

5-1-09, Wall Street Journal: Hearings Sought on Federal Role in Merrill Deal

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Lawmakers likely will call for hearings to inquire about the involvement of the Treasury and the Federal Reserve in Bank of America Corp.'s purchase of Merrill Lynch & Co.

House Financial Services Committee Chairman Barney Frank (D., Mass.) took a new stance Thursday, saying there "probably should be hearings." He also said Bank of America Chief Executive Kenneth Lewis should get some credit for doing "the right thing" by going through with the Merrill Lynch deal in December because he was acting "in the public interest" to help stabilize the financial system.

The new questions come after shareholders on Wednesday ousted Mr. Lewis as chairman, in part due to frustration stemming from the bank's acquisition of Merrill Lynch. Merrill's losses caused the firm to take more bailout money from the Treasury in January. Now the bank faces the challenge of raising even more new capital in the wake of the Fed's stress test as it steels itself for losses on loans in its portfolio.

Mr. Lewis, in February testimony for an investigation by New York Attorney General Andrew Cuomo, said he felt pressured by former Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke to complete the deal after attempting to pull out when he learned of Merrill's ballooning losses, and to not publicly disclose issues with Merrill's finances.

Rep. Spencer Bachus of Alabama, the ranking Republican on the House Financial Services Committee, said he probably would seek testimony from Messrs. Bernanke, Paulson and Lewis, among others.

"There is a serious disagreement among the people involved, and we need to get a clearer picture of what transpired," Mr. Bachus said.

A spokeswoman for House Oversight and Government Reform Committee Chairman Rep. Edolphus Towns (D., N.Y.), said the panel wants to hear further from Mr. Lewis about claims he was pressured by government officials to do a deal he felt was bad for certain shareholders. She said a panel subcommittee, chaired by Rep. Dennis Kucinich (D., Ohio), is taking the lead and will review documents requested from the Fed and the Treasury. Mr. Bernanke and Treasury Secretary Timothy Geithner will likely face questions about the merger during their appearances on Capitol Hill.

Spokesmen for the Fed, Mr. Paulson, and Bank of America declined to comment.

Senate Banking Chairman Christopher Dodd (D., Conn.) earlier this week said he intended to schedule a committee hearing after Wednesday's Bank of America shareholder meeting.

Neither Mr. Dodd nor Mr. Frank have scheduled hearings.

Mr. Cuomo released to lawmakers and regulators pages of testimony last week along with other information acquired during his investigation of Bank of America's merger with Merrill Lynch and the distribution of \$3.6 billion of bonuses to the firm's employees. Mr. Cuomo's office confirmed it briefed the staff of the Senate Banking committee this week on its findings.

Mr. Cuomo also wrote in a letter last week that he does "not yet have a complete picture of the Federal Reserve's role in these matters because the Federal Reserve has invoked the bank examination privilege."

The privilege applies to confidential information the Fed obtains from the banks it regulates. The Fed declined comment.