The rise and fall of Wall Street's John Thain

A dirty, but revealing affair

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24 January 2009

John Thain, the CEO of brokerage house Merrill Lynch, who guided his firm's absorption by Bank of America, was fired yesterday by BOA head Ken Lewis after it was learned that Merrill had brought $15.31 billion in fourth quarter losses onto the bank's balance sheet. Bank of America stock has lost 83 percent of its value since the Merrill acquisition was announced on September 21, and analysts believe that the banking giant is, for all intents and purposes, insolvent.

Merrill was one of the five major brokerage firms that only a year ago were considered pillars of the US financial system—the others being Goldman Sachs, Lehman Brothers, Bear Stearns and Morgan Stanley. Since then, Bear Stearns and Lehman Brothers have gone into liquidation, while Morgan Stanley—like Merrill—was absorbed by a large bank—Mitsubishi UFJ Financial Group of Japan.

Thain was widely celebrated for shepherding Merrill's sale to BOA. But the honeymoon did not last long when it became known that Thain had "failed to tell the bank about mounting losses at Merrill late last year," according to Marketwatch. Merrill's exposure to toxic debt has thrown into doubt BOA's own survival. It is widely assumed that Lewis sacrificed Thain in order to mollify stockholder anger—and save his own position, at least for the moment.

For now, BOA carries on only due to taxpayer handouts to the tune of $45 billion through TARP (Troubled Asset Relief Program) and billions more from the Federal Reserve. The US government has also committed itself to sharing losses on as much as $118 billion of BOA toxic assets. The bank will need tens of billions more to survive, analysts say.

Up to the moment of his forced resignation, Thain was a darling on Wall Street. He served as president and co-chief operating officer of Goldman Sachs from May 1999 to June 2003, and as president and chief operating officer of the firm from July 2003 to January 2004. (Media accounts indicate that Thain received some $300 million in Goldman stock.) After leaving Goldman, Thain assumed the top office at the New York Stock Exchange (NYSE), where he replaced the previous CEO, Dick Grasso, who was fired after it was revealed that he had essentially rewarded himself $140 million in deferred compensation.

In that position Thain was paid "only" about $4 million a year. During his three years at the helm of the NYSE, he converted it from a privately held company to a publicly traded one, and arranged for two mergers. Since his departure early in 2007, NYSE stock has plummeted 72 percent.

Thain was celebrated as a Wall Street turnaround artist who could dictate his own terms at his next job. In 2007 he was won by the highest-bidding suitor, Merrill, where he replaced another disgraced CEO, Stanley O'Neal—who left the brokerage with a severance package valued at over $160 million. O'Neal was sacked in the initial phases of the subprime mortgage crisis, after it was revealed that Merrill had suffered $8.4 billion in mortgage-related write-downs.

Thain's Merrill pay package made him the second highest-paid executive in 2007, according to the Associated Press, amounting to more than $83 million.

The salary was not based on Thain's foresight. In a January 2008 interview, while he allowed that the financial crisis was "not a zero," he assured the *Wall Street Journal* that it "is for the most part behind us."

Thain's efforts to resurrect Merrill resembled an above-the-board Ponzi scheme. According to the *Journal*, Thain "promised a number of shareholders who invested in Merrill in December 2007 and January

2008 that if additional common stock were issued at a lower price, the firm would compensate them. Within months the firm had to raise more cash ... Merrill issued additional shares to pay off its earlier investors, diluting its common shares by 39 percent. The dilution essentially cost shareholders about $5 billion" ("'Mr. Fix-It' Failed to Take Measure of Mess," January 23).

While the financial position of Merrill eroded in 2007 and 2008, Thain—who lives with his wife on a large estate in exclusive Rye, New York, reportedly purchased for $10 million—continued to lavish money upon himself and a group of cronies he brought over with him from Goldman Sachs.

In early 2008, for example, Thain squandered $1.22 million on the remodeling of his office suite. Among other purchases, he spent $131,000 on rugs, $87,000 for guest chairs, $68,000 for a credenza, $35,000 for a commode and $1,400 for a waste paper basket. To do the job he hired celebrity interior designer Michael Smith, now at work on the Obama White House.

Through December, Thain lobbied Merrill's compensation committee to pay him his multimillion bonus early, before the closing date on the sale to BOA. According to insiders, his initial demands were for a bonus between $30 million and $40 million, and later $10 million. Thain has had to content himself with $16 million in compensation for 2008, according to a *Forbes* estimate, even as his company collapsed.

Then, after Merrill's enormous fourth-quarter losses became public, Thain went on vacation in Vail, Colorado and issued a directive accelerating executive bonus payments before the BOA deal closed.

While Thain has been grasping for every last million dollars, tens of thousands of workers have been laid off from Merrill and BOA, or will soon be dismissed. Ridiculously expensive rugs aside, the looting of companies such as Merrill has played a role in helping to bring down the financial system and resulted in millions more jobless around the globe.

The financial aristocracy's unquenchable mania for personal enrichment, that Thain so thoroughly embodies, is not the source of the collapse of capitalism. Nonetheless, this socially destructive and parasitic quality is characteristic of historically doomed ruling classes. America's wealthy seem organically incapable of restraining themselves from committing outright larceny. They behave as though, on some level, they do not anticipate being around for very long.