

CNBC

"BARTIROMO INTERVIEW: KEN LEWIS"

INTERVIEW WITH KEN LEWIS

CORRESPONDENT: MARIA BARTIROMO

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MELISSA:

11:40:46:00 Welcome back to the call. We are waiting for President Obama. But I want to hear what Ken Lewis has to say. So I'm gonna send it to Maria Bartiromo for that interview. Maria.

MARIA BARTIROMO:

11:40:52:00 Hi there. Thanks very much, Melissa. I'm here in Washington with Ken Lewis, chairman and CEO of Bank of America. Ken, nice to have you on the program. Thanks for spending the time.

KEN LEWIS:

11:40:59:00 Thanks. Thanks. Good to be here, Maria.

MARIA BARTIROMO:

11:41:00:00 Let me get right to some of the extraordinary things that have been happening at (UNINTEL) as well as for the entire industry. And, of course,

that includes receiving government money. You have received \$45 billion from gov-- the government, taxpayer money. How will you be able to operate the company the way you want to operate it, effectively, when the government owns a stake in the company, and is questioning some of your decisions?

KEN LEWIS:

11:41:26:00

Well, I-- I don't think it's-- it will change how, fundamentally, we-- we run the company. But-- but, obviously, with-- with some of the second guessing, etcetera, the de-- degree of difficulty is heightened at a time you wouldn't want it to heighten. But-- but I-- but, fundamentally-- we have-- we (UNINTEL) way to run this company the way we want to.

MARIA BARTIROMO:

11:41:42:00

So you're comfortable with \$500,000 caps on salaries? The dividend where it is?

KEN LEWIS:

11:41:48:00

Well, I don't-- I-- I don't feel good about the \$500,000 cap. And it's-- and it's not me. I'll-

- I'll take 500,000. But-- and-- and-- even my management team, because we as a team-- would-- would-- operate that way-- until we got out-- out of-- got out-- got the-- money out of the-- the (UNINTEL) money out of the bank. However-- beyond the-- the top management team, when you're talking about 20 to 30 others-- who can go to foreign banks, who can go to other asset management companies, etcetera-- that's a problem.

MARIA BARTIROMO:

11:42:17:00

So what are you gonna do? How are you going to assure those people that you support them at B of A, and that you will-- make up for that in some way? How are you gonna keep count?

KEN LEWIS:

11:42:27:00

Well, I-- I-- I hope-- fir-- first of all, that somebody will step back and-- and-- and give some thought to this-- to-- to not go that far. And then, secondly, we'll just have to regroup and see. I don't-- actually have an answer to that. Because this has just come up in the last-- you

know, day or so.

MARIA BARTIROMO:

11:42:42:00

All right, we had a positive recommendation on your stock today. So the stock is doing well. I don't want to look at day to day obviously. But, obviously, it has been a tough situation for B of A this year. Down 65 percent in 2009. Already down 80-- more-- almost 90 percent-- over the last 52 weeks. Tell me about the worry about nationalization. Have you spoken with government officials about getting nationalized?

KEN LEWIS:

11:43:05:00

Well, first-- let's talk about the industry, and then-- and then Bank of America. Because it seems to be an issue with-- with the industry as well. I-- I have talked to government officials, members of congress, regulators, and no one has ever said that they thought nationalization was the way to go, or was likely to happen.

11:43:26:00

Then you take it even one step further, with Bank of America, it becomes absurd. I've never had

anything hint at it. And-- what it appears to be are a bunch of malicious rumors. But-- but-- I-- I personally have never had anybody even-- even remotely talk about nationalization as a possibility.

MARIA BARTIROMO:

11:43:45:00

So-- where do you think, then, this is coming from? How big of a stake will the government take in B of A?

KEN LEWIS:

11:43:50:00

Well, I-- I don't know what's gonna happen on Monday, when-- when the-- the deal-- the-- the-- the new TARP money is-- is-- is-- explained. So I-- I don't know. But all I know is that we're gonna be focused on making money, and get it-- getting it paid back as soon as humanly possible.

