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How did JPMorgan fall for Frank? Several execs played a role in buying the $175 million startup that's been

Frank founder Charlie Javice wanted to make the student loan process easier to navigate—but caused a huge headache for JPMorgan.
FRANK

In March of 2021, an investor in student loan startup Frank read a glowing article about the young company, founded by then 28-year-old Charlie Javice as a way to help students navigate the byzantine world of student loans. Javice, during her relatively few years as a founder, received much positive press from several different outlets, including earning a spot on the *Forbes* 30 Under 30 list in 2019. The millennial founder was generating buzz, and the investor, one of Frank's largest, forwarded one of these glowing profiles to an executive at JPMorgan's Corporate & Investment Bank: Frank was getting inbound expressions of interest from prospective buyers, and JPMorgan "should have a look," the email said, according to documents that would come out nearly two years later in lawsuits. This missive was then forwarded to Leslie Wims Morris, head of corporate development for JPMorgan Chase's Consumer & Community Banking business, and another executive. Wims Morris said she would be happy to meet with Frank, and, depending on the angle, the bank would consider doing something "on a programmatic basis," the complaint said.

As we now know, that fateful email led to the wholesale acquisition of Frank by JPMorgan in September 2021; the subsequent discovery that about 4 million of Frank's customers had allegedly been made up; and the very public and hugely embarrassing trading of lawsuits between the twentysomething founder and the blue-chip Wall Street bank. It has also led to a rather major question that has yet to be answered: How could one of the most powerful and sophisticated companies in the world fall for such an alleged scam?

JPMorgan is the world's biggest bank with a market cap of roughly $412 billion. It is one of several banks that typically partner, invest in, or just acquire several fintechs each year to gain employees, capabilities, or market share that they don't have but want. Since 2020, JPMorgan has been on a spree, buying or investing in at least 25 fintechs, according to Refinitiv, a London Stock Exchange Group business. One of JPMorgan's bigger deals was its March 2021 agreement to buy a 10% stake in the wealth management unit owned by China Merchants Bank for $414.80 million. The bank also scooped up payments startup Renovite Technologies last year for an undisclosed amount. Many of its deals are smaller, like Frank, or its $30 million investment in Centivo, a provider of health plans, in July.

Leslie Wims Morris led the acquisition of Frank, according to an announcement posted by Javice on Sept. 21, 2021. The executive heads a team of individuals in corporate development who are responsible for developing partnerships, investments, and acquisitions for JPMorgan Chase, a person familiar with the situation said. Javice, who is said to be a name-dropper, also thanked Jennifer Piepszak and Marianne Lake, co-CEOs of Chase Consumer & Community Banking, for believing in her mission to make college more accessible. Javice also mentioned Noah Wintroub, the renowned tech banker, for "his guiding hand." Wintroub is the youngest ever vice chairman of JPMorgan, who has advised on internet titans like Meta Platforms (when it was known as Facebook), Alibaba, and LinkedIn, *Fortune* has reported. Wintroub did not work on the Frank acquisition, the person said.

Wims Morris is an experienced deals executive. She started her career as a technology M&A banker at Broadview International, according to a 2022 press release that contained her biography. (Broadview was sold to Jefferies in 2004.) Wims Morris spent more than seven years at American Express, including two years as a vice president, corporate development, mergers and acquisitions, enterprise growth; and another five years at Broadridge Financial Solutions, where she was a senior vice president, strategy and business development, her LinkedIn profile said. She joined JPMorgan in 2018 and has been head of corporate development for more than three years.

While Wims Morris acted as the point person in acquisition conversations with Javice, a wide range of JPMorgan employees from across the firm worked on the due diligence process for Frank, including staff from corporate development, product, consumer, technology, finance, compliance, legal, as well as risk and controls, the person said. Javice, in her December lawsuit against JPMorgan, pointed to the "considerable resources" JPMorgan committed to the acquisition. The bank involved "hundreds of its employees in diligence, engaging outside counsel from a leading international law firm, and undertaking multiple rounds of meetings, conference calls, and even live 'product demos,'" the Javice complaint said.

In her Sept. 21 post, Javice thanked several people including Idan Netser (Javice misspelled his last name, calling him Nestor), a partner at law firm Sidley Austin, and his team for "[having] been amazing advisors in this process." Netser's practice at Sidley focuses on emerging tech companies, venture capital, and tax. He's also experienced in working in Israel's budding technology sector, according to his bio. Sidley Austin is a leading M&A law firm that has provided guidance for clients Emerson Electric Goldman Sachs, and Walgreens. Sidley acted as the attorney for JPMorgan in the Frank acquisition, according to a release that no longer appears on the firm's website. About 10 attorneys, including Netser, advised JPMorgan on the Frank transaction, a release found via the Wayback Machine said. Wims Morris, Netser, and Sidley Austin did not return messages for comment.

