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Dimon's Wrong About One Thing: J.P. Morgan Is Way Too Big to Fail

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Jamie Dimon told lawmakers this week that J.P. Morgan Chase (JPM), the largest bank in the entire country, is not too big to fail. He even said it with a straight face.

Despite Dimon's bold-faced claim, his bank is downright gargantuan, with $71 trillion in notional exposure to derivatives, $2.3 trillion in assets on its balance sheet and $1.1 trillion in deposits in its coffers.

In reality, JPMorgan is the textbook example of a firm that simply couldn't be allowed to fail.

"The company is too big to fail -- there's no question in my mind," said banking analyst Dick Bove of Rochdale Securities.

J.P. Morgan is the largest U.S. bank by assets and one of the biggest lenders in the world.

In fact, the Basel-based Financial Stability Board lists J.P. Morgan as one of America's eight systemically-important financial institutions, which are companies whose failure could ignite another financial crisis.

Giant Among Giants

With $2.3 trillion in total assets as of the end of the first quarter, J.P. Morgan is more massive than Goldman Sachs (GS) ($951 billion), Morgan Stanley (MS) ($781 billion) and U.S. Bancorp (USB) ($341 billion) combined.

Doesn't that mean J.P. Morgan is clearly too big to fail?

"Of course it is. It's way too big to fail," said Charles Geisst, a finance professor at Manhattan College.

J.P. Morgan is hardly the only gigantic bank. The list of firms that the government wouldn't allow to fail likely includes Bank of America (BAC), Citigroup (C), Wells Fargo (WFC) and investment banks Goldman and Morgan.

There are a slew of foreign financial institutions whose respective governments would also need to race to their rescue, including Switzerland's UBS (UBS) and Credit Suisse (CS), the U.K.'s Barclays (BCS) and HSBC (HBC), France's Societe Generale, Germany's Deutsche Bank (DB) and the Royal Bank of Canada (RY).

"In every country in the world you've got two or three banks that are simply too big to fail or they'll drive their governments into depression," said Bove.

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Apparently Dimon doesn't believe his bank belongs on that list.

"No, we're not too big to fail," he said on Tuesday in front of the House Financial Services Committee, which was investigating J.P. Morgan's recently-disclosed trading losses of at least $2 billion.

Gigantic, But Unlikely to Fail

Of course, just because J.P. Morgan is too big to fail doesn't mean that it will actually fail. Notwithstanding the well-publicized recent trading blunder, the bank has one of the most well-respected management teams and among the highest capital buffers in the industry.

“I don’t think the company is likely to fail. But managements change, cycles change,” said Bove, who pointed out that J.P. Morgan under former CEO William Harrison was “one of the poorest run banks in the United States.”

Asked by a lawmaker if his firm could suffer a loss of $500 billion or $1 trillion, Dimon replied, “Not unless the Earth gets struck by the moon.”

Geisst warned that shareholders shouldn’t be quite as confident, pointing to complexity risk, which refers to the obscure relationship between assets and liabilities on balance sheets.

“You just don’t know what’s on these books,” he said, pointing to shady accounting tricks like Repo 105.

‘Carte Blanche’ to Take Risk

Whether or not J.P. Morgan could conceivably crumble, Dimon must have had a hard time keeping a straight face when saying his firm isn’t too big to fail.

“I just think he’s playing chess,” said Geisst, who called the claim “disingenuous.”

Cam Harvey, finance professor at Duke University, pointed out that the company’s risk-management abilities are in the crosshairs due to the trading fiasco. “The last thing they want to convey to the public is that they know they would be bailed out if a large number of their trades went bad,” Harvey said in an email.

Still, J. P. Morgan’s enormous size goes to the heart of the debate about the future of the financial system and avoiding another major crisis.

During the last crisis the government was forced to put taxpayer money at risk by bailing out the biggest banks due to fears over what would happen if they were allowed to go bust like Lehman Brothers did.

“The problem with too big to fail is that it gives large banks like J.P. Morgan carte blanche to take excessive risk,” said Harvey.