



Wall Street Welfare: TARP

February 12, 2009

As debate over the proposed stimulus package continues, it appears that Washington is less likely to provide the same level of welfare to Wall Street that was incorporated in the original package. I am still very leery regarding the success of any additional TARP funding, because results to date have been nothing less than astonishing:

1. A substantial sum of bonus money was distributed to Wall Street employees in spite of the fact that Commercial and Investment Banks reported record losses of over \$1 trillion in 2008. Bonus payments represent a substantial portion of Wall Street compensation, but while bonuses did decline from \$32.9 billion in 2007, (according to the New York State Controller's Office), a reward of \$18.4 billion for a loss of \$1 trillion isn't chump change.
2. Bonus payments to the top four Merrill Lynch executives were \$121 million for 2008¹, just before Merrill failed and had to be taken over by Bank of America (NYSE: BAC) with taxpayer support. This was a fraction of the total \$3.6 billion in bonuses to Merrill executives "secretly and prematurely," according to New York Attorney General Mario Cuomo.
3. Bonuses were paid to a vast pool of Wall Street employees, not just top-tier managers. Citigroup (NYSE: C) alone had 36,000 employees who were eligible for bonuses. I find it difficult to imagine that these bonuses could have been awarded

under any conditions other than the U.S. taxpayer footing the bill.

4. Adding insult to injury, the Vice Chairman of Goldman Sachs (NYSE: GS), Michael Sherwood, sold 45,000 shares for \$3.7 million, an average price of \$83.14 per share.² Mr. Sherwood is reducing his personal exposure to Goldman while asking taxpayers to increase theirs.

Future grants of TARP funds will carry a compensation limit of \$500,000 for senior executives, and already dozens of tricks have been suggested for getting around that ceiling. It shouldn't surprise us, because many of the Company managers in question have been quite successful year after year in qualifying for huge bonuses by massaging their financial statements, often earning bonuses in the millions on top of seven-figure base salaries. I have every confidence that these senior executives will easily meet and surpass their former compensation levels under the new restrictions through the use of unregulated compensation, including consulting relationships, preferred stock, repriced stock options, increased pension benefits, luxury perks, and tax gross-ups.³

The answer is not a compensation cap, but rather, a series of incentives tied to specific performance criteria. For too long, shareholders have rewarded Company managers for cheating. If we seek to establish a new culture of trust in our financial institutions,

¹ "Top Four Merrill Bonus Recipients Got \$121 Million," Bloomberg.com, February 11, 2009

² "Goldman Vice Chair's \$3.7 Million Sale," Barrons.com, February 9, 2009

³ "Loopholes Sap Potency of Pay Limits," The Wall Street Journal, February 6, 2009

that trust must be based on transparency and accountability.

In granting the funding sponsored by Henry Paulson, the Treasury managed to distribute hundreds of billions of dollars to Wall Street firms with little or no transparency. Now it seems likely additional hundreds of billions will follow. In an article dated January 30, 2009, the GAO confessed, "Treasury has continued to develop a system for detecting noncompliance with key requirements of the program but has not yet finalized its plan...Further, Treasury has made limited progress in formatting, articulating and communicating an overall strategy for TARP."⁴ This statement was made months after the first TARP distribution. Even with very scant information, experts are estimating that taxpayers have already lost over \$60 billion of the \$300 billion distributed to date, and to what effect?

Our legislators have grossly underestimated the selfishness of Wall Street firms. Now Congress is about to commit more public money to the bailout. I suggest they move slowly and deliberately. Additional Wall Street welfare will only undermine the credibility of this effort. Receiving firms must be required to provide regular short-term reporting on the use of TARP funds, and quantitative tools must be utilized to ensure their reports are truthful.

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⁴ "GAO says TARP transparency lagging," United Press International, January 30, 2009