Connections, connections

The internet has gone wild with the allegations against Javice, who founded TAPD, which did business as Frank, in 2017. She has been widely portrayed as a young con woman who duped the bank into buying her business. Some have a different view of the millennial founder. "Frank was a regular startup with real and dedicated employees, vendors, clients, investors, and a (not so good) legit business model that was navigating a highly regulated industry…but equating it to 'selling fake blood testing technology' or 'commingling customer assets' is just unfair…even if it does make for a juicy story," one former employee told *Fortune* in an email.

Javice came off as “a smart, active entrepreneur. A bit hungry…Charlie wasn’t different than any other ambitious founder. You could tell that she was out there for results,” according to a venture capitalist who invested in Frank.

Another CEO of a company that had considered partnering with Frank said that Javice acted professionally during initial talks. “Charlie was really good at getting press written about her,” the CEO said.

But in the close-knit edtech sector, there had long been chatter that Frank was not on the up and up. The company claimed to have helped millions of families, but one executive at a different edtech firm said they had never met a Frank customer. In January 2021, months before it was sold to JPMorgan, Frank said on its website (found via the Wayback Machine) that it had helped 350,000 people access financial aid. This jumped to 5.25 million students by the following September. Alex Spiro, Javice’s attorney, did not return messages for comment.

But whatever your view of Javice, one thing was irrefutable: She was good at attracting heavy-hitter investors. By the time of its sale in 2021, the financial aid company had raised more than $20 million in funding from serious names including Aleph; Marc Rowan, cofounder and CEO of Apollo Global Management; Chegg; and Reach Capital. Rowan, Michael Eisenberg, an equal partner at Aleph, and Heather Morris, then chief strategy officer at Chegg, were each on the Frank board, according to an SEC filing dated March 23, 2020. (Morris left Chegg in 2020, according to her LinkedIn profile.) Rowan via Apollo, Eisenberg, and Chegg/Morris did not return messages for comment.

One edtech investor, who met with Javice twice but opted not to invest, said it was Frank’s backers that intrigued him. “She had some prominent investors,” the VC exec said, referring in particular to Rowan, who led Frank’s $10 million round in December 2017. Rowan also invested in 2020, when Frank collected $5 million. (Not to be outdone, Aleph also invested in Frank twice, during those same rounds.) Other educational fintechs that were seeking money at the same time as Frank didn’t have such deep pockets, the VC said. “This is clearly something [Rowan] thought met the bar. That’s a great thing…He was taking such a personal interest and was on the board,” the executive said.

Apollo’s Rowan has made personal investments in education before. Rowan has said he credits his own success to a strong education, according to the *Wall Street Journal*. Rowan attended the University of Pennsylvania’s Wharton School, graduating with a bachelor of science in 1984 and earning an MBA a year later. He is currently chair of Wharton’s board of advisers, according to the school website. (Javice is also a Wharton alum, graduating with a BS in economics with a major in finance and a second major in operations and information management in 2013, a Penn spokesman said.) Rowan cofounded the nonprofit Youth Renewal Fund of New York in 1989, which merged with Darca Schools, an Israeli operator and manager of schools in underserved communities, in 2014, the *WSJ* reported.

For JPMorgan, the deal represented a way to access an important customer base. Like many large banks, JPMorgan was once a major originator of student loans but decided to get out of that business in 2013. In 2017, the bank sold a $6.9 billion portfolio of loans to Navient, one of the biggest lenders. Currently, JPMorgan Chase offers tools to help young customers balance their budgets and save money. Its acquisition of Frank represented an opportunity to find younger and up-and-coming students that it could possibly offer different products to and make them lifelong Chase customers.

Even though JPMorgan Chase hoped to grow its student segment, it initially opted not to pursue a transaction with Frank after conducting several meetings with Javice, the bank's lawsuit said. But four months after receiving the email, JPMorgan decided in July to consider a potential acquisition of Frank following renewed contacts with Frank and investment bank LionTree Advisors. However, it's not clear what those "renewed contacts" mean. LionTree did not return messages and calls for comment.

Once the team at JPMorgan decided to move forward, they entered the due diligence phase, which is a critical part of the M&A process. When a company is seriously considering buying a business, they will typically attempt to root out misrepresentations or fraud by going through a business's financial records, claims, and client rosters. This diligence usually occurs before a buyer agrees to acquire a business, said David Donovan, who leads the Americas financial-services practice at technology-consulting firm Publicis Sapient.

