Institute for Policy Studies
PUBLIC CITIZEN
Washington, D.C. April 2018

CEO-Worker Pay Ratios in the Banking Industry

A decade after the crash, excessive pay is still a problem at the mega-banks and the 2nd-tier firms that stand to benefit from the current deregulation push

Bankers seeking bloated bonuses animated the reckless and even fraudulent lending that precipitated the financial crash of 2008. In response, Congress included a series of pay reforms in the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. One of the few that regulators actually translated into operating rules came into force this year. It requires firms to identify the median paid employee at the firm and calculate the ratio with the CEO's pay.

All of the major banks have now released their first CEO-worker pay ratio data, and the numbers reveal that excessive compensation is still a problem in the financial industry. Among the nation's top 10 banks, those that pose the greatest risks to our financial system, the average pay gap was 265 to 1 in 2017. Among the four giants at the top, the average ratio was 319 to 1. At both JPMorgan Chase and Citigroup, a typical employee would have to work a full year before earning as much as the chief executive pocketed in a day.

The CEO pay side of the ratio includes the value of salary and cash bonuses, along with the estimated future value of stock-based grants. It's worth noting that JPMorgan CEO Jamie Dimon cashed in $135 million in stock-based pay in 2017.

THE MEGA-BANKS

Banks, ranked by assets	CEO	CEO pay in 2017	CEO-median worker pay ratio	Federal bailout funds ($billions)
JPMorgan Chase	Jamie Dimon	$28,320,175	364	$25
Bank of America	Brian Moynihan	$21,791,812	250	$45
Wells Fargo	Timothy J. Sloan	$17,564,014	291	$25
Citigroup	Michael Corbat	$17,814,131	369	$45
Goldman Sachs	Lloyd Blankfein	$21,995,266	163	$10
Morgan Stanley	James P. Gorman	$24,509,722	192	$10
U.S. Bank	Andrew Cecere	$11,960,654	205	$7
PNC Bank	William S. Demchak	$13,917,986	201	$8
BNY Mellon	Charles Scharf	$19,837,535	354	$3
Capital One Bank	Richard Fairbank	$16,175,770	261	$4
TOTAL		**$193,887,065**		**$181**
AVERAGE		**$19,388,707**	**265**	**$18**
AVERAGE - TOP 4		**$21,372,533**	**319**	**$35**

Sources: U.S. Federal Reserve, ProPublica, corporate proxy statements.

THE 2ND-TIER BANKS THAT STAND TO BENEFIT FROM DEREGULATION LEGISLATION

On March 14, 2018, the U.S. Senate passed a financial deregulation bill (S. 2155) with strong bipartisan support. House action is expected soon. The bill's supporters claim it is aimed at easing regulation on smaller banks so they can be more active loan makers.

This claim defies reality in two ways. First, loan making among all banks is already very robust, as are earnings. And second, banks that would receive reduced supervision under the bill, those with assets between $50 and $250 billion, are hardly Mom and Pop operations.

On average, these 19 supposedly "small" banks had CEO-worker pay ratios of 154 to 1 last year, with average CEO compensation of $10.4 million. While these numbers are a bit lower than among the mega-banks, they are far above what most Americans believe is reasonable. A Harvard study showed the U.S. public thinks the ideal CEO-worker pay gap would be less than seven to 1.

2nd- tier banks, ranked by assets	CEO	CEO pay in 2017	CEO-worker pay ratio	Federal bailout funds ($bilions)
State Street	Joseph L. Hooley	$19,497,361	229	$2.0
Charles Schwab	Walter W. Bettinger II	$14,348,737	146	
BB&T	Kelly King	$12,674,696	150	$3.1
SunTrust Bank	William H. Rogers, Jr.	$9,592,062	159	$4.9
American Express	Kenneth I. Chenault	$18,611,373	327	$3.4
Ally Financial	Jeffrey J. Brown	$8,848,062	84	$16.3
Citizens Financial Group	Bruce Van Saun	$9,000,000	155	
Fifth Third Bank	Greg D. Carmichael	$8,688,292	145	$3.4
KeyCorp	Beth E. Mooney	$8,146,470	118	$2.5
Northern Trust	Frederick H. Waddell	$11,850,683	169	$1.6
Regions Financial	O. B. Grayson Hall, Jr.	$12,721,359	202	$3.5
M&T Bank	Robert G. Wilmers	$4,167,972	72	$.6
Huntington Bank	Stephen D. Steinour	$8,679,970	145	$1.4
Discover Financial Services	David W. Nelms	$10,248,162	213	$1.2
Synchrony Financial	Margaret Keane	$13,542,612	298	
Comerica Bank	Ralph W. Babb, Jr.	$12,095,114	152	$2.2
Zions Bank	Harris H. Simmons	$3,370,603	53	$1.4
E*Trade Financial	Rodger A. Lawson	$5,011,800	62	
SVB Financial Group	Greg Becker	$6,106,711	46	$.2
Average		**$10,379,055**	**154**	**$2.8**
Total		**$197,202,039**		**$47.8**

Sources: U.S. Federal Reserve, ProPublica, corporate proxy statements.

