NEWS RELEASE

CALIFORNIA STATE TREASURER BILL LOCKYER

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State Treasurer Lockyer Issues Statement on JP Morgan's Purchase of Bear Stearns and Possible Actions to Strengthen Protections for State in Bond Transactions

SACRAMENTO – State Treasurer Bill Lockyer today issued the following statement on Bear Stearns' purchase by JP Morgan Chase & Co., and on possible efforts by his office to strengthen its monitoring of Wall Street banks and bolster assurances the State will receive bond sale proceeds from underwriters.

Bear Stearns served as senior underwriter in two recent State bond transactions: a $1 billion refinancing of state Department of Water Resources (DWR) power revenue bonds; and a $302.5 million State Public Works Board lease revenue bond sale to finance various University of California projects. Those deals close on March 19 and March 26, respectively. Bond purchase agreements require Bear Stearns to pay the State the proceeds from each sale on the closing dates.

"Bear Stearns officials today informed my office that Bear had entered an agreement with JP Morgan which requires JP Morgan to assume all of Bear's obligations. We have requested more details about that reported agreement. Additionally, we received verbal assurances today from JP Morgan officials that they will honor Bear's commitments under the DWR and Public Works Board deals. And JP Morgan said in a press release about the transaction that they will guarantee all of Bear's 'trading obligations.' With these assurances, and the Federal Reserve's backing of the acquisition, we are confident JP Morgan will honor Bear's commitments.

"Given the continuing upheaval in capital markets, we also are examining whether, at least in the short term, it's possible to strengthen our monitoring of bond underwriters. And to provide even greater assurance that underwriters will pay the State proceeds from bond sales, we are exploring the possibility of adding provisions to our transaction contracts that would beef up already-strong protections against non-performance by underwriters."

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