

STATEMENT OF E. STANLEY O'NEAL
BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

MARCH 7, 2008

Good morning Chairman Waxman, Mr. Davis and Members of the Committee. I am glad to help the Committee in any way that I can.

Whatever I have achieved in life has been the result of the unique combination of luck, hard work and opportunity that can only exist in this country. My grandfather, James O'Neal, was born into slavery in 1861. He was eventually able to carve out a life for himself and his family through hard work and perseverance. Over time, he acquired some farm land and was able to donate a small parcel of it for the construction of a one-room schoolhouse in a small town in rural Alabama called Wedowee. It served students in the first through sixth grades, all taught by one teacher. Like our home in Wedowee, it had no indoor plumbing or running water. That was the town where I grew up and that was the school that I attended.

My parents never had an opportunity for higher education. They both worked hard, each of them, at times, holding more than one job. When I was 13, my father moved us to Atlanta so he could take a job on the assembly line at a nearby General Motors plant. For a time, we lived in a federal housing project, which was all my parents could afford. Eventually they were able to save enough money to make a down payment on their first house. They lived in that house for 30 years, and eventually paid off their mortgage. Watching my parents work and save to afford their own home gave me an appreciation of the unique pride and satisfaction that comes with homeownership.

I worked my way through college by working at the same GM plant where my father worked. I participated in a General Motors program in which I alternated working for six weeks (sometimes in the office, sometimes on the factory floor) and taking classes for six weeks. After I finished college and received my MBA, I went to work for GM full time, eventually becoming director of GM's treasury division. I joined Merrill Lynch in 1987 and spent close to the next 21 years of my life there.

I am proud of my many years at Merrill. I first joined the Firm as a vice president and held a number of positions in various departments throughout the Company. In 1998, I was asked to be Chief Financial Officer. Two years later, I became president of Merrill's private client group, and, in 2001, President of the Company.

Within weeks of my becoming President, Merrill Lynch and the American economy faced a crisis. When terrorists attacked the World Trade Center on September 11, we had to evacuate all 9,000 of our employees from our offices directly across the street from the Twin Towers. Over the following days and weeks, I led the Firm's efforts to assist its employees and to manage its business in the aftermath of the attacks. Our employees were working at scattered locations throughout New York and New Jersey. At the time, many people thought that the future of Merrill was in doubt. But we survived, and, in fact, flourished.

After I became CEO in 2002, I led Merrill through a period of rapid growth. Our revenues rose dramatically from \$18.3 billion in 2002 to \$32.7 billion in 2006, while net income more than quadrupled from \$1.7 billion to \$7.6 billion. Shareholder return on equity virtually tripled, from 7.5% in 2002 to 21.3% in 2006, while our stock price rose from \$28 in October 2002 to \$97 in January 2007. Naturally, these achievements benefited all Merrill shareholders and employees.

I was fortunate to have wonderful opportunities at Merrill Lynch, including the chance to earn significant compensation. Of course, I am not unique in this respect, as the financial services industry has a long history of paying high compensation.

I think it is also important to note that the compensation of senior management at Merrill was determined through a rigorous and independent process, and consistent with pay levels in the industry. In January of each year, after a review of the Company's performance during the prior year, the Board of Directors set performance targets for the following year for all of senior management, including me. Those targets included a mix of revenue objectives, return on equity measures, and some strategic objectives. At year end, the Compensation Committee of the Board, which consisted exclusively of independent directors, met with senior executives to discuss their performance. The Committee then met by itself to set compensation.

Following those meetings, the Board of Directors informed me what my total compensation would be for that year and what my base salary would be for the following year. As a result of the extraordinary growth at Merrill during my tenure as CEO, the Board saw fit to increase my compensation each year. Most of that compensation consisted of restricted stock and stock options. I was required to hold the majority of the stock and options that I was awarded. In fact, I myself initiated a requirement that all of senior management hold onto at least 75% of their stock and options. Therefore, my compensation and my assets increased only when Merrill Lynch performed well for its shareholders and employees, and decreased when it did not.

I am aware that the Compensation Committee did retain Towers Perrin, a compensation consulting firm, to advise it, but I did not select Towers Perrin for that work or any other work it might have done at Merrill.

As we all know, in 2007, Merrill – and many other financial services firms – encountered difficulty as a result of the unprecedented meltdown in credit markets, including mortgage-backed securities. I am not in a position to comment in any depth on the sub-prime crisis, particularly because of pending litigation. I can say Merrill held mortgage-backed securities that we believed carried low risk.

Unfortunately, due to unforeseen factors, that was not the case. We, and many other financial institutions, big and small, did not foresee the magnitude of what happened. Nor did the rating agencies foresee the magnitude of the risk. While I was in charge of Merrill overall, I did not manage the day-to-day aspect of Merrill's business that invested in mortgage-backed securities. However, the sub-prime issues at Merrill arose during my tenure. Thus, when the Board asked me to retire shortly after we announced a large sub-prime related write-down in late 2007, I agreed to step down.

There has been some press about my so-called "severance package." These stories are inaccurate. The reality is that I received no severance package. I received no bonus for 2007, no severance pay, no "golden parachute." The amount discussed in the press consisted mainly of deferred compensation, stock and options that I had earned during the years prior to 2007, in part reaching back several years to 2000 and earlier. In fact, if I had received all of my compensation in cash during my tenure, I would have received no "payout" at all upon retirement. By having given me a significant part of my compensation in stock and options, the Board ensured that my personal financial interest was closely aligned with the shareholders of the Company. If the shareholders did well, I would do well too. And to the extent that Merrill Lynch stock has decreased in value since my departure, so too has the value of the consideration

I received. My interests and the interests of Merrill Lynch's shareholders remain entirely aligned.

It is true that top executives at public companies in the United States, especially in the financial services industry, are highly compensated. But a great percentage of that compensation, certainly for me, was and is at risk. When the business does well, all shareholders do well. But if the business does not do well, the value of that compensation can plummet. I also am not aware of any fact that should raise a concern about whether there was an appropriate process in place for determining senior executive compensation at Merrill. Merrill recruited sophisticated, independent individuals to its Board through a careful nominating procedure. To my knowledge, the independent directors on the Compensation Committee compensated senior management in accordance with their independent judgment about the Company's performance. I know this first hand because I did not receive any bonus for 2007 or any severance whatsoever. In short, I believe the compensation process was independent and functioned to ensure that my interests and those of Merrill's shareholders were closely aligned and remain closely aligned.

I want to end by saying that, because of my own personal history, I understand as well as anyone the importance of home ownership, not only financially but also socially and emotionally, and I would never do anything knowingly that would deny anybody that privilege.

Thank you.