REUTERS

Bank of America CEO Lewis: Fallen hero

Thu Oct 1, 2009 10:59am EDT

By Jonathan Stempel

NEW YORK (Reuters) - A little over a year ago, Bank of America Corp Chief Executive Kenneth Lewis was a hero on Wall Street with his audacious purchase -- some would say rescue from certain collapse -- of Merrill Lynch & Co, following less than two days of talks.

"The strategic opportunity of a lifetime," Lewis then called the takeover, which was valued at $50 billion, or more than $1 billion for each hour it took to put together.

It cost him his job.

Lewis' planned exit at year end from the bank that has been home for his adult life is an unceremonious finale to a 40-year career in which the Mississippi native, 62, rose from junior credit analyst to steward of the nation's largest bank.

He has run Charlotte, North Carolina-based Bank of America for 8-1/2 years. Merrill was to be his crowning achievement. It proved his undoing.

"It was only a matter of time," said Campbell Harvey, a professor at Duke University's business school. "There is too much collateral damage."

Completed just six months after Bank of America's takeover of mortgage lender Countrywide Financial Corp, the Merrill merger unleashed a blizzard of federal and state probes, a reported Justice Department and FBI investigation, and many lawsuits.

The key issues: why did Lewis not tell shareholders sooner about Merrill's soaring losses, and the $3.6 billion of bonuses his bank let Merrill pay its employees.

U.S. District Judge Jed Rakoff this month said the bank's settlement with the U.S. Securities and Exchange Commission over its lack of disclosure of the bonuses, where it did not admit wrongdoing, violated "the most elementary notions of justice and morality."

LEAVING UNDER DURESS

Pressured by regulators to complete the merger, Lewis took $20 billion of taxpayer money to absorb Merrill. The government then ordered him to raise another $33.9 billion of capital.

Bank of America shares are down 50 percent since the merger was announced on September 15, 2008, the same morning Lehman Brothers Holdings Inc went bankrupt.

Suddenly, Lewis was no longer the conquering hero who saved Wall Street -- a mantle now held, if by anyone, by his counterpart at JPMorgan Chase & Co, Jamie Dimon.

Lewis had repeatedly said he hoped to stay on at Bank of America until he turned 65 in 2012, or at least until the bank was clearly on a path to repay its $45 billion of taxpayer money from the government's Troubled Asset Relief Program.

Yet in departing sooner than he wanted, Lewis joins a long line of top U.S. financial executives to be fired or cede their jobs under duress since the global financial crisis began.

Among them: Merrill's own Stanley O'Neal and John Thain, Bear Stearns Cos' James Cayne, Citigroup Inc's Charles Prince, Countrywide's Angelo

Mozilo, Lehman's Richard Fuld, Wachovia Corp's Ken Thompson and Robert Steel, and Washington Mutual Inc's Kerry Killinger, to name a few.

Many analysts have also questioned how long Prince's successor at Citigroup, Vikram Pandit, can hold on.

The list of A-list survivors is short: Dimon and Goldman Sachs Group Inc's Lloyd Blankfein, to name two. Morgan Stanley's John Mack, 64, this month said he would step down as chief executive at year end, but remain chairman.

"I now have a strong sense that the work that has consumed me for the past eight years is largely finished," Lewis said in a memo to staff on Monday. He called his departure "my decision, and mine alone."

NOT OVER YET

Also his were efforts to build on the legacy of predecessor Hugh McColl, who through acquisitions transformed the former NCNB and NationsBank into Bank of America.

Lewis spent north of $130 billion on acquisitions, including FleetBoston Financial Corp, the credit card issuer MBNA Corp, LaSalle Bank Corp, Countrywide, Charles Schwab Corp's U.S. Trust private banking unit, and Merrill.

In buying the latter, Bank of America added a giant investment bank to what had already been the largest U.S. retail bank, credit card issuer and mortgage provider. (Wells Fargo & Co has since passed it in mortgages.)

Early results suggested the addition of Merrill was helping Bank of America offset the pain of soaring losses in its consumer operations, especially in credit cards.

It did not matter. Angry shareholders demanded that Lewis give up his role as bank chairman, and won. The government ordered an overhaul of the bank's board, and won that.

While Lewis still had his supporters, they grew fewer as the public opposition grew louder.

And that opposition is not laying down now.

Following Lewis' announcement, New York Attorney General Andrew Cuomo said he plans to press ahead with his probe of the Merrill merger, which could include civil charges against Lewis and other top executives.

Ohio Attorney General Richard Cordray, who is leading pension funds conducting an investor class-action lawsuit, said the bank and its executives "still need to be held accountable for the harm done to investors and retirees."

And Rep. Edolphus Towns said his House oversight committee "has uncovered troubling facts" about the Merrill merger, and considers Lewis "at the center of this controversy."

Lewis has three months to go before he will -- or at least plans -- to step aside. That means he is sure to remain at that center of controversy for that time. And probably beyond.

"This company has really been dealt some blows in the past year," said Nancy Bush, an independent banking analyst. "This is going to be another blow."

(Reporting by Jonathan Stempel; Additional reporting by Paritosh Bansal, Elinor Comlay and Rachelle Younglai; Editing by Richard Chang)