Wall Street feels wrath of man on the street with exec pay cuts

By Paul Wiseman, Paul Davidson and Pallavi Gogoi, USA TODAY

Faced with growing public fury about a $700 billion bailout, Washington cracked down Thursday on Wall Street excesses, moving to rein in reckless banker pay and to protect consumers from predatory lenders:

•Treasury Department pay czar Kenneth Feinberg slashed by more than 90% cash compensation to top executives at several huge firms that accepted billions in bailout money.

BAILED-OUT FIRMS: Pay chart for execs at major companies

•The Federal Reserve announced plans to police bank pay practices that encourage excessive risk-taking, especially at 28 big banking companies.

•A key congressional committee approved the creation of a federal agency that will protect consumers from financial abuses.

The moves come at a time when the Obama administration's ambitious plans to mend the nation's frayed financial regulatory system appear to be losing momentum in Congress. Earlier this week, Neil Barofsky, Treasury's bailout watchdog, warned that inertia in Washington and a return to big bonuses and business as usual on Wall Street are creating a backlash on Main Street: Ordinary people are furious about having to bail out millionaire bankers and traders at a time of rising joblessness and economic despair.

"Public outrage is hovering," pay czar Feinberg told reporters Thursday. "We all know about that. ... I am extremely sensitive to the public outrage about this — very sensitive."

The efforts to tame Wall Street and rewrite rules that govern the financial system are generating plenty of criticism — from those who say they don't go far enough and those who say they go too far. "The populist view, which is all about anger and hatred — it's understandable," says Charles Calomiris, a finance professor at Columbia University. "But it's not a good basis for public policy."

Simon Johnson, professor at MIT's Sloan School of Management, is unimpressed with Washington's exertions so far: "It's a very weak start. With so little reform, we are in a more dangerous place than we were a year ago."

Feinberg, an attorney and mediator whose previous assignments included divvying up the Sept. 11 victims' fund, is at the center of the storm. He emphasizes the main rationale for his decision to take an ax to pay packages at AIG (AIG), Citigroup (C), Bank of America (BAC), Chrysler, Chrysler Financial, General Motors and GMAC, which received a combined $346 billion in government support: "Getting (taxpayer) money back. The taxpayers are in deep with these seven companies. And one of my primary obligations is to see to it that the taxpayer dollars are returned to the U.S. Treasury."

Feinberg's crackdown cuts in half total compensation for the 25 highest-paid employees at the seven firms. The strategy is designed to remove incentives that prompted the 175 executives to take outsize risks and maximize short-term gains to reap huge bonuses and other compensation.

Such tactics contributed to the companies' troubles that forced taxpayers to rescue them.

Under Feinberg's plan, the cash portion of executives' pay will be cut by an average 90%, and they no longer can receive cash bonuses. Base cash pay for the vast majority will be $500,000 or less. Top executives at AIG's financial-products unit, which was responsible for its crisis last year, cannot earn more than $200,000 in compensation.

Instead, employees must be paid mostly in stock. Shares must be held for up to four years. They can be sold gradually prior to that in one-third portions. Also, any incentive-based bonuses must be paid in restricted stock, and only if the employee remains with the company an additional three years and the company repays its bailout money.

Cuts start next month

At Citigroup, total cash pay has been sliced by 96% and total compensation by 70%. At AIG, cash salaries are chopped 91%, total compensation by 58%. Feinberg said the 2009 cuts will be pro-rated to apply only to November and December, but similar constraints will be in effect next year.

Executives asking their companies to pay more than $25,000 for perks, such as country club memberships and private planes, must seek special permission from Feinberg's office.

EXECUTIVE COMPENSATION: CEO pay dives in a rough 2008
INTERACTIVE: Chart of '08 compensation at 387 major firms

Feinberg made exceptions to keep top talent. He also carved out an exception for three AIG employees who expect to receive "retention" awards of $1.5 million to $2.4 million based on prior contracts. Other companies, he added, were "very cooperative" and agreed to modify agreements to shift cash payments to stock. Citigroup agreed to sell its commodities trading unit, Phibro, to a company that didn't get any bailout money because Phibro's CEO was set to receive a $100 million bonus.

All the companies' initial pay proposals were "inconsistent with the public interest," Feinberg said. "They were both too high, and there wasn't the right degree of mix — cash, stock, salarized stock and long-term stock."

Wall Street was reeling: "This is a shock to the firms. A 90% drop in cash compensation is worse than the harshest expectations," says Jeff Visithpanich, principal at Johnson Associates, which advises several Wall Street firms on compensation. "This is going to destabilize these firms, because these folks have a standard of living they are accustomed to. ... This might make Citi or Bank of America unworkable for them."

Feinberg's decision overshadowed a farther-reaching proposal from the Fed, which regulates 5,000 bank holding companies and 850 state banks.

The Fed plan won't set pay levels. Instead, it's designed to weed out pay practices that reward bank employees for taking risks, but don't hold them accountable for losses. "Compensation practices at some banking companies have led to misaligned incentives and excessive risk-taking, contributing to bank losses and financial instability," Fed Chairman Ben Bernanke said in a written statement.