MARIA BARTIROMO:

11:44:08:00

When will that be, do you think? Three years?

KEN LEWIS:

11:44:10:00

We-- we hoped it would be-- we hope within three years we pay-- we could pay all of it back, yes. But I-- you know, I don't know. But that would

be the-- that would be the-- that would be the objective.

MARIA BARTIROMO:

11:44:18:00

Let me turn to the acquisition-- of-- of Merrill Lynch. You-- agreed to acquire Merrill during an extremely distressed moment in time. Lehman Brothers had filed for bankruptcy that September 15th weekend. But you paid a premium. A lot of people were shocked that you were willing to pay \$29 a share for Merrill Lynch. In an environment where (UNINTEL), JP Morgan, had government help, was close to paying \$2 a share for Bear Sterns, ultimately \$10 a share, what was the rush to do that deal at that price?

KEN LEWIS:

11:44:47:00

Well, there-- there were others that-- that wanted to make investments in Merrill-- during that weekend. And so we knew that-- that if we just let it go that-- that possibly others would-- would-- would actually have it. And-- and-- even now, on the longer term basis-- that-- that-- that brand has-- has-- still has a lot of

value.

11:45:05:00

Did a lot of things for our company on the financial advisor side, and on the international side, in addition to-- global equities. And so-- even with all the things that have happened-- that's gonna pre-- prove to be a good acquisition over time.

MARIA BARTIROMO:

11:45:20:00

But is it fair to say you overpaid?

KEN LEWIS:

11:45:23:00

My-- my-- my comment to that would be anything over the last 18 months you could probably make that case over the short term.

MARIA BARTIROMO:

11:45:31:00

Clearly, the losses at Merrill have been stunning. Fifteen billion dollars in the-- in the fourth quarter alone. Once you saw the losses piling up-- how did it-- happen that you actually pulled the trigger? Investors want to know, what were you thinking when you allowed this deal to go through?

KEN LEWIS:

11:45:48:00

Well, the-- the-- the-- the losses-- began to really accelerate-- in the, kind of, mid to late part of the-- of-- of the month of December. November was bad, but November was bad for-- for most every-- every company that was in-- in the business.

11:46:05:00

And-- there-- there was a point-- in-- in-- mid to late December that we said, "Hey, things are accelerating, so we need to-- we need to call (UNINTEL PHRASE) change." And-- and-- and we went to the-- the Treasury and the fed and talked to them about that.

11:46:22:00

And we jointly concluded that-- it would pose some systemic risk-- that the-- the deal not to go through. It was so large. They-- they promised-- to assist us in-- in getting it done, and filling the-- bucket of capital that was-- that was taken away by-- by the loss. And-- at the-- at the end of the day, we thought it was



our-- in our best interest, and the country's best interest, to-- to go ahead with it, because we still saw the long term strategic benefits. And we thought the disruption caused by not doing it-- just outweighed-- calling the MAC.

MARIA BARTIROMO:

11:46:55:00

So the MAC, material adverse change, I mean, we-- we did see material changes in the market. You did try to get out of this deal. You went-- you called Paulson. You went to Washington. You-- you-- you-- you had this discussion. Did they encourage you? Did they say, "No, no, no, you can't walk away from this deal"?

KEN LEWIS:

11:47:11:00

They-- they-- they said, "We strongly advise you that it is not in your best interest or the country's best interest-- to walk away from this." And that-- "Too much damage will be done-- to the-- to the in-- to the industry, to the country-- and to you." And so it-- it-- it got to be, in some ways, enlightened self interest. Because we're so inextricably tied in with the US

economy-- and have such large market shares,  
that-- that what's good for America is good for  
Bank of America.

MARIA BARTIROMO:

11:47:39:00

But did you feel strong armed? I mean, they--  
did they say, (COUGHING) "Look, we-- we may take  
you out of a job"?

