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BUSINESS BLOG

How Paulson forced bail-out on the banks

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There's some fascinating detail in today's Wall Street Journal on how US Treasury Secretary Hank Paulson strong-armed America's big banks into signing up for the bail-out plan.

Not that they all needed persuading - Morgan Stanley's "Mack the Knife" - chief executive John Mack - apparently wasted little time in whipping out his pen.

The article details the 3pm Monday meeting called by Paulson, who was flanked on one side of the table by Fed chief Ben Bernanke and Sheila Bair, head of the Federal Deposit Insurance Corp, the body that guarantees customers' money held at US banks.

Facing them, on the other side of the table, were the CEOs of the nation's biggest banks, arranged in alphabetical order by bank. The decision to arrange the executives from A - Z was fortuitous, as it placed Citigroup's Vikram Pandit and Wells Fargo's Richard Kovacevich, fresh from their bad-tempered tussle over the carcass of Wachovia, at opposite ends of the table.

The bankers had been ordered to show up at the meeting, but were given no details in advance. And, expecting uproar over the plan, government officials secretly planned to break off the first meeting, giving CEOs time to vent, talk to their boards, clear their heads, and reconvene at 6:30 p.m.

Wells Fargo's Kovacevich was, according to the WSJ, the most animated: Why was this necessary? he asked. Why did the government need to buy stakes in these banks?

Paulson, who yesterday made clear his own distaste for the bail-out plan, told the Wells Fargo chief and his fellow bank bosses that it was for their own good, and the good of the country. If they didn't sign up now only to find they needed cash further down the road, they would not find the government so "generous" second time round, he warned.

Around the table were some of America's best dealmakers. But there was no negotiation. As the first meeting drew to a close, each bank boss was handed a term sheet detailing the scheme, including the new restrictions on executive pay and dividend policies.

The meeting ended at about 4pm and by 6.30pm all the sheets had been signed. No second meeting was held.

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