The new rules won't have a big impact on most banks the Fed regulates. Fed examiners will include in routine inspections a look at those banks' pay packages. But the Fed will take a much harder look at 28 big, unidentified banking companies. They will be required to submit their compensation plans to the Fed, which will make sure they don't encourage risk-taking that would "undermine the safety and soundness of their organizations."

The Fed will target three categories of employees: senior managers; individuals, notably traders, who can make bets that break the bank; and groups of people, such as loan officers, who can't do much damage by themselves but whose collective behavior can destabilize the bank.

"The Fed says that compensation should not drive risk, but they still haven't defined risk," complains Visithpanich. "A loan officer cannot make any loans, and a trader can't make any trades, since each of those can be defined as risk."

As Treasury and the Fed scrutinized bank pay, the House Financial Services Committee voted 39-29 to create an agency that will scrutinize the way banks treat consumers.

More consumer protection?

If it goes on to win approval from the full Congress, the Consumer Financial Protection Agency would police the financial market place for abuses, overseeing mortgages, credit cards and other types of loans. Supporters say high-cost subprime mortgages, sold to unsuspecting consumers, are at the heart of the financial crisis.

"David just won Round One against Goliath," said Harvard Law professor Elizabeth Warren, who first proposed the agency in 2007. "If the CFPA in its current incarnation had existed five years ago, America would now have a more secure middle class, less risk in the system, no financial crisis and no $700 billion for the banks."

The agency faced, and will continue to face, fierce resistance from lobbyists, who succeeded in watering down the consumer protection proposal as it moved through the House Financial Services Committee. For instance, banks with less than $10 billion in assets, 98%, are exempt from CFPA examinations. Car dealers, often involved in auto financing, won't be subject to the agency's regulation.

Industry lobbying has delayed or weakened other reform proposals. The chairman of the Federal Deposit Insurance Corp., Sheila Bair, this week told USA TODAY that "momentum" had drained from a plan to give federal regulators "resolution authority" to unwind and shut down ailing giants such as Lehman Bros. and AIG.

Critics say a bill passed this month by House Financial Services to regulate over-the-counter derivatives, which brought AIG to its knees, has loopholes benefiting speculators.

"We will demand significant improvements " said Ed Mierzwinski of the U.S. Public Interest Research Group, "so the final law guarantees that Wall Street doesn't get to bet the house with other people's houses or the world's economy without accountability."

"What I'm worried about," says Campbell Harvey, finance professor at Duke University, "is that as the economy picks up, you lose your appetite for tough reforms; and we're already seeing that."

2008 COMPENSATION AT SOME FIRMS RECEIVING LARGE FEDERAL BAILOUTS | Story

Treasury pay czar Kenneth Feinberg slashed pay packages of the 25 highest-paid employees at these companies and two others, which received large federal bailouts. Starting next month and into 2010, stock, rather than cash, will make up larger portions of their compensation. Under Feinberg's orders, base salaries paid in cash generally cannot exceed $500,000, significant portions of those base salaries have to be paid in stock that must be held for up to four years, and guaranteed bonuses are generally disallowed. Each company, along with Chrysler and Chrysler Financial whose pay structures Feinberg also ordered changed, received substantial help under the Troubled Asset Relief Program (TARP). Figures below come from Securities and Exchange Commission filings.

Company	Executive	Base salary	Bonus	Stock awards, other	Total	TARP amount (billions)	TARP repaid (billions)	% of bailout funds
AIG	**Edward Liddy, CEO**[1]	$1	$0	$460,477	$460,477	$69.8[2]	$0	12.2%
	Top 7 executives	$5,120,133	$2,166,563	$42,915,128	$50,201,824			
Bank of America	**Kenneth Lewis**[3]	$1,500,000	$0	$7,503,467	$9,003,467	$45.0	$0	7.8%
	Top 4 executives	$3,100,000	$0	$24,363,339	$27,463,339			
Citigroup	**Vikram Pandit, CEO**	$958,333	$0	$37,279,107	$38,237,437	$50.0	$0	8.7%
	Top 4 executives	$1,725,000	$12,465,000	$41,279,586	$55,469,586			

GM	**Frederick Henderson, CEO**[4]	$1,719,667	$0	$6,993,240	$8,712,907	$50.7	$0.4	8.9%
	Top 4 executives	$3,386,252	$480,000	$5,279,258	$9,145,510			
GMAC	**Alvaro de Molina, CEO**[5]	$1,200,000	$0	$9,062,369	$10,262,369	$12.5	$0	2.2%
	Top 6 executives	$3,128,766	$2,512,500	$19,308,210	$24,949,476			

1 = Liddy became CEO on Sept. 18, 2008, and w as replaced by Robert Benmosche effective Aug. 10, 2009; 2 = Committed from TARP; 3 = Lew is is leaving the company; a successor has not yet been named; 4 = Henderson w as promoted to CEO effective March 29, 2009; 5 = De Molina joined the company as chief operating officer in September 2007 and became CEO in April 2008.
Sources: Equilar, an executive compensation research firm based in Redw ood Shores, Calif.; ProPublica; USA TODAY research