KEN LEWIS:

11:47:44:00

There's-- there's-- there's a customary they--  
the-- the fed, in particular, but-- can-- can--  
can-- can call a cease and desist. And-- and--  
and take management out, directors out. But  
that-- that-- I promise you, that-- that was not  
a factor in this. This was-- this was about  
their advice. And then, as we reflected on it--  
we agreed that it was the right thing to do.  
And-- and-- and-- and so, for that, they-- they  
promised again, as I said, to fill that-- that  
bucket.

MARIA BARTIROMO:

11:48:10:00

How-- how did the firm lose so much money in the--  
- in the fourth quarter? You know, there's a

debate on where these losses came from. Whether these were new positions. John Thane (PH) told me last week that these were legacy positions. That they were on the books when he arrived. Is that the way you see it?

KEN LEWIS:

11:48:26:00

Yeah, the-- I-- I do. I don't know exactly what happened from the-- the time John came to-- to the time that-- that-- that-- that these things happened. But I-- but I do think there were-- in the main, a lot of embedded positions. And we had-- we had a credit meltdown of epic proportions. And-- and that's-- and you saw the results.

MARIA BARTIROMO:

11:48:44:00

But-- but you were-- you were seeing the losses. you were getting the same PNL (PH) statements every day that everybody else was. You knew that the company was bleeding this red ink.

KEN LEWIS:

11:48:52:00

Yeah, we-- we knew-- that-- we knew they were, but-- but the-- the losses became exacerbated--

toward that-- the end of the month-- the middle to the end of the month.

MARIA BARTIROMO:

11:49:02:00

And, of course, let me-- let me ask you what I asked John Thane, when he came on the show, and that is how do you justify paying out \$4 million in bonuses, and moving it forward to the end of the year, when you are losing this kind of money? You were aware the bonuses were being paid, correct?

KEN LEWIS:

11:49:16:00

We-- we-- we were aware that-- bonuses were being considered. And-- and that he had-- he had some range. I-- I personally was not involved in so-- and-- but-- there is litigation around that, and-- and I need to be careful about that. Particularly since I wasn't on the point-- in-- in that particular instance.

11:49:35:00

But-- I-- I can tell you that we-- we pay our bonuses-- to the extent that we-- that we-- that we pay bonuses, in February, so that we can see

the full year results. But, as you know-- I, in all of my direct reports-- will receive no-- bonuses-- at-- at our request.

MARIA BARTIROMO:

11:49:52:00

What-- what are you doing to halt the stream of people leaving the firm? I mean, you've got, you know-- you know, Bob McCann (PH) leave-- you-- you've got some-- some-- some senior people, Greg Fleming (PH), having left the firm. A lot of people say that the-- the employee situation is hemorrhaging. How are you gonna keep people in their jobs, keep counted people at the firm, and assure the financial advisors that you support them?

KEN LEWIS:

11:50:17:00

Well, I think the financial advisors-- know-- know that I support them, because I-- I've-- I've been in contact with them through town halls, etcetera. There's-- we have a person-- Dan Sontag (PH) who is-- an outstanding leader. Who is-- who was-- previously was a financial advisor and had moved up through the chain.

11:50:34:00

So we have great leadership in place. And-- and he-- and he is-- has a wonderful following with the financial advisors. Brian Monahan (PH)-- is-- is-- has taken over from the Greg Fleming. He's doing a great job. He has the respect of-- of both the middle people and our people-- as-- as they've gotten to know him.

11:50:53:00

And-- and so you don't want to-- you don't want to lose people. I don't want to suggest that you do. But you'd rather it happen early so you can go ahead and get on with things, and know who's gonna be with you, and who's not. And this is not that unusual than-- than, you know, certain other acquisitions.

MARIA BARTIROMO:

11:51:06:00

But, certainly, this is a highly unusual moment-- for your company, for the entire industry. And you are facing a crisis of confidence out there. How are you going to assure investors that you have a formidable plan to get the company out of

this?

KEN LEWIS:

11:51:21:00

Nobody executes better than we do. And this is not our first acquisition. And so the-- the-- this-- this plays to our strength. We're gonna put our heads down. We're gonna-- we're gonna support our-- our-- our associates. And they're gonna support our clients.

