Bailed-Out Companies Ordered To Slash Exec Compensation

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WASHINGTON (AP) — The Treasury Department on Thursday is expected to order seven companies that have not paid back last year's government bailouts to halve their top executives' average compensation.

The cuts apply to the 25 highest-paid executives at banks and other companies that received the most assistance, with salaries being slashed by as much as 90 percent, according to a person familiar with the matter.

Kenneth Feinberg, the special master at Treasury appointed to handle compensation issues as part of the government's $700 billion financial bailout package, is making the pay decisions. He is scheduled to release the details Thursday afternoon.

The seven companies are Bank of America Corp., American International Group Inc., Citigroup Inc., General Motors, GMAC, Chrysler and Chrysler Financial.

Elizabeth Warren, who heads the Targeted Asset Relief Program's oversight committee, said Thursday on CBS's "The Early Show" that reports of pending slashes in executive salaries are "real."

Smaller companies and those that have repaid the bailout money, including Goldman Sachs Group Inc. and JPMorgan Chase & Co., are not affected.

Tom Wilkinson, a GM spokesman, said Wednesday that the auto company was "currently in discussions with Mr. Feinberg's office regarding executive compensation. We will have further information once those discussions have concluded."

GMAC has "been working on a proposal that aims at embodying the principles set forth for compensation along with balancing the need to retain critical talent necessary to execute our turnaround. Until we receive notification about that plan, we have no further comment," said Gina Proia, a spokeswoman.

Chrysler Group issued a similar statement. Representatives for Chrysler Financial, Bank of America, Citigroup and AIG declined to comment.

But company officials and lobbyists earlier this month said Bank of America, Citigroup, GMAC Financial Services and others were reworking their pay plans to ensure compensation reflects executive performance. They're giving executives more of their compensation in stock and stock options, and spreading pay over a longer period. They are also adopting plans to recapture some pay when bets go bad.

The changes are not limited to those on Feinberg's list. JPMorgan Chase & Co. and Goldman Sachs Group Inc. also are compensating senior employees with more stock and less cash.

In the AIG trading division, the arm of the company whose risky trades caused its downfall, no top executive will receive more than $200,000 in total compensation, the person familiar with Feinberg's plan said. The giant insurance company has received taxpayer assistance valued at more than $180 billion.

In an August filing with the Securities and Exchange Commission, AIG disclosed that new CEO Robert Benmosche would be paid $7 million a year, with the potential to make millions more in performance-based incentives. According to reports from the time, the package included $3 million initially with $4 million in stock to be held for five years as well as performance bonuses.

As CEO, Benmosche's pay would be considered outside of the $200,000 average compensation for AIG's trading unit. But, according to reports at the time, Feinberg saw splitting the salary and future stock bonuses as a model because it tied compensation to the company's long-range performance.

The administration will warn AIG that it must significantly reduce the $198 million in bonuses promised to employees in its financial services division, the person familiar with Feinberg's decisions said.

The pay restrictions for all seven companies will require any executive seeking more than $25,000 in special benefits — things such as country club memberships, private planes and company cars — to get permission for those perks from the government.

Until now, these companies were only required to provide guidelines for the use of such luxuries. The inspector general at Treasury who oversees the bailout program found a range of standards. GM, for instance, generally prohibits employees from flying in private jets for business travel. Bank of America, on the other hand, encourages senior management to use corporate aircraft "for safety and efficiency purposes."

Feinberg's decisions come days after administration officials voiced sharp criticism of plans by some firms, particularly those on Wall Street, to pay huge bonuses even as the country continues to struggle with rising unemployment and the effects of the recession.

Goldman Sachs, which has paid back its bailout money, has said it earmarked $16.7 billion for compensation so far this year, more than $500,000 per employee. Citigroup is paying $5.3 billion in bonuses to its employees and Bank of America $3.3 billion.

Elsewhere, Freddie Mac is giving its chief financial officer compensation worth as much as $5.5 million, including a $2 million signing bonus. The government-controlled mortgage finance company doesn't have to follow the executive compensation rules because it is being paid outside the TARP.

Congress passed legislation in February requiring Treasury to oversee pay at companies that took bailout money. Treasury created the pay czar's office in June as one means of implementing that law.

Treasury's rules require the special master to review pay for the 25 top earners at companies that received "exceptional assistance," examining overall pay structures and recapturing payouts that go against taxpayers' interests.

Feinberg on Tuesday told a Washington audience that negotiating with the companies was a study in contradictions.

"Perfect metrics, competitive pay, no excessive risk, loyalty to the company," he said. "What I have to do under the law — and everyone's waiting" is to create compensation packages "reflecting those often conflicting principals."

Feinberg has until Oct. 30 to design pay packages for top earners.