JPMorgan conducted several weeks of due diligence on Frank during the summer of 2021. During this time, JPMorgan would've asked to see Frank's client roster to determine how many customers it had. That July, the bank was given access to Frank's data room; conducted several diligence calls, many of which were led by Javice; and met with Frank executives at JPMorgan's offices in Midtown Manhattan, where they considered the FAFSA tool and other technology, as well as accounting, finances, and tax issues, according to the complaint. The banks also conducted diligence on Frank's legal issues, risk, compliance, and Frank's controls and operations during this time. Throughout diligence, Javice repeatedly claimed that Frank had at least 4.25 million customers, according to JPMorgan's lawsuit. She uploaded an Excel spreadsheet indicating to JPMorgan that 4.265 million individual students had opened accounts with Frank, had begun the process of completing FAFSA, and had given the startup important personal information. (Javice apparently corrected mislabeled data in a different diligence spreadsheet, and this caused a second bidder to drop out of the auction, the JPMorgan lawsuit said.)

In August, JPMorgan Chase's head of corporate development sent Javice an email making an "unambiguous request" for a list of Frank's customer accounts, according to the JPMorgan complaint. The exec, to confirm the bank's thesis that Frank had developed meaningful relationships with millions of students, wanted the names, dates of birth, emails, and addresses of Frank's customers. Javice initially pushed back, arguing she couldn't provide the list owing to privacy concerns. JPMorgan Chase insisted, and that's when Javice invented "several million Frank customer accounts out of whole cloth," the bank's lawsuit said.

Javice did provide the requested information in a template that she and the bank created, but she did not include emails and home street addresses, claiming privacy concerns. Instead, she put in "unique IDs" to protect customer information. JPMorgan, at this time, hired a third-party data management vendor, Acxiom, to vet Frank's customer information and avoid the supposed privacy issues.

At this time, Javice allegedly contracted with an unnamed data science professor to create a fake customer list that Frank sent to Acxiom on Aug. 5 for verification, the JPMorgan complaint said. Three days later, JPMorgan agreed to acquire Frank, and the transaction closed on Sept. 14, 2021. Acxiom did not return a message for comment. JPMorgan didn't discover a mismatch until January of 2022 when it tested the quality of Frank's customer list. Only 28% of the emails were delivered, and just 1.1% were opened, the lawsuit said.

"It's a head-scratcher for me to think JPMorgan missed [the alleged fake accounts] during due diligence," said Publicis Sapient's Donovan. "It would be very odd to me to go through a $175 million transaction without testing the email accounts. Frank didn't do anything terribly sophisticated," added the venture executive who backed Frank.

What's also curious is that JPMorgan paid a relatively small amount for a company that claimed to have one-quarter of the college market. In 2020, college enrollment dropped by 4.31% to about 16 million, according to EducationData.org. By comparison, online education company Chegg, which claims to have 36% of the student market, had a $10.9 billion market capitalization in September 2021. (Chegg is also a Frank investor, and its valuation has dropped about 80% to $2.6 billion.)

JPMorgan closed its acquisition of Frank in September 2021, a record year for mergers. Educational technology during this time was booming owing to the belief that remote education would remain a permanent fixture in the wake of the COVID-19 pandemic. Edtech companies raised $20.1 billion in venture funding globally that year, up 34% from the $15 billion collected in 2020, according to Brighteye Ventures. Five edtech companies also went public in 2020 including Coursera and Skillsoft. "The company sold for a fraction of what it should've if it really owned 25% of the market," said Aaron Michel, a partner at 1984 Ventures and former CEO of PathSource, a career education company that was sold to AcademixDirect in 2017.

We may never know exactly what pushed JPMorgan from "meh" to "yes" on Frank. But it's worth examining the other connections that Frank's backers had to the bank, in the insular and interconnected web that is Wall Street.

Rowan, head of Apollo Global, along with Aleph, were Frank's two lead investors when the company was sold, according to Crunchbase. Apollo, which started out as a private equity firm, is now one of the bigger alternative investment managers with about $523 billion of assets under management as of Sept. 30. The money JPMorgan charges clients for advising on M&A is a key part of its revenue. Private equity accounted for about 31.5% of the M&A market in 2021 and 2022, according to Pete Witte, private equity lead analyst at Ernst & Young, who looked at Dealogic data. His analysis included global transactions where PE was on either the buy side or the sell side.

Apollo, in addition to private equity, has other businesses that present potential opportunities for Wall Street banks. Apollo is one of the biggest lenders of credit and has a leading retirement services business. It also invests in real estate and infrastructure.