11:51:34:00

And we're gonna get-- get on with doing business. And, frankly-- we've-- we've had some-- some-- we had a pretty good January in terms of-- customer flows-- in-- in terms of, particularly, re-- refinancings. An investment bank has-- has got some great back logs. Trading has been better. And so-- particularly at Merrill, and Country Wide-- we-- we have some nice slows in January.

MARIA BARTIROMO:

11:51:59:00

Are you going to support the mortgage cram down?

KEN LEWIS:

11:52:04:00

We-- we would-- we would-- have-- haven't seen the final version, but we-- we're always

concerned when you have-- when you have the ability, particularly with your-- with that-- first mortgage product, to change the contractual terms, and-- and allow bankruptcy judges to do it. Particularly if-- if the-- if the customer doesn't have to at least-- come to the-- to the-- lender first to see if some modification can be made.

MARIA BARTIROMO:

11:52:27:00

Okay, I mean, this is-- this could really spill onto a whole number of, you know, loans. Auto loans, credit cards, this could really have a serious impact on, certainly, your balance sheet, and the entire industry, correct?

KEN LEWIS:

11:52:38:00

Yeah. Yeah. And-- and I'm-- I'm an optimist. So I-- I-- I think, as we step back, and-- and look at some of these things, and look at the-- the unintended consequences, and how far this could go-- I-- I think this-- I-- there could be some changes made that we can make this work.



MARIA BARTIROMO:

11:52:53:00 You said that you saw some improvement in January. Tell us about that.

KEN LEWIS:

11:52:57:00 Well, we-- we're seeing-- good flows on-- with-- with debt originations. Par-- particularly-- high grade, who've actually-- we've actually done-- a high yield deal or two. We-- we're seeing-- a (UNINTEL) boom. And so Country Wide is just-- on fire in a positive sense-- because of that.

11:53:14:00 And-- that's good-- that's really good for the country. Because-- about 20 percent of those revised, or-- or our first mortgage-- I mean, excuse me, purchased mortgage-- priority. But-- but you're also freeing up a lot of cash flow for the-- for the consumer. So that-- so that's-- that-- that makes the point that-- that lower mortgage rates in the 4 1/2 percent or so range is really important to get this-- housing market back in place.

MARIA BARTIROMO:

11:53:38:00 So when would you expect a stability to earnings?  
When would you expect to report a positive  
earnings number?

KEN LEWIS:

11:53:43:00 Well, let-- let's step back. We made money in  
2007. We made money 2008. We didn't lose tens  
of billions of dollars like some of the other  
banks in the-- in-- in the world have done.

MARIA BARTIROMO:

11:53:56:00 Well, you own Merrill Lynch, and Merrill lost \$15  
billion in-- in a three month period.

KEN LEWIS:

11:53:59:00 Well, we'll-- we'll see what they-- but we didn't  
own them then. We-- we own them now. But Bank  
of America has been profitable in both those  
years. Very liquid. Well capitalized. And--  
and then now we'll see what happens with-- with  
Merrill Lynch, going forward. But all I can tell  
you is that, in January, the-- the capital  
markets-- were better. And that the-- and that  
we didn't see the deterioration in the-- in the

asset values that we saw in the-- in the fourth quarter of last year.

MARIA BARTIROMO:

11:54:28:00

Well, there's been such a he said/she said with regard to John Thane leaving Bank of America. Why did you fire John Thane?

KEN LEWIS:

11:54:36:00

I-- I almost feel like that's ancient history, and I'm-- I'm not gonna re-- revisit that. But-- but I will tell you, I-- I-- I wish-- I'm sorry it happened. That's-- that's never-- it's never pleasant to have a situation like that. And I-- and I wish John the very best.

MARIA BARTIROMO:

11:54:50:00

Did you get a chance to do all the dil-- due diligence you needed to do in that weekend, 48 hour period, before you actually agreed to acquire Merrill?

