New Talk of Who Escaped Madoff Scheme Sparks Anger

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Bernard Madoff's alleged massive financial fraud has sparked more outrage as news circulates a major U.S. bank may have cashed out early while other investors were left high and dry.

The New York Times reported on Thursday that JPMorgan Chase & Co suddenly began pulling its money out of two hedge funds that invested with Madoff last fall before Madoff was arrested, but did not tell investors.

According to the newspaper, JP Morgan said its potential losses related to Madoff are "pretty close to zero."

JP Morgan Chase spokeswoman Kristin Lemkau did not return several calls seeking comment.

As lawyers and investors digested the story, they began questioning how big players may have been able to protect themselves from Madoff, while small investors were left exposed.

> *"Investors, particularly Europeans, who bought the leveraged notes issued by JP Morgan Chase are very angry and want to know what the bank knew and when it knew it," said Keith Dutill, a partner at law firm Stradley Ronon Stevens & Young. "Many people bought those notes purely on the strength of the JP Morgan name."*

JPMorgan Chief Executive Jamie Dimon said in an interview with CNBC the JPMorgan notes were "protected" and he believed investors would "get most of their money back."

U.S. officials arrested Madoff last month after he allegedly told his sons his investment-advisory business was "one big lie." Madoff estimated the losses from his Ponzi scheme at $50 billion, staying afloat for years by using new money from investors to pay distributions and redemptions to existing investors, U.S. officials have said.

Lawyers working on the Madoff matter said they are finding new evidence daily that big banks provided borrowed money to hedge funds that in turn put their clients' money with Madoff.

> *"It is just shocking how many banks did this," said Harry Susman, a partner at law firm Susman Godfrey, which is representing investors who claim they lost millions. "They seemed to be making loans backed only by Bernie Madoff's separately managed accounts and no one seems to have checked those."*

While there is nothing inherently wrong with financing hedge funds and their ultimate investments, possible links to Madoff have unnerved some big banks' stock holders, who worry about problems that are not known yet.

Analysts and reporters ask top financial industry executives about Bernie Madoff at every opportunity.

Wells Fargo & Co, the fourth largest U.S. bank, said it had to write off $294 million in the fourth quarter because Madoff's alleged fraud hurt customers who then could not pay their loans back.

Other U.S. companies have been luckier.

Money manager Legg Mason Inc said its Permal Group hedge fund unit has no Madoff exposure.

Ditto for Northern Trust Corp, whose chief executive told analysts on Wednesday the company has no exposure, even though some of its clients do. The biggest U.S. banks have not revealed any large Madoff problems.

But what may be good news for shareholders of U.S. financial companies infuriates wealthy investors who selected hedge funds and wonder why the managers were not more aware of red flags that others, such as JP Morgan, apparently spotted.

> *"I wonder why the fund managers did not find out that someone big like JP Morgan was pulling out and that they didn't become more suspicious," Susman Godfrey's Susman said.*

To some hedge fund investors and managers, the lax behavior is understandable, however.

> *"The more money these feeder funds put with Madoff, the more they started to look the other way. They did not want to kill their golden goose," said an investor familiar with some of the funds that collected assets for Madoff, but who is not allowed to speak about them publicly.*

(Editing by Andre Grenon)