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Federal Report Faults Banks on Huge Bonuses

By ERIC DASH

With the financial system on the verge of collapse in late 2008, a group of troubled banks doled out more than \$2 billion in bonuses and other payments to their highest earners. Now, the federal authority on banker pay says that nearly 80 percent of that sum was unmerited.

In a report to be released on Friday, [Kenneth R. Feinberg](#), the Obama administration's special master for [executive compensation](#), is expected to name 17 financial companies that made questionable payouts totaling \$1.58 billion immediately after accepting billions of dollars of taxpayer aid, according to two government officials with knowledge of his findings who requested anonymity because of the sensitivity of the report.

The group includes Wall Street giants like [Goldman Sachs](#), [JPMorgan Chase](#) and the [American International Group](#) as well as small lenders like [Boston Private Financial Holdings](#). Mr. Feinberg's report points to companies that he says paid eye-popping amounts or used haphazard criteria for awarding bonuses, the people with knowledge of his findings said, and he has singled out [Citigroup](#) as the biggest offender.

Even so, Mr. Feinberg has very limited power to reclaim any money. He can use his status as [President](#)

Obama's point man on pay to jawbone the companies into reimbursing the government, but he has no legal authority to claw back excessive payouts.

Mr. Feinberg's political leverage has been weakened by the banks' speedy repayment of their bailout funds. Eleven of the 17 companies that received criticism in the report have repaid the government with interest, so they have no outstanding obligations to reimburse.

As a result, Mr. Feinberg will merely propose that the banks voluntarily adopt a "brake provision" that would allow their boards to nullify or alter any bonus payouts or employment contracts in the event of a future **financial crisis**. All 17 companies have told Mr. Feinberg that they will consider adopting the provision, though none has committed to do so.

Mr. Feinberg is expected to call the payouts ill advised but not unlawful or contrary to the public interest, the people with knowledge of his report said.

On Wall Street, meanwhile, profits and pay have already rebounded. Goldman Sachs is on pace to hand out an average of \$544,000 per worker in salary and bonuses, though many could earn several times that amount. JPMorgan Chase's investment bank is on track to pay its workers, on average, about \$425,000, while the average **Morgan Stanley** employee could collect about \$260,000.

If the second half of 2010 plays out like the first half, **Wall Street bonuses** will be paid out at about the same level as last year and similar to 2007 levels, when the crisis had just started to unfold.

"It's healthier than I would have ever expected a year ago," said Alan Johnson, a longtime compensation consultant who specializes in financial services.

Mr. Feinberg was named last month as the independent administrator for claims tied to the **BP oil spill**, making it likely that the release of his findings on the financial firms will be his final act as the overseer of banker pay.

The review, mandated by the 2009 economic stimulus bill, broadened the scope of Mr. Feinberg's

duties to include examining the pay packages of top earners at 419 companies that accepted bailout funds. However, it did not give him the power to demand changes to the compensation arrangements, as he did in each of the last two years at seven companies that received multiple bailouts.

Mr. Feinberg spent five months reviewing compensation paid to each company's 25 highest earners between October 2008, when the first bailouts were dispensed, and February 2009, when the stimulus bill took effect. He narrowed his scrutiny to about 600 executives at 17 banks, with payouts totaling \$2.03 billion.

Mr. Feinberg's criteria for identifying the worst offenders were large payouts, in aggregate or to specific individuals; overly generous exit packages; or a failure to provide clear performance criteria or other rationale for extra pay.

Mr. Feinberg then approached each of the 17 companies with his proposed remedy during conference calls over the last two weeks. The 11 companies that have fully repaid their bailout money are [American Express](#), [Bank of America](#), [Bank of New York Mellon](#), [Boston Private](#), [Capital One Financial](#), [Goldman Sachs](#), [JPMorgan](#), [Morgan Stanley](#), [PNC Financial](#), [US Bancorp](#) and [Wells Fargo](#).

The six companies that have not fully repaid their bailout funds are [A.I.G.](#), [Citigroup](#), the [CIT Group](#), [M&T Bank](#), [Regions Financial](#) and [SunTrust Banks](#).

Among the banks that have not fully repaid the government, Citigroup was identified by Mr. Feinberg as having the most egregious compensation packages during the bailout period, according to officials with knowledge of his report. The bank handed out several hundred million dollars in pay in 2008 as it struggled to stay afloat.

Roughly two-thirds of the outsize payouts were from bonuses awarded to [Andrew Hall](#) and another trader who were part of the bank's Phibro energy trading unit. Citigroup sold that business to [Occidental Petroleum](#) last fall, under pressure from Mr. Feinberg, after the disclosure that Mr. Hall had received a \$100 million payout.

Mr. Feinberg is not expected to name individual executives who received the highest awards.

His review is among several compensation initiatives scrutinizing banker pay. In June, the Federal Reserve ordered about two dozen of the biggest banks to address several pay practices that, even after the crisis, it said encouraged excessive risk-taking.

European banking regulators introduced tough new standards for bonus payments earlier this month. And the [Federal Deposit Insurance Corporation](#) is developing a plan that would partly tie bank insurance premiums to the perceived risk of their executive pay packages. That proposal could be reviewed by the agency's board as early as next month.



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