THE HIGH RISKS OF HIGH PAY

Ongoing revelations of Wells Fargo's misconduct underscore the insidious role of outsized executive pay packages. The bank promoted its ability to add services to existing account holders in what it called "cross selling." That pleased Wall Street, which rewarded the bank with an escalating stock price. This, in turn, inflated executive pay, since Wells Fargo and most senior bankers derive most of their compensation through stock-based pay.

But to generate those inflating cross selling numbers, it turns out that line employees fabricated accounts in the millions. And as more than 5,000 were terminated for such conduct, the stock-based bonuses continued to flow, as management shielded even the board from the fake account numbers. At JP Morgan, the reach for bonuses led to the infamous London Whale trade, an ultra-high risk gamble that led to a 30 percent decline in the company's stock price.

Having such massive jackpots sitting on the table, with little or no downside risk, gives bank executives a powerful incentive to make outrageous gambles that put us all in danger. And more than occasionally, these risks cross legal lines.

At Bear Stearns, for example, the top five executives used high-risk investments in mortgage-backed securities to inflate the value of their stock grants to $1.1 billion before this firm, along with Lehman Brothers, went down in flames, setting off the meltdown that eventually threw millions of homeowners into foreclosure.

For members of Congress to be taking action now to remove risk controls from banks that award massive executive pay packages shows just how much they have ignored the lessons of the 2008 crisis. Countrywide Financial, a bank that would've fallen into the 2nd-tier range that stands to be deregulated, played a major role in the subprime mortgage bubble. The bank's CEO, Angelo Mozilo, made more than half a billion dollars before the bubble burst.

While not as big as the mega-banks, the firms in this tier still pose serious risks to taxpayers and our broader economy. Most of these 2nd-tier banks received a financial bailout in 2008, reaping a combined total of nearly $50 billion in taxpayer support. The Congressional Budget Office has warned that the Senate-approved bill would significantly raise the risk of future taxpayer bailouts.

Many of these banks have engaged in misconduct following the financial crash, including SunTrust and Zion's Bank. M&T refunded $2.9 million to customers for deceptive advertising. Regions Financial paid a $7.5 million fine for illegal overdraft fees. Fifth Third Bancorp entered a consent decree following discrimination charges.

Banks and other corporations mounted an intense, multi-year, multi-front battle to scuttle the pay ratio disclosure rule. They promoted bills to repeal the provision, secured support from U.S. Treasury, and petitioned the Securities and Exchange Commission. In 2017, then acting SEC Chair Michael Piwowar sought to delay enforcement. If anything, these attacks demonstrated how jealously senior executives guard all facets of their compensation and helped motivate investors to defend the regulation.

RECOMMENDATIONS

The new pay ratio data add to the evidence that runaway pay is still a problem in the banking industry, a decade after the 2008 crash. Instead of rolling back financial regulations, policymakers should be focusing on completing the implementation of the 2010 Dodd-Frank legislation, including Section 956, which prohibits financial industry pay packages that encourage "inappropriate risks."

Iconic bankers from the past would not recognize, nor approve, of the extreme economic divides within most large U.S. corporations today. J.P. Morgan himself believed that ratios of more than 20-1 would be harmful to the bottom line.

Regulators were supposed to implement this banker pay rule within nine months of the law's passage. In 2011, regulators issued a proposed rule that did not go far enough to prevent the type of behavior that led to the 2008 crash. It fell short in several areas, including overly lenient bonus deferrals, weak stock-based pay restrictions, and enforcement proposals that would leave too much discretion to bank managers. While regulators responded to criticism by agreeing to issue a new proposal, this work was not completed before the end of the Obama administration. And now with Republican control of both Congress and the White House, there is a strong chance it will be postponed indefinitely — or even repealed.

The U.S. House of Representatives passed the Financial CHOICE Act in 2017, which would repeal most of the Dodd-Frank reform package, including the Wall Street pay provision. Now that the Senate has passed a new deregulation bill, House Republican leaders are hoping to build on that momentum with even more rollbacks.

Policymakers should also build on the progress of the disclosure rule to incorporate pay ratio indicators in tax, contracting, and subsidies policies. In 2016, the city of Portland, Oregon, adopted the first tax penalty on corporations with extreme gaps between their CEO and worker pay. This landmark policy doesn't set a ceiling on CEO pay or dictate how much corporations can pay their executives. But it does encourage corporations to narrow their gaps by lowering CEO pay and/or bringing up the bottom end of the wage scale. Lawmakers in at least six U.S. states and in the U.S. Congress have introduced legislation similar to the Portland tax

Co-authors:

Institute for Policy Studies:
Sarah Anderson and Brian Wakamo. Anderson is a co-editor of Inequality.org, the IPS online portal that offers data, analysis, and commentary on today's grand economic divides. Wakamo is an IPS Next Leader.

Contact: sarah@ips-dc.org, 202 787-5227
1301 Connecticut Ave. NW, Suite 600
Washington, DC 20036
www.ips-dc.org, Twitter: @IPS_DC

Public Citizen:
Bartlett Collins Naylor, Financial policy advocate, Congress Watch

Contact: bnaylor@citizen.org, 202 580-5626
215 Pennsylvania Ave SE
Washington, DC 20003 •
(202) 546-4996
www.Citizen.org