

Testimony of
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Committee on Financial Services
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Chairman Frank, Ranking Member Bachus, and members of the Committee, I appreciate the opportunity to be here.

I'd like to start by making two key points:

First, all of us at Bank of America understand the responsibilities that come with access to public funds. Taxpayers want us to manage our expenses carefully, and provide transparency about how we are putting their money to work to restart the economy. These expectations are appropriate, and we are working to meet them.

Second, as we manage our business going forward, we are doing our best to balance the interests of customers, shareholders, and taxpayers. But the fact is, it is in all our interests that we lend as much as we responsibly can – maximizing credit while minimizing future losses. That's how consumers and businesses can prosper. It's how investors – including taxpayers – can earn returns.

Bank of America serves more than half of all U.S. households and millions of businesses. We know that the health and strength of our company depends on the health and strength of the U.S. economy. We have every incentive to lend. And, despite recessionary headwinds, we are lending. In the fourth quarter alone, we extended more than \$115 billion in new credit to consumers and businesses.

Lending is how we earn returns for our shareholders, and it's how we build relationships with customers. Our capacity to lend is restrained by: (1) demand for loans; (2) credit quality; (3) our ability to fund loans; and (4) regulatory and rating agency demands. All of these factors are under tremendous pressure.

Notwithstanding these headwinds, the new loans we made in the fourth quarter included:

- \$59 billion in commercial loans;
- Nearly \$7 billion in commercial real estate loans;
- \$45 billion in mortgages;
- Nearly \$8 billion in domestic card and unsecured consumer loans;
- More than \$5 billion in home equity products;
- About \$2 billion in consumer Dealer Financial Services (auto, marine, RV loans).
- And nearly \$1 billion in new credit to more than 47,000 new Small Business customers.

We also reaffirmed three ten-year, nationwide goals that are critical to the health of our communities: \$1.5 trillion for community development lending; \$2 billion in philanthropic giving; and \$20 billion in lending and investments to support environmental sustainability.

Bank of America has received investments of senior preferred stock from the Treasury under the TARP program, and is also receiving additional support in order to facilitate the acquisition of Merrill Lynch. This government support has been crucial in allowing us to continue all the lending I have just described. With capital markets still frozen,

there is simply no ready substitute for government support of this size, and so in its absence, our only choice would be to lend less and thereby shrink our balance sheet.

Certainly, credit conditions have tightened, as they always do in a recession, and particularly after what everyone recognizes as a period of lax credit standard. But make no mistake: We are still lending, and we are lending far more because of the TARP program.

As I mentioned, we understand the special responsibilities that come with any investment of public funds into a private company, including financial accountability and operational transparency. Taxpayers have invested in our company, and they deserve to know what return they are making on their investment, and when it will be paid back. We will make our first dividend payment to the Treasury of more than \$400 million next week, and we will pay the Treasury, and ultimately taxpayers, about \$2.8 billion in dividends alone for the year. We intend to pay all the TARP funds back as soon as possible.

Taxpayers also deserve to know how their funds are being used to support our economy. To that point, we recently announced that we will make a full report regularly to the public with information about our business activities in ten categories that are important to the nation's economic recovery, including consumer and commercial lending, foreclosure mitigation and others.

I believe this initiative will help with transparency, and I have attached at the bottom of these remarks the text of our announcement of this initiative, including examples in each category of the actions we're taking to spur the economy.

But the frequently asked question of how exactly we are using TARP funds is tougher than it sometimes seems.

The U.S. government invested \$15 billion in TARP funds in Bank of America in the form of preferred stock; Merrill Lynch agreed to accept another \$10 billion, and the government provided an additional \$20 billion to enable the closing of our transaction with Merrill Lynch. As with money provided by private investors, that investment allows us to make loans and investments to people, businesses and organizations.

As a practical matter, we cannot tell you whether the next loan we make is funded by that \$45 billion of TARP preferred stock, or our approximately \$32 billion of preferred stock placed with other investors, or the approximately \$163 billion of common equity that we hold, or the remaining approximately \$2.2 trillion of other obligations that make up our balance sheet. But the bottom line is that we are lending significantly more with that preferred stock investment than we would be without it.

As I said, we made \$115 billion in new loans in the fourth quarter – \$100 billion more than we had received in TARP funding at that time. That is probably the best answer to what we are doing with the TARP money. But it's obviously not the whole story.

The real issue, I believe, is this: taxpayers feel, and rightly so, that if a bank is having sufficient trouble to require public support, all its financial decisions should signal a conservative, sober and frugal approach to the financial health of the company.

The real debate is about what business activities are appropriate for a company that receives an investment from the federal government. In some cases, I think public judgments on this question have been right on. There has been no shortage of examples of executives or companies spending money in ways that did not have a direct benefit to the business. In other instances, I think banks have been criticized for activities that, in fact, have very serious, and very effective, business purposes. Marketing activities, which drive sales and business growth, are just one example.

I will simply say this: We know that the public will not always agree with our decisions. But Bank of America has for years been the most financially efficient bank with our business mix in the country. We have a hard-earned reputation for frugality, not extravagance. When we compensate associates, engage in marketing and advertising campaigns, or invest in green building technologies, we do so to grow our business, enhance profitability and generate returns for investors.

That includes the investors that are the focus of this hearing: U.S. taxpayers.

Our core business is strong – even in the midst of a recession, we earned more than \$4 billion last year. Even so, that performance was disappointing, and I therefore recommended to our board of directors – and they agreed – that we would pay no year-end compensation to me or any of our most senior executives for 2008. Executives at the next tier down had their year-end incentive payments cut by an average of 80%.

We also made cuts on a progressive basis – meaning that higher ranking managers with larger incentive targets took progressively larger hits in relation to more junior associates. But even lower-ranking and lower-paid associates took significant hits this year, as you would expect in this environment. This includes many people who worked desperately hard last year... and who produced excellent business results.

While difficult, these cuts make possible more of the activities that will help drive economic recovery. More jobs saved, and fewer layoffs. Sustained community support. More loans.

The financial services industry is undergoing wrenching change. One thing we know is that we will be a smaller industry. And that's not a bad thing. Obviously, the rapid growth of our industry in recent years was overdone. Now is a good time to remind ourselves that we play a supporting role in the economy – not a lead role. Our job is to help the real creators of economic value – people who make things, and people who use them – get together and do business. We bankers should find some humility in that.

This also is a time for getting out there in the marketplace and making every good loan we can find, to boost the economy and do our part to restore confidence to the markets.

It's a time for determination in the face of our generation's greatest economic challenge.

Thank you.