

United States Senate

WASHINGTON, DC 20510-4504

October 24, 2008

The Honorable Henry Paulson
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Paulson:

As you know, the United States is suffering through the worst financial crisis since the Great Depression. Each and every day, thousands of Americans are receiving foreclosure notices from their banks. Unemployment continues to rise to unacceptable levels. The declining stock market is ruining the retirement dreams of millions of older Americans. Millions more are seeing their defined benefit pension plans frozen or eliminated. Median income is going down while prices have gone up. Over 36 million Americans are mired in poverty and 47 million have no health insurance.

With Christmas only two short months away, this could be one of the gloomiest holiday season's in decades with one apparent exception: those on Wall Street. It has been recently reported that while the Treasury Department has provided a capital injection of \$125 billion to the nine largest banks in America, those very same financial institutions have somehow been able to include in their budgets over \$70 billion in bonuses, increased salaries, and other compensation. In addition, the Treasury Department failed to prohibit these financial behemoths from providing dividends to their shareholders.

In other words, the same people who created the financial crisis are in line to collectively reap billions of dollars; while the middle class is left to pick up the tab. This is unconscionable. Therefore, I would urge the Treasury Department to take the following steps immediately:

1. Prohibit financial institutions that have received taxpayer money from paying bonuses this year to any of their employees. According to a number of news reports, Citigroup; Goldman Sachs; Morgan Stanley; JPMorgan; Merrill Lynch; Bank of America; and other large financial institutions have already budgeted over \$70 billion in year-end bonuses, increased salaries and other forms of compensation. It would be nothing less than outrageous for senior executives at these firms to walk away with a multi-million dollar Christmas bonus, while middle class families all over this country are losing their jobs, homes, pensions, health insurance, and won't be able to send their kids to college because of the financial crisis these executives are largely

responsible for creating. Instead of using this money for year-end bonuses and salary increases, the Treasury Department should work to redirect this money towards refinancing troubled mortgages directly with homeowners at affordable rates.

2. Prohibit financial institutions that are the beneficiaries of the \$700 billion bail-out from providing dividends to shareholders. As David S. Scharfstein, Professor of Finance at Harvard Business School and Jeremy C. Stein, Professor of Economics at Harvard recently wrote “These dividends, if they are paid at current levels, will redirect more than \$25 billion of the \$125 billion to shareholders in the next year alone. Taxpayers have been told that their money is required because of an urgent need to rebuild bank capital, yet a significant fraction of this money will wind up in shareholders’ pockets — and thus be unavailable to plug the large capital hole on the banks’ balance sheets. Moreover, given their own equity stakes, the officers and directors of the nine banks will be among the leading beneficiaries of the dividend payout. We estimate that their personal take of the dividends will amount to approximately \$250 million in the first year.”

As these professors have pointed out, there is ample precedent for prohibiting these financial institutions from providing dividends to its shareholders. This is exactly what happened when the federal government provided loan guarantees to bail-out Chrysler in 1980.

All of us have a responsibility to make sure that the insatiable greed on Wall Street is not allowed to continue and that we do everything possible to ensure taxpayers dollars are protected. Thank you for your consideration. I look forward to discussing this matter with you soon.

Sincerely,



Bernard Sanders
United States Senator