FitchRatings

Fitch Downgrades JPMorgan to 'A+/F1'; L-T IDR on Watch Negative

Ratings Endorsement Policy

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Fitch Ratings-New York-11 May 2012: Fitch Ratings has downgraded JPMorgan Chase & Co.'s (JPM) Long-term Issuer Default Rating (IDR) to 'A+' from 'AA-' and its Short-term IDR to 'F1' from 'F1+'. Fitch has placed all parent and subsidiary long-term ratings on Rating Watch Negative.

Fitch has also downgraded JPM's viability rating (VR) to 'a+' from 'aa-' and placed it on Rating Watch Negative. In addition, Fitch affirmed JPM's '1' support rating and 'A' support rating floor. A full list of rating actions follows at the end of this release.

The rating actions follow JPM's disclosure yesterday of a $2 billion trading loss on its synthetic credit positions in its Chief Investment Office (CIO). The positions were intended to hedge JPM's overall credit exposure, particularly during periods of credit stress.

Fitch views the size of loss as manageable. That said, the magnitude of the loss and ongoing nature of these positions implies a lack of liquidity. It also raises questions regarding JPM's risk appetite, risk management framework, practices and oversight; all key credit factors. Fitch believes the potential reputational risk and risk governance issues raised at JPM are no longer consistent with an 'AA-' rating.

Still, at the 'A+' level JPM's ratings continue to reflect its dominant domestic franchise as well as its solid and growing international franchise in investment banking and commercial banking. Capital remains sound and compares well with global peers, providing the bank with sufficient cushion to absorb a material idiosyncratic loss event. Fitch believes JPM continues to be well prepared to meet the minimum standards under Basel III.

Like other global trading and universal banks (GTUBs), the complexity of JPM's operations makes it difficult to fully assess the risk exposure. This trading loss is precisely the kind of risk factor inherent in the GTUB business model. Fitch believes JPM, like other GTUBs, is in a highly confidence sensitive business and the longer-term implications for the firm's reputation are not yet known. As a result, Fitch believes JPM's ratings remain at heightened risk for downgrade until the firm's risk governance practices, appetite, oversight and reputational impact can be further reviewed.

In addition, ongoing volatility and further losses are likely to arise from these positions as the firm unwinds them, creating some uncertainty. The firm's Value at Risk (VaR) methodology was also changed in first-quarter 2012 (1Q'12) but subsequently reverted back to the original methodology. This resulted in a near doubling of VaR to $170 million, from 4Q'11 VaR of $88 million. The variance emanated from the CIO VaR and a negative $47 million diversification benefit. Fitch believes this also highlights some problems with modeling related to this portfolio.

Resolution of the Rating Watch Negative will conclude upon a further review of how JPM has addressed what Fitch views to be risk management and oversight deficiencies that allowed such a loss to occur. Fitch will also attempt to assess the future earnings and capital impact from these exposures. Fitch will also review the potential implications for market confidence in JPMand reputational damage as a result of this loss on both its liquidity profile and counterparty and dealings.

Fitch believes the Rating Watch resolution could result in a further downgrade of one notch if the risks are not appropriately sized and addressed. The complexity and opacity of these positions may also result in lingering concerns around the firm.

A return to a Stable Outlook will be dependent upon Fitch's ability to gain comfort with the risk management concerns, potential ongoing nature of these synthetic credit positions and volatility they may create, as well as the reputation issues raised.

Fitch has placed all of the ratings below (with the exception of the short-term and commercial paper ratings) on Rating Watch Negative.

Fitch downgrades and affirms JPMorgan's ratings as follows:

JPMorgan Chase & Co
--Long-term IDR to 'A+' from 'AA-';
--Long-term senior debt to 'A+' from 'AA-';
--Long-term subordinated debt to 'A' from 'A+';
--Preferred stock to 'BBB-' from 'BBB';
--Short-term IDR to 'F1' from 'F1+';
--Commercial paper to 'F1' from 'F1+';
--Viability to 'a+' from 'aa-';
--Market linked securities to 'A+-emr' from 'AA-emr'.

