned CEO. He was only 44 when he took the reins at Bank One and 49 when he was handed the top job at JPMorgan Chase following its acquisition of Bank One. Dimon’s level of experience and tenets of his management philosophy reflect his many years spent helping to build what eventually became Citigroup. Along the way, he mingled and worked with others who were financial industry leaders in their own right; among them was former Lazard Freres partner Frank Zarb, whom Sandy Weill recruited to become CEO of Smith Barney when it was part of Primerica.

Reflecting on his days at Smith Barney and previous associations with Weill, Zarb, who has also served as chairman and CEO of the NASDAQ stock market, recalled the shared experience of these executives, and in their midst a bright and younger Dimon. “Among all of us there was a leadership philosophy expressed to the entire organization: If there is a problem and you tell me, it’s *our* problem. If there is a problem and you don’t tell me, it’s *your* problem—and you don’t want to have a problem!”

That same attitude can be heard in Dimon’s discussion on risk management and sharing information. If there’s a problem, speak up about it. No one is going to kill the messenger. It’s what people don’t see or don’t say that causes the real problems.

“If a management team gets up there and they always spin the positive, what do you think the person the next [level] down is going to do? They will spin the positive, too—as opposed to saying, ‘I’m not sure these mortgages really make sense,’” Dimon said.

The self-criticism discussion extends into a brief postmortem on lending practices and risk that could have been mitigated. No matter that JPMorgan was better at it than others, in Dimon's mind it wasn't enough—and he says so. “We had fairly good controls in that we actually underwrote the mortgages. We still were terrible at the underwriting, but a lot less than some other people because we underwrote everything.”

Although JPMorgan did raise its underwriting criteria in 2007, it was too slow and, in hindsight, too conservative in taking these actions. “It was death by a thousand cuts. We should have been—*boom!* By the way, what caused the problem in subprime had to cause the problem in this other stuff [higher-quality loans], too. If we had done that [raised underwriting criteria], we would have saved some extra money because we would have been a little more careful.”

## A Culture of Transparency

Creating a culture of transparency means talking openly about what went wrong, which strengthens risk management. “Your first reaction is roll up our sleeves and let's figure it out. We have all the right people there,” Dimon explained. “Unless there was malfeasance or lying, you don't punish people for that.”

He related how even when someone has to be let go, he never makes an example of that person to show the consequences of poor performance. “I would never do that. You never see me embarrass someone publicly—never . . . hang someone high.” Instead, Dimon makes sure a party is held for colleagues to acknowledge the person who is leaving.

This is the softer side of Dimon, the demanding boss who sets high expectations, but leads by example. In a business in which stories abound of out-of-touch and hands-off upper management—criticism that dogged former Bear Stearns CEO James Cayne in the months leading up to that once-revered investment firm's near failure—Dimon not only walks the talk, he's at the front of the line leading the way. Since his long hours (Dimon casually mentions working an 80-hour week) are well known, people are more apt to respond with a can-do

attitude. “When you say to someone, ‘We really need to do this,’ they say, ‘When do you want me in, seven o’clock Saturday? What do we need to get done?’—not ‘Oh, that’s so hard to do.’ You have to teach people.”

When Dimon speaks of teaching people, there is a bit of the professor in him. He enjoys speaking to students, and has been a guest lecturer at Harvard Business School, as well as Northwestern University’s Kellogg School of Management and the University of Chicago’s Graduate School of Business. (Asked what else he might want to do someday, teaching does cross Dimon’s mind.)

In Dimon’s school of management, there are high standards and expectations, many of them grounded in basic, commonsense truth. “If you wouldn’t treat your mother that way, don’t treat the client that way,” Dimon says. “If this piece of paper tells the client how much risk they’re taking and you don’t want to give it to them, they’re probably taking on too much risk. Give them the paper.”

Those who are new to Dimon’s way of doing things are indoctrinated fast. Dimon told of his experiences with some managers who were new to JPMorgan Chase because the company where they had worked was bought or merged into the operation. In the beginning, Dimon will make suggestions: “I say to them, don’t you think you should be doing this kind of margin and growing this fast and doing this?” Some managers, perhaps not quite grasping who they’re working for, may not get the drift. Instead, they try to explain it all away, saying things such as, “Well, you know it’s a little different in my business.” Not the right answer.

Instead of defending the way business has been done, managers would be far better off getting with the Dimon program, which is to set higher targets and become self-critical about why they haven’t been reached yet. “Eventually I say to them, excuse me, you’re the boss. You should be telling me that ‘This is what I should be accomplishing. This is what I’m doing well and what I’m doing badly’ in a comprehensive kind of way,” Dimon explained. “And the standards, by the way, are performance and integrity.”

