



Bernanke Defends His Role In Bank Of America, Merrill Deal

BERNANKE, CONGRESS, BOFA, MERGERS, MERRILL, ISSA, FEDERAL RESERVE, PAULSON, OBAMA
The Associated Press | 25 Jun 2009 | 01:41 PM ET

Federal Reserve Chairman Ben Bernanke told Congress Thursday he didn't pressure **Bank of America** into acquiring **Merrill Lynch** in a deal that ultimately cost taxpayers \$20 billion.

Bernanke told a House committee investigating the matter that he did not threaten action against Bank of America's CEO Kenneth Lewis or the bank's board members if they decided to abandon the takeover.

"I did not tell Bank of America's management that the Federal Reserve would take action against the board or management" if they decided to invoke a clause in the acquisition contract in an attempt to stop the deal, Bernanke told the House Oversight and Government Reform Committee. "Moreover, I did not instruct anyone to indicate to Bank of America that the Federal Reserve would take any particular action under those circumstances."

Earlier this month, Lewis testified that his job was threatened after he expressed second thoughts about the deal. Lewis said then-Treasury Secretary Henry Paulson and federal regulators made clear that if Charlotte-N.C.-based Bank of America reneged on its promise, that he and the bank's board members would be ousted.

Bernanke said no member of the Fed ever urged Bank of America to keep quiet about Merrill Lynch's financial problems. Not divulging that information would have violated Lewis' fiduciary duty to the bank's shareholders.

"Neither I nor any member of the Federal Reserve ever directed, instructed or advised Bank of America to withhold from public disclosure any information relating to Merrill Lynch, including its losses, compensation packages or bonuses or any other related matter," the Fed chief said.

It marked Bernanke's first public comments since the House committee launched an investigation earlier this year into whether he or other government officials bullied Bank of America to stick with its plan to combine the two financial powers after Lewis found out about Merrill's financial woes. During the three-hour hearing, Bernanke faced often hostile questioning by lawmakers.

- [Read More: Bank of America Raises Over \\$12 Billion in Equity](#)

The committee's ranking member Darrell Issa, R-Calif., accused the Fed of having "deliberately kept other regulators in the dark regarding the negotiations with Bank of America. The Federal Reserve's cover-up of important information and willingness to exclude key regulatory partners" such as the Securities and Exchange Commission and the Office of the Comptroller of the Currency "raises troubling questions," he said.

Rep. Jason Chaffetz, R-Utah, said of Bernanke's denial that he threatened Lewis' job: "With all due respect, I'm just not buying that."

In turning aggressive toward Bernanke, Republicans are adopting the role of outsider and trying to link the Fed chairman to the Obama administration as advocates of government meddling in private industry. Many Republicans are suspicious of the administration's plan to expand the Fed's regulatory powers.

It's an odd shift, because Bernanke is a Republican appointee and many of his key advocates are Democrats. His term expires early next year, giving President Barack Obama an opportunity to pick his own Fed chief or reappoint Bernanke.

Rep. Dennis Kucinich, D-Ohio, said he thought Lewis was the one pressuring the government. He said the investigation revealed that Fed officials thought Bank of America failed to do proper due diligence when it came to Merrill Lynch.

When asked about Bank of America's management, Bernanke said: "I did have concerns, yes."

Rep. Paul Kanjorski, D-Pa., said he didn't know why the panel was conducting the hearing, noting the financial peril the country faced last fall.

Bank of America received \$45 billion from the government's financial bailout program, \$20 billion of which was linked to its acquisition of New York-based Merrill Lynch.

"We don't have full sunshine yet," committee chairman Rep. Edolphus Towns, D-N.Y., said at the end of the hearing. He noted "significant inconsistencies" between the testimonies of Bernanke and Lewis.

"It is still unclear whether Bank of America was forced to go through with the Merrill Lynch deal," Towns said.

As part of the panel's continuing investigation, Towns said Paulson agreed to appear before the committee in July. Bernanke defended the deal and government bailout, saying the action was needed to avoid another blow to the financial system, which at the time was in distress.

If Bank of America had decided to abandon the deal, it "might have triggered a broader systemic crisis that could well have destabilized Bank of America as well as Merrill Lynch," Bernanke said.

Invoking the clause to rescind the deal also would have "cast doubt in the minds of financial market participants -- including the investors, creditors and customers of Bank of America -- about the due diligence and analysis done by the company" and the judgment of its management, Bernanke added.

Bernanke also said the Fed's lawyers believed it was "highly unlikely" that Bank of America would be successful in terminating the deal through the special clause.

The "best option," therefore, for the companies and the broader financial system was to work with the Fed and the Treasury Department to develop a contingency plan to ensure that Bank of America would remain stable should the completion of the acquisition and the announcement of losses lead to financial stress, he said.

The government helped orchestrate the deal at a time when the country's economic and financial landscape was especially fragile. Lending, the lifeblood of the economy, had come to a near halt and the financial system was on the brink of a meltdown.

The transaction was hammered out over the same weekend in September that another investment bank, **Lehman Brothers**, went under, leading to the biggest corporate bankruptcy in U.S. history and plunging financial markets worldwide into crisis.

One day later, the government was forced to bail out teetering insurance giant **American International Group**. The week before the government seized control of mortgage finance companies **Fannie Mae** and **Freddie Mac**. Bank of America completed its purchase of Merrill Lynch on Jan. 1.

[Financial Crisis: Then and Now](#)

In January, Bank of America reported a \$2.39 billion fourth-quarter loss, and Merrill Lynch disclosed a loss of more than \$15 billion. Bernanke said it was up to Bank of America to make those disclosures. It wasn't the Fed's responsibility.

© 2009 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

URL: <http://www.cnbc.com/id/31543930/>

[Privacy Policy](#) . [Terms of Service](#)
© 2009 CNBC.com