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Documents: Paulson forced banks into bailout

Goldman Sachs, JPMorgan among institutions required to take funds

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NEW YORK - The chief executives of the nine largest U.S. banks had no choice but to accept capital infusions from the Treasury Department in October, government documents have confirmed.

Obtained and released by Judicial Watch, a nonpartisan educational foundation, the documents revealed "talking points" used by former Treasury Secretary Henry Paulson during the Oct. 13 meeting between federal officials and the executives that stressed the investments would be required "in any circumstance," whether the banks found them appealing or not.

Paulson also told the bankers it would not be prudent to opt out of the program because doing so "would leave you vulnerable and exposed."

It's no secret that some of the banks had to be pressured to participate in the program, with several bank CEOs saying they had been strongly encouraged to take the funds. But the documents are the first proof of the government's insistence.

"These documents show our government exercising unrestrained power over the private sector," said Judicial Watch President Tom Fitton in a statement.

Paulson's spokeswoman Michele Davis, who was a top aide when Paulson was at Treasury, on Thursday said, "Secretary Paulson was not one to read talking points at meetings."

Treasury Secretary Timothy Geithner's office did not respond to requests for comment.

The outcome of that fateful meeting — which resulted in the government taking direct stakes in the banks through $125 billion in preferred stock purchases — marked a shift in the government's strategy to fixing the financial system.

The Treasury had first decided to use a chunk of the $700 billion financial bailout package to pay for taking partial ownership stakes in banks, rather than using the money to buy rotten debts from financial i nstitutions. The idea was that the investments would instill confidence in the system and get banks to lend again following the freeze of the credit markets.

The meeting was hosted by Paulson, Federal Reserve Chairman Ben Bernanke, Federal Deposit Insurance Corp. Chairman Sheila Bair and current Treasury chief Timothy Geithner, who was then president of the New York Fed.

The banks that were initially required to accept the funds were Goldman Sachs Group Inc., Morgan Stanley, JPMorgan Chase & Co., Citigroup Inc., Wells Fargo & Co., State Street Corp., Bank of New York Mellon and Bank of America Corp., including the soon-to-be-acquired Merrill Lynch.

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Paulson wanted healthy institutions that did not necessarily need capital from the government to participate in the program first to remove any stigma that might be associated with a bailout. He told reporters during a news conference that the intervention was "what we must do to restore confidence in our financial system."

The Treasury has since invested a total of $199.1 billion in more than 550 of the nation's banks, according to government data. Of that amount, $1.16 billion has been returned by 12 institutions.

Several other recipients of the funds, including JPMorgan and American Express Co., have stressed their desire to return the money as soon as possible. The funds have become burdensome for banks due to the increased government scrutiny and limits on compensation that are contingent with the investment.

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