Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Financial Institutions & Insurance Committee

HJM 4021

Brief Description: Requesting the restriction of executive compensation at financial institutions that received federal bailout funds.

Sponsors: Representatives Dickerson, Kirby, Takko, Upthegrove, Conway, Simpson, Kenney, Nelson, Hasegawa and Moeller.

Brief Summary of Bill

- Petitions the U.S. Congress adopt legislation to restrict the salaries of executives at financial institutions who received federal bailout funds to appropriate levels.

Hearing Date: 1/19/10

Staff: Jon Hedegard (786-7127).

Background:

The Troubled Asset Relief Program.
The Troubled Asset Relief Program (TARP) is a federal government program that allows the U.S. Department of the Treasury (Treasury) to purchase or insure up to $700 billion of "troubled assets." The Treasury has used a number of programs to do this. Generally, the Treasury has received equity in the company with the troubled assets in return for cash. Twelve programs have been announced under TARP programs and 10 of those have been implemented. The Capital Purchase Program (CPP) is the program that made most of the loans to financial institutions. The Treasury has made over $204 billion dollars in loans to over 690 financial institutions under the CPP. Over $82 billion of the loaned amount has not yet been repaid.

Executive Compensation Oversight For Companies Receiving TARP Assistance.
Under federal laws and Treasury rules, TARP recipients may be held to some level of scrutiny regarding executive compensation (this includes salary, bonuses, and all other forms of

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remuneration). These standards are generally applicable only during the period during a TARP recipient has outstanding obligations. Some provisions also apply to the end of the fiscal year when TARP assistance is repaid.

Additional Oversight For Companies Receiving "Exceptional Financial Assistance."
Closer scrutiny of executive compensation is triggered under Treasury rules if a company is participating in any of three specific TARP programs. These programs are the Targeted Investment Program (TIP); the Systemically Significant Failing Institutions (SSFI); and the Automotive Industry Financing Program. This trigger is set by federal law though it can be extended by Treasury rule (Treasury has not chosen to extend the standards).

The Treasury adopted rules to create a new Office of the Special Master for TARP Executive Compensation to review executive compensation of TARP recipients. The charge for the Special Master has considerably more authority when the company is receiving "exceptional assistance."

With regards to these companies receiving exceptional assistance under TARP, the Special Master is charged with:

- reviewing and approving the compensation structure for the senior executive officers, the executive officers, and the 100 most highly compensated employees:
- reviewing bonuses, retention awards, and other compensation paid to the senior executive officers, and 20 next most highly compensated employees before February 17, 2009, and, where appropriate, negotiate reimbursements; and
- providing advisory opinions with respect to the application of the Treasury rules, including whether their compensation payments and plans are consistent with the Emergency Economic Stabilization Act of 2008 (EESA), TARP, and the public interest.

Currently, only seven companies qualify under the standards as receiving exceptional financial assistance; AIG, Citigroup, Bank of America, Chrysler, GM, GMAC and Chrysler Financial. The Special Master made determinations after a review of these seven companies' proposed executive compensation structures. The Special Master stated that where this closer scrutiny and oversight was placed upon the compensation structures, it was determined that reform was necessary to protect the public interest. At these seven companies, the Special Master claimed the standards resulted in reduced pay, a change in how incentives are paid, limits on "golden parachutes," and caps on company allowances for personal expenses of executives.

There are approximately 80 financial institutions that received $100 million or more in money under the CPP. At last report, there were four financial institutions that received $100 million or more in money under the CPP in this state.

Summary of Bill:

The Washington Legislature requests the U.S. Congress pass and implement legislation to restrict the salaries of executives at financial institutions who received federal bailout funds to appropriate levels.

Legislative findings include that:

- the federal government has extended an unprecedented amount of aid to financial institutions via the various components of the TARP including over $204 billion of

taxpayer money to 690 or more financial institutions under the Capital Purchase Program (CPP);
- the American Recovery and Reinvestment Act of 2009 and the EESA provided inadequate limitations on executive compensation for the financial institutions that relied on government funds to weather the financial turmoil;
- many of these financial institutions are now providing considerable compensation, including bonuses, to their executives;
- the Treasury has adopted rules for recipients of "exceptional financial assistance" that require greater oversight of executive compensation, including bonuses and all other forms of remuneration;
- these Treasury standards are currently applied to only a few financial institutions; and
- the Treasury rules are an appropriate regulatory starting place for financial institution recipients of federal TARP funds. These compensation standards should be extended to all financial institutions who received at least $100 million under the CPP or any other component of TARP.

Appropriation: None.

Fiscal Note: Not requested.