KEN LEWIS:

11:54:58:00

Yeah, let me-- let me tell you the-- what-- what we did right and then-- and then the, kind of, the mistake. First of all, we-- we-- we-- we saw

everything we needed to see, and we made judgment on the marks. Now, with hundreds of people looking at it, over the last month or so-- to a three-- three-- to-- three months, we haven't found something that we didn't see then.

11:55:20:00

And then, remember, we had Chris Flowers (PH) and his group, kind of, side by side, you know, doing the same thing. So we had two sets of groups of eyes on it. The-- the-- the mistake was we did not-- accurately reflect the meltdown that occurred in the fourth quarter. Now, I'm not sure many-- if any people did, but it wasn't-- it wasn't-- a matter of due diligence missing something. It was that we made an error in terms of judging how bad that meltdown would be.

MARIA BARTIROMO:

11:55:47:00

So you don't have any regrets in terms of acquiring Merrill Lynch?

KEN LEWIS:

11:55:51:00

No. Not-- not-- not over long term. I mean, it's-- it's been painful. And-- obviously, we

didn't expect the-- the-- the size of the loss-- because of that meltdown. But I'm still as convinced as ever that, strategically, this makes sense. And that, as soon as we can get this TARP money out, through earnings-- that we'll get-- that-- that-- that the shareholder will be glad we did the deal.

MARIA BARTIROMO:

11:56:11:00 Are you gonna need more money from the government?

KEN LEWIS:

11:56:13:00 No. No.

MARIA BARTIROMO:

11:56:14:00 Categorically you can say no.

KEN LEWIS:

11:56:16:00 Right. Categorically I can say no.

MARIA BARTIROMO:

11:56:18:00 What would you like to see out of President Obama's stimulus plan to actually get the country out of this?

KEN LEWIS:

11:56:23:00 I'm an economist, so I don't know all of the

things that-- that-- that-- that have immediate effect. But whatever-- how much ever they have in there for immediate effect, put some more in. Because-- the-- this-- you-- you saw today, with 7.6-- percent unemployment-- the-- the economy's not getting better.

11:56:40:00

And-- I would expect the first quarter to be worse than the-- than the fourth. And possibly the-- second-- as bad. And-- and no improvement, actually, occurring until, you know, the third or fourth quarter. And-- so we need some immediate effect fast.

MARIA BARTIROMO:

11:56:54:00

So you think we're gonna see further job cuts in 2009.

KEN LEWIS:

11:56:58:00

Oh yeah. I mean, I think we'll see unemployment rates go up. And we're seeing eight and-- eight to 8 1/2 percent. But you've probably seen estimates of nine percent and ten percent. We don't think it's gonna get that bad. But-- we--

we don't-- we don't totally take us out of the question.

MARIA BARTIROMO:

11:57:11:00

How deep has the cre-- the-- crisis of confidence been? I mean, a lot of people say, "Look, this is happening on many levels. Even depositors are feeling it." Are you seeing it in any other parts of your business in terms of the crisis of-- of confidence?

KEN LEWIS:

11:57:23:00

No, the-- the-- we-- we had a period, in the-- in the fall, where we had-- slows that were un-- flows inwards-- in-- into the company that were-- they-- slows that we'd never seen before. That was because of some of the disruption in some of the other banks. Now-- now the deposits for-- for January were about on plan. So it's kind of gotten back to normal.

MARIA BARTIROMO:

11:57:43:00

And-- and what do you see as the most important change you could make in the next two years to resize your business to the economic realities

that you face?

KEN LEWIS:

11:57:52:00

We're-- we're doing that as we speak. I mean, we-- we've been-- we-- we saw that-- that-- things needed to be done to downsize (NOISE) in certain areas. We're-- we're doing it. But, Maria, at-- ironically-- we've also hired 3,000 people at our mortgage group.

MARIA BARTIROMO:

11:58:07:00

We're gonna send it over to President Obama right now. I'm gonna continue talking to Ken Lewis. And the rest of the interview will be on *Closing Bell*.

11:58:13:00

(OFF-MIC CONVERSATION)

\* \* \*END OF TRANSCRIPT\* \* \*