Dimon’s style attracts high-performance people who embrace his way of doing things. “If you are going to work with Jamie, do what you say you are going to do. The people he attracts and, more importantly, that he is attracted to are people who clearly get things done,”

Andrea Redmond, one of two executive recruiters who worked with the Bank One board committee during the CEO recruitment, said of Dimon and his team.

“You have to have some strength and conviction and, in that regard, you need to demonstrate and communicate that you have that strength,” added Redmond, who today has a consulting relationship with Dimon and JPMorgan Chase and also takes on other select assignments and projects.

For Dimon it’s all about the team and accountability to the organization. Although people sometimes profess wanting to work specifically for him, that’s not how Dimon defines loyalty. As he told students in a speech at Northwestern’s Kellogg School of Management in 2002, “If you walk into my office and say, ‘Jamie, I’m loyal to you,’ it makes me nervous. I want you to say, ‘I’m loyal to the company . . . or the principles . . . what we’re trying to build,’ not to the individual, and I think it’s a very important distinction.”<sup>9</sup>

Organization loyalty is a two-way street, meaning mutual support when the going gets tough and the willingness to take on a less-than-desirable assignment for the good of the company. “Let’s say we have a big problem and you were running a great division, and you’re highly respected. And I say to you, ‘I need you to go to Vietnam,’” Dimon explained. “If you trust the company and you trust me, you might say, ‘Oh, boy, that’s a terrible hardship, but if that’s what you need me to do, I’m there.’ Most people won’t go. You know what they’re going to say: ‘I got a honeypot here.’ If [the move is perceived as] political, they’ll say, ‘I’ll get shot in the back anyway. There’s no bridge back.’”

In these situations Dimon counters such resistance first by recognizing it and then by giving assurances that the person will continue to be paid like his or her peers, with no loss of status at the company. “And thank you for doing the toughest, meanest job, and yes, there is a bridge back. And you also know that if you need help, the whole damn team will get on an airplane and fly out there to help you,” Dimon concluded.

The moral of this little anecdote is that, in the House of Dimon, people are expected to do what it takes to get the job done, but they don’t have to go it alone. Not getting the job done, though, is never an option.

## Doing What It Takes to Get the Job Done

When the JPMorgan Chase board was at the corporate headquarters in September 2008, Dimon invited the directors to one of the meetings that are held every day among departments and business lines across the company—partly because he had to be there, but also to show off the team in action. “It’s so damn impressive, the knowledge of the people, the sharing of information, the ‘I’ll get back to you on that,’ and ‘I’m going to fix that,’” Dimon said proudly.

Perhaps the most impressive have been the integration teams working on Bear Stearns and more recently Washington Mutual. Comprised of technology, operations, and other business support functions, the teams have set up 26 war rooms by product, by system, and by area, and then a master war room. When this group gets together, Dimon said, there is “high-fiving, hugging, and crying.”

“They never thought they would accomplish so much in their lives,” he added.

The same might be said for Dimon: stepping up to the plate as the banker of last resort to rescue Bear Stearns, buying Washington Mutual the day it was seized by the FDIC without the failed bank’s operations missing a beat, and steering a supertanker of a financial institution through very stormy seas.

When the credit crisis began, Dimon won accolades for pulling off a “steal of a deal” with Bear Stearns, but in hindsight that transaction has been put into perspective. It wasn’t the defining moment for Dimon, just one of many significant ones.

“Bear Stearns won’t represent Jamie’s ‘last, great deal.’ I would fully expect he will add several more accomplishments to his already impressive list of successes as a leader,” James Crown observed in early June, just days after the Bear Stearns acquisition formally closed.

After Bear Stearns and Washington Mutual, one can hardly imagine what JPMorgan Chase might do next. No doubt in time there will be more, and not just acquisitions, but also plans for organic growth from its diverse businesses as an ailing economy gets back on its feet.

On that bloody day in early October, with about 15 minutes to go before the stock market closed sharply downward, and the Dow dropped nearly 700 points, Jamie Dimon picked up two pieces of paper

from the conference room table. The memo of topics to be discussed could go in the recycling bin now. And if the discussion had made its way to his  $8\frac{1}{2} \times 11$  page of reminders and to-dos, it could be crossed off as well, making one more blue-ink block on a well-marked paper.

And then the CEO in shirtsleeves was on to the next thing on his list.