JPMorgan Chase Bank N.A.
--Long-term deposits to 'AA-' from 'AA';
--Long-term IDR to 'A+' from 'AA-';
--Long-term senior debt to 'A+' from 'AA-';
--Long-term subordinated debt to 'A' from 'A+';
--Short-term IDR to 'F1' from 'F1+';
--Short-term debt to 'F1' from 'F1+';
--Short-term deposits at `F1+';
--Viability to 'a+' from 'aa-';
--Market linked long-term deposits to 'AA-emr' from 'AAemr';
--Market linked securities to 'A+emr' from 'AA-emr'.

Chase Bank USA, N.A.
--Long-term deposits to 'AA-' from 'AA';
--Long-term IDR to 'A+' from 'AA-';
--Long-term senior debt to 'A+' from 'AA-';
--Long-term subordinated debt to 'A' from 'A+';
--Short-term IDR to 'F1' from 'F1+';
--Short-term debt to 'F1' from 'F1+';
--Short-term deposits at `F1+';
--Viability to 'a+' from 'aa-'.

Custodial Trust Co.
--Market linked long-term deposits to 'AA-emr' from 'AAemr';
--Long-term IDR to 'A+' from 'AA-';
--Short-term IDR to 'F1' from 'F1+';
--Viability to 'a+' from 'aa-'.

JPMorgan Bank & Trust Company, National Association
--Long-term deposits to 'AA-' from 'AA';
--Long-term IDR to 'A+' from 'AA-';
--Short-term IDR to 'F1' from 'F1+';
--Short-term deposits at `F1+';
--Viability to 'a+' from 'aa-'.

JPMorgan Chase Bank, Dearborn
--Long-term deposits to 'AA-' from 'AA';
--Long-term IDR to 'A+' from 'AA-';
--Short-term IDR to 'F1' from 'F1+';
--Short-term deposits at `F1+';
--Viability to 'a+' from 'aa-';

Bear Stearns Companies LLC
--Long-term IDR to 'A+' from 'AA-';
--Long-term senior debt to 'A+' from 'AA-';
--Long-term subordinated debt to 'A' from 'A+';
--Short-term IDR to 'F1' from 'F1+';
--Market linked securities to 'A+-emr' from 'AA-emr'.

J.P. Morgan Securities LLC
--Long-term IDR to 'A+' from 'AA-';
--Short-term IDR to 'F1' from 'F1+'.

JPMorgan Clearing Corp (formerly Bear Stearns Securities Corp)
--Long-term IDR to 'A+' from 'AA-';
--Short-term IDR to 'F1' from 'F1+'.

Banc One Financial LLC
--Short-term IDR to 'F1' from 'F1+';
--Short-term debt to 'F1' from 'F1+'.

Bank One Capital Trust III
Bank One Capital Trust VI
Chase Capital II
Chase Capital III
Chase Capital VI
First Chicago NBD Capital I
JPMorgan Chase Capital X through XXVIII
--Preferred stock to 'BBB' from 'BBB+'.

Bank One Corp
--Long-term subordinated debt to 'A' from 'A+'.

J.P.Morgan & Co., Inc.
--Long-term senior debt to 'A+' from 'AA-';
--Long-term subordinated debt to 'A' from 'A+'.

Morgan Guaranty Trust Co. of New York
--Long-term senior debt to 'A+' from 'AA-'.

NBD Bank, N.A. (MI)
--Long-term subordinated debt to 'A' from 'A+'.

Providian National Bank
--Long-term deposits to 'AA-' from 'AA'.

Washington Mutual Bank
--Long-term deposits to 'AA-' from 'AA'.

Collateralized Commercial Paper Co., LLC
--Short-term debt to 'F1' from 'F1+'.

The following ratings were affirmed:

JPMorgan Chase & Co.
--Support at '1';
--Support Floor at `A';
--Long-term debt guaranteed by TLGP at `AAA'.

JPMorgan Chase Bank N.A.
--Support affirmed at '1';
--Support Floor at `A'.

Chase Bank USA, N.A.
--Support affirmed at '1', rating;
--Support Floor at `A' rating.

Custodial Trust Co.
--Support at '1'.

JPMorgan Bank & Trust Company, National Association
--Support at '1';
--Support Floor at `A'.

JPMorgan Chase Bank, Dearborn
--Support at '1';
--Support Floor at `A'.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Master Global Financial Institutions Criteria' (Aug. 16, 2011);
--'Securities Firms Criteria' (Aug. 16, 2011).

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Securities Firms Criteria

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