Loss of a critical client could impact an investment bank's standing in the industry's league table ranking, which it typically uses to pitch for new business. Goldman Sachs remained the leading adviser on U.S. announced mergers last year, providing guidance on 213 transactions valued at $672.7 billion. Morgan Stanley jumped a spot to second with 116 deals totaling $464.2 billion. JPMorgan in 2022 dropped a spot in the rankings, landing at third with 158 U.S. announced mergers, valued at $456 billion, Refinitiv said. (In 2022, JPMorgan remained in second with 342 global deals totaling about $808 billion.)

Then there's Michael Eisenberg, a general partner at Benchmark Capital, who founded Aleph in 2013. Aleph, an early stage VC with $850 million under management, told other investors about the opportunity to back Frank, the venture exec said. Aleph has invested in WeWork, Lemonade, and HoneyBook.

Eisenberg, in a February 2022 post on Medium, described his introduction to Javice some 10 years ago. Dominic Chu, a then Bloomberg reporter who now works at CNBC, called Eisenberg and suggested that he mentor the young entrepreneur. Eisenberg described how he was inspired by Javice's vision of helping college students build a better life by "financing their education in a rightsized and appropriate manner so that they did not spend the rest of their lives in debt." He said he wasn't surprised that JPMorgan acquired Frank, and how Javice hopped the first flight to Israel so they could "celebrate the acquisition of Frank face-to-face." Chu declined comment.

Having a valued and sophisticated client call a bank and ask them to consider a company for a potential investment is normal behavior, said a third VC to whom I spoke. A second call, "I am not happy, please reconsider," would be quite unusual, they said. There are checks and balances in place to keep a large bank from investing in a questionable company just to appease a customer, the executive noted. But the client's involvement with the startup would give the bank "comfort that the company was aboveboard or on the level," the VC said.

Obviously the fallout for the bank has been more publicly embarrassing than financially devastating. Some have speculated that JPMorgan might have preferred to sweep the whole affair under the rug—and might have done just that had Javice not sued them first, on Dec. 20, 2022, claiming she was due legal fees and expenses under Frank's merger agreement with the bank. Spiro, Javice's attorney, told the *New York Times* that "after JPMorgan Chase rushed to buy Charlie's rocket-ship business, JPMC realized they couldn't work around existing student privacy laws, committed misconduct and then tried to retrade the deal."

JPMorgan then filed its own lawsuit against Javice two days later, claiming the Frank founder and Olivier Amar, Frank's chief growth officer, committed securities fraud, fraud with the contract, conspiracy to commit fraud, as well as aiding and abetting fraud for allegedly fabricating around 4 million nonexistent accounts that they said used Frank's services. Indeed in that document, the bank states that it discovered Javice's alleged lies in January of 2022 but didn't dismiss her until months later, in November, the lawsuit said.

A trial date has not been set for the JPMorgan lawsuit, but Javice has until March 1 to file her answers to the complaint in U.S. District Court in Delaware. (Amar followed with his own similar complaint in January, demanding that JPMorgan pay for his legal fees. A joint hearing on Javice's and Amar's fee advancements is scheduled in Delaware Chancery Court on Feb. 24.)

"Our legal claims against Ms. Javice and Mr. Amar are set out in our complaint, along with the key facts. Any dispute will be resolved through the legal process," according to a JPMorgan spokesman.

While being anywhere near the Frank deal certainly can't be a résumé booster, at least to the outside world JPMorgan is circling the wagons, and nobody has been tagged to take the fall. During the second week in January, JPMorgan shut down the Frank website and deleted the release announcing the acquisition from its website. Mike Mayo, a Wells Fargo Securities analyst, then questioned JPMorgan CEO Jamie Dimon about the bank's due diligence for its many acquisitions during a mid-January conference call to discuss the bank's fourth-quarter earnings. "So, you know, obviously when you're getting up to bat 300 times a year, you are going to make—have errors," said Dimon. The CEO said that the Frank acquisition fell under the Chase business led by co-CEOs Jennifer Piepszak and Marianne Lake, who handle credit, debit, checks, and "all the consumer-related stuff," according to a transcript of the call. Piepszak and Lake report to Dimon.

Later, during a Jan. 19 interview on CNBC, Dimon was asked, what was the lesson of Frank. "There are always lessons. We always will make mistakes…I tell our people to make mistakes. It's okay…When we know what all the lessons are, I will tell you what they were. But I don't want our people to be afraid to make a mistake. That's a bad way to run our business."

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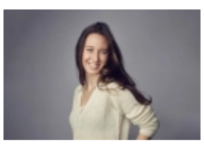

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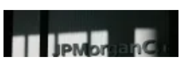

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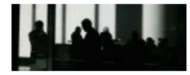

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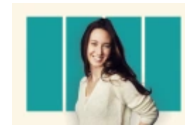

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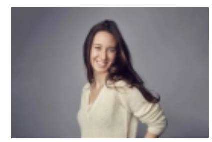

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