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## 4 questions for big bank CEOs

**The heads of BofA, Citi and six other banks that got the first round of TARP funds appear before Congress Wednesday. Here is what lawmakers should be asking.**

By [David Ellis](#), CNNMoney.com staff writer  
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NEW YORK (CNNMoney.com) -- When you take \$165 billion from the U.S. government, you better make yourself available when Congress comes calling.

This Wednesday, lawmakers from the House Financial Services Committee are holding court with the chief executive officers of the eight banks that received the first injections of capital from the government's Troubled Asset Relief Program, or TARP.

Experts say the hearing may wind up being remembered for the tongue lashing that these executives will receive from members of Congress.

Lawmakers have been incensed about banks' reluctance to use the money they've received for loans to consumers and businesses.

"It's going to be a beating up exercise," said Bert Ely, a principal at Ely & Co., a financial institutions and monetary policy consulting firm in Virginia.

With this in mind, we asked some experts who closely track the banking industry to suggest questions they want Congress to ask the CEOs of Citigroup, Bank of America, JPMorgan Chase, Wells Fargo, Goldman Sachs, Morgan Stanley, Bank of New York Mellon and State Street.

### What did you do with the money?

This question is arguably the one that is on the minds of most lawmakers and taxpayers ever since former Treasury Secretary Henry Paulson unveiled plans to inject billions of dollars into the banking system in October through the purchase of preferred shares in leading banks.



By force feeding capital into nine of the nation's largest financial institutions (including Merrill Lynch, which has subsequently been acquired by Bank of America), regulators hoped banks would use it to keep credit flowing and prevent the economy from spiraling any lower.

But there have been concerns that some financial institutions have instead hoarded the cash. Some banks that received TARP funding have also been accused of using government funds to acquire rivals and pay lavish bonuses to executives.

So far, just one company - Citigroup ([C, Fortune 500](#)) - has offered a detailed view of how they used the money. But of the \$45 billion the company has received in government aid, just \$17.5 billion has gone towards making new loans or extending existing credit lines, according to company figures.

Campbell Harvey, a professor of finance at Duke University's Fuqua School of Business, argues that lawmakers should probe deeper, particularly when it comes to financing for small- and medium-sized businesses, a group that serves as a key driver of economic growth and has been among the most squeezed in the credit crunch.

"Right now we are in a situation where [small businesses] are cutting productive people," said Harvey. "I point my fingers at the banks for that."

### **What have you done to act more responsibly?**

Lawmakers may also want to push banks on what kinds of concessions they have made in light of the extensive government assistance they have received so far.

"What things have you done internally in recognition of receiving funds to help curtail spending?" asked Jim Moss, a managing director at Fitch Ratings, who heads the firm's North American financial institutions ratings team.

That discussion, notes Moss, could involve salaries, spending on advertising or what steps, for example, banks have taken to help their customers, especially homeowners at risk of foreclosure.

So far, there have been few signs of any quid pro quo.

Late last month, Wall Street firms were roundly criticized following reports that the industry paid out more than \$18 billion in bonuses last year, the sixth-highest total on record in a year that clearly was not the sixth-best in the industry's history.

Since then, President Obama has issued stern executive compensation limitations on banks requiring future assistance. But they are not retroactive.

With that in mind, it will be interesting to hear if any of the CEOs Wednesday bristle at the notion that they needed government assistance.

Some banks, including JPMorgan Chase ([JPM, Fortune 500](#)) and Wells Fargo ([WFC, Fortune 500](#)) avoided wading too deeply into the toxic subprime mortgage market in the years leading up to the this crisis. JPMorgan Chase CEO Jamie Dimon and Wells Fargo CEO John Stumpf reportedly were reluctant to take TARP funding because of the restrictions that came with it.

But regulators gave them little choice last fall when the capital injection plan was announced.

### **How many more potential losses are there?**

Of all the banks and securities firms around the globe, none have suffered more than U.S. institutions, which have hemorrhaged close to \$500 billion as a result of asset writedowns and credit-related losses, according to Bloomberg.

That number is widely expected to climb as the economy remains mired in recession and with unemployment likely to keep rising.

So lawmakers may very well try to press the eight executives Wednesday about how much more dire they things could get in terms of more loan defaults.

"That is really the key issue," said Patrick Finnegan, director for the financial reporting policy group at CFA Institute, the organization which awards the chartered financial analyst designation. "Once you understand that, you want some degree of significant influence over how these monies are used."

The Obama administration is due to outline its plans for the second half of the government's \$700 billion rescue package Tuesday, with part of those funds expected to go toward recapitalizing the nation's banks.

Congress may also be girding itself for the possibility that banks may need another massive dose of capital given the current economic climate. FBR Capital analyst Paul Miller said recently that the biggest U.S. banking institutions may need as much as \$1.2 trillion in additional capital.

### **How did you get to Washington?**

And of course, there's the ever important question of transportation.

Lawmakers were enraged when top executives at Ford, General Motors and Chrysler chartered expensive corporate jets in December to fly to Washington in order to beg for taxpayer money.

Having the benefit of that experience -- and facing heavy scrutiny from the American public about their own spending -- top bank CEOs will embrace the more plebeian route.

Bank of America's ([BAC](#), [Fortune 500](#)) Ken Lewis is expected to travel from his company's Charlotte, N.C. headquarters by train, according to the *Financial Times*. Citigroup's Vikram Pandit, as well as Goldman Sachs' ([GS](#), [Fortune 500](#)) Lloyd Blankfein and Morgan Stanley's ([MS](#), [Fortune 500](#)) John Mack, are expected to fly commercial from New York, the paper reported.

"I would be surprised if there was a backup of corporate jets at the airport for this," said Seamus McMahon, vice president in the financial services group at consulting firm Booz & Company. ■

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