Community Banking

Banker Questions CEO Bonus, Banker Is Handed a Pink Slip

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760 words
27 March 2009
American Banker
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Vol.174, No.59
English

A Michigan banker is claiming - in court and the local press - that he was fired for criticizing his chief executive's request for a bonus.

The case underscores the financial and reputational risks facing banking companies that received federal assistance. Such firms are coming under increasing nationwide scrutiny on executive compensation.

John D. Schwab, the former chief credit officer of Citizens Republic Bancorp Inc., sued the Flint, Mich., company Tuesday. He claims he was ousted in January by William Hartman, then Citizens' CEO, whose request for a $7.5 million bonus and contract extension Schwab had advised the board to reject. Hartman allegedly fired Schwab two days before his retirement as CEO took effect; Hartman remains the chairman of Citizens, which received $300 million under the Troubled Asset Relief Program in December.

"It is my firm belief that this feedback to the CEO, coupled with the board refusing to grant his financial demands, fueled his decision to retaliate against me by firing me," Schwab said at a press conference in Flint Tuesday. His claim has been covered by newspapers and television stations in Flint, across Michigan and around the country.

Walter G. Moeling 4th, a banking lawyer in the Atlanta office of Bryan Cave LLP, called the case "a harbinger."

"If you looked at the downturn of 1989 until '91 - when we were in similar times - you did see an increase in employment-related lawsuits," Moeling said. "I think we will see more of these kinds of suits."

A spokesman for Citizens said that the company does not discuss ongoing litigation, but that it "has an outstanding performance record in following all federal guidelines in terms of executive compensation, as well as strong policies and practices to protect our workers."

Schwab's suit, filed in Genesee Circuit Court, seeks his job back or comparable compensation. In addition to wrongful termination, Schwab, 64, also alleges age discrimination - he claims the board passed him over for the CEO job because he would only commit to work another three to five years.

According to the complaint, Hartman wanted a four-year extension of his contract and immediate payment of the $7.5 million supplemental retirement benefit. The chairman of the board's compensation committee approached Schwab to discuss this request, the suit says. He recommended denying it, the suit says, since just a few days earlier the executive team, including Hartman, knowing the company would receive the Tarp funds, had waived their claims to such bonuses.

On Jan. 22 the company reported a $195.4 million fourth-quarter loss, largely on credit deterioration. (A year-earlier it had made $28 million.)

The next day, Hartman announced he would retire at the end of the month. On a conference call, he said the decision was not related to the fourth-quarter loss. It was simply the right time to leave, he said. "It may appear more sudden externally than it was internally."

Catherine Nash, Citizens' regional banking head, succeeded Hartman as CEO. Hartman, who made $780,000 last year, is being paid $60,000 to serve as nonexecutive chairman until the company's annual meeting May 27. He is expected to receive a portion of his retirement benefit because he stepped down prematurely, according to a proxy filing.

Schwab said in the suit that he was considered for the CEO job but was assigned to mentor Nash when the board chose her instead. He said Hartman, in one of his final acts as CEO, summoned Schwab to his office and opened the conversation by saying "you're going to retire." When Schwab asked why, the suit says, Hartman replied that Schwab had undermined him publicly and did not support the choice of Nash as his successor. When Schwab returned to his office, he said, his computer had been locked and his Blackberry had been "swept."

Robert Passikoff, the president of **Brand Keys** Inc., a consulting firm, said that even if Schwab loses the case, it could hurt Citizens' image. "Right now, it is guilty until proven innocent in the financial industry," Passikoff said. "Customers are holding their financial institutions to the highest expectations of trust and anything that undermines it is going to damage the brand and could damage the profitability of the bank."

Jason O'Donnell, an analyst with Boenning & Scattergood Inc., agreed. "Citizens has a good reputation in that market," he said. "This could be something that tarnishes the brand if it isn't resolved quickly."

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