

Bank Bonus Tab: \$33 Billion

Nine Lenders That Got U.S. Aid Paid at Least \$1 Million Each to 5,000 Employees

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(See Corrections & Amplifications item below.)

Nine banks that received government aid money paid out bonuses of nearly \$33 billion last year — including more than \$1 million apiece to nearly 5,000 employees — despite huge losses that plunged the U.S. into economic turmoil.

The data, released Thursday by New York Attorney General Andrew Cuomo, provide a rare window into the pay culture of Wall Street, where top employees typically make 90% or more of their compensation in year-end bonuses.

The \$32.6 billion in bonuses is one-third larger than California's budget deficit. Six of the nine banks paid out more in bonuses than they received in profit. One in every 270 employees at the banks received more than \$1 million.

Overall compensation and benefits at the nine banks fell 11%, to \$133.5 billion in 2008 from \$149.3 billion in 2007, the Cuomo report said. But with net revenues falling, the percentage of the firms' revenues dedicated to compensation rose to 45% last year from 41% in 2007.

The report reignites long-simmering anger, on Capitol Hill and beyond, over big Wall Street payouts. The nine firms in the report had combined 2008 losses of nearly \$100 billion. That helped push the financial system to the brink, leading the government to inject \$175 billion into the firms through its Troubled Asset Relief Program.

The chairman of the U.S. House investigative panel, New York Democrat Edolphus Towns, called the pay figures "shocking and appalling" and announced a hearing into compensation practices at banks.

The White House was more muted. "The president continues to believe that the American people don't begrudge people making money for what they do as long as . . . we're not basically incentivizing wild risk-taking that somebody else picks up the tab for," said White House Spokesman Robert Gibbs.

Those on Wall Street argue they have to pay to keep talent. Often, bankers say, only a small group is responsible for losses and it is not fair to punish employees in other areas of the business. They say the compensation system will be difficult to change.

"These pay packages are pretty outrageous," said Michael Baldock, a partner at Stamford, Conn.-based boutique bank Ondra LLP, who has worked at a number of big investment banks. "But if you generate \$10 million in revenue a year, another firm will always want that revenue and be willing to pay for it."

In releasing the report now, New York Attorney General Cuomo is vaulting ahead of federal efforts to assess and curb excessive pay. The office has been among the first to investigate and bring charges on several Wall Street abuses this decade.

The House of Representatives is preparing to vote as early as this week on a bill that would give shareholders nonbinding say on pay packages and give regulators more tools to prohibit risky pay practices at banks and other regulated financial firms. The Senate isn't expected to vote on the legislation until the fall.

The Obama administration, meanwhile, is preparing to vet pay at firms receiving “exceptional assistance” from the government. Institutions have until Aug. 13 to submit proposed compensation details for the 100 highest-paid employees at each. The Treasury Department’s pay czar, Kenneth Feinberg, could push banks to renegotiate deals he sees as rewarding risky behavior or that are out of line with compensation at similar institutions.

Andrew Williams, a Treasury spokesman, said Mr. Cuomo’s report “focuses on strengthening the link between pay and performance — a goal that we share.”

Mr. Cuomo said Thursday he hopes his report will prompt the financial firms themselves to significantly overhaul their pay system to reward long-term performance rather than short-term gains. His report didn’t release names of individual bonus recipients because of privacy concerns.

“The banks say they pay for performance,” Mr. Cuomo said of the data. “Yet in 2008 there was no performance and they still continued to pay out huge sums of money.”

Wall Street has shown little sign of slowing down the pay train this year. Goldman Sachs Group Inc. and Morgan Stanley recently disclosed that they have set aside \$11 billion and \$6 billion in compensation and benefits, respectively, for their employees so far this year. Goldman’s second quarter was among its best ever. Morgan Stanley lost money for its third straight quarter.

Goldman and Morgan Stanley declined to comment on the report.

Meanwhile, some big banks that received government bailouts, including Citigroup Inc. and Bank of America Corp., are offering handsome pay packages to lure stars. Citigroup — which received about 25% of the aid going to the nine banks — has the No. 1 pay recipient. Andrew Hall, who heads Citigroup’s energy-trading unit Phibro LLC, received \$98.9 million in 2008, according to a government official. Citigroup CEO Vikram Pandit, by comparison, received more than \$38 million last year.

An early test for Mr. Feinberg will be the pay of Mr. Hall, whose profit-sharing contract with the bank could again entitle him to as much as \$100 million, say people familiar with the matter.

James Forese, Citigroup co-head of global markets, cited Phibro’s “consistent track record of profitability” and said its contracts directly align compensation with performance. “That said, we are sensitive to the need for a full review of compensation practices in our industry,” he said. “We are evaluating the best way forward for stakeholders.”

The group of nine’s No. 2 bonus for last year, according to a government official, was the \$39.4 million that went to Bank of America’s Thomas Montag. In 2008, Mr. Montag was sales and trading chief at Merrill Lynch, which got crushed by billions of dollars in mortgage-related losses and was sold to Bank of America. Mr. Montag’s pay package included stock grants, which since have fallen in value.

Bank of America said bonuses for Merrill Lynch were shared among 30,000 employees and Bank of America’s figures cover more than 200,000 employees.

The study found that pay at the banks remained near previous levels despite revenue declines. Merrill’s net revenue fell by \$23 billion in 2008, leading to a huge net loss. The firm’s pay and benefits dropped by \$1.1 billion, or 7%, according to the study. At Citigroup, revenue fell by \$28 billion, or 34%. Pay and benefits dropped \$2 billion, or 6%.

Similarly, at Goldman and J.P. Morgan Chase & Co., pay fell less sharply than revenue in 2008. Both firms have paid back the government loans they received under TARP. J.P. Morgan declined to comment on the report.

Goldman, Morgan Stanley and Merrill, Wall Street’s three largest securities firms in 2008, paid nearly \$13 billion in bonuses last year, the report says. That was roughly one-third of their total pay and benefits of \$38 billion, according to securities filings.

J.P. Morgan topped other banks in the number of employees receiving \$1 million or more — 1,626 out of its 224,961 employees. This figure includes bonus, salary and options; the numbers of other banks in the study includes bonuses only.

J.P. Morgan’s top earner collected \$29 million, more than James Dimon, the firm’s chief executive, who got \$19.7 million in total compensation last year.

Goldman paid the most per employee, about \$160,000 each for more than 30,067 staffers. Some 212 Goldman bankers made \$3 million or more. Goldman, which weathered the credit crisis better

than most rivals and made \$2.3 billion in 2008, produced the most revenue per employee, \$77,228.

Goldman has said that no partner got a bonus of more than \$222,500 in cash. The rest was paid in deferred stock, with an extra year of service required for any of it to vest.

Morgan Stanley had 428 employees who received bonuses of \$1 million or more. In addition, 10 people received bonuses of \$10 million or more, for a combined \$146.8 million.

Wells Fargo & Co., Bank of New York Mellon Corp. and State Street Corp. round out the nine banks. Each declined to comment.

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Corrections & Amplifications

Goldman Sachs Group Inc. had profit of \$77,228 per employee in 2008. This article incorrectly said the figure was the firm's revenue per employee. The bonus payments totaled nearly \$33 billion.

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