



THE STRAITS TIMES Latest News

January 2, 2008 Wednesday

[Home](#) > [Latest News](#) > [Money](#)

Dec 21, 2007



Mortgage mess squeezes Wall Street bonuses

NEW YORK - WALL Street bonuses are the latest casualty of the subprime mortgage crunch.

What began as a blowout year for global investment banks ended on a disastrous note, marred by profit warnings, losses and layoffs at almost every investment bank not named Goldman Sachs Group.

Banks hit by losses on mortgages, related securities and leverage loans are cutting back annual performance payouts - in some cases by more than half - and paying a bigger portion through shares instead of cash. Even top performers at some firms are getting pinched.

'It's going to be brutal. The bonus pool is shrinking,' said Mr John Kim, global head of capital markets sector at Korn/Ferry International.

Starting last week, Wall Street's banks began telling executives what they earned for all their long hours. Overall bonuses were down from last year, headhunters said, though individual payouts are all over the map.

The employees who sell, trade and package debt securities - and generated the bulk of losses for Citigroup, Merrill Lynch, UBS and Morgan Stanley this year - saw their payments slashed. Likewise the bankers who arranged financing for leveraged buyouts, creating commitments that fuelled additional losses.

Bonuses for a handful of the most successful fixed income traders this year were flat to down 5 per cent. Other top performers were down 10 to 20 per cent, according to recruiters getting early feedback from clients.

[Home](#)
[Latest News](#)
[Free Stories](#)
[Print Edition](#)
[Prime News](#)
[Singapore](#)
[Asia](#)
[Money](#)
[World](#)
[Review](#)
[Insight](#)
[Sports](#)
[ST Forum](#)
[Life!](#)
[F.Y.I](#)
[Podcast](#)
[Vodcast](#)
[Columnists](#)
[Saturday](#)
[Special Report](#)
[Most Read](#)
[Stories](#)
[Discussion](#)
[Board](#)
[Jobs](#)
[Cars](#)
[Property](#)
[Shops](#)
[Mind Your Body](#)
[Digital Life](#)
[Urban](#)
[Correspondents](#)
[News In](#)
[Pictures](#)
[Photo Essays](#)
[Increase font](#)

Other Latest News Stories

Money

- Wall St boosted by tech sector, Merrill Lynch
- S'pore exports to India to receive higher tariff concessions
- S'pore's Chip Eng Seng buys \$104m land site
- Financial stocks give STI a boost in quiet trading
- Temasek in talks to take US\$5b stake in Merrill Lynch
- Bonuses spike 14% despite mortgage crisis affecting Wall St
- Airbus signs deals for 30 jets for Vietnam Airlines
- Boeing, Airbus to finish 2007 with more than 1,200 orders each
- STI up at midday
- Bush 'fine' with foreign investors taking stakes in US banks
- Rising speculation fuelling big oil price swings

These are the lucky ones, considering that the weakest performers saw bonuses slashed by a third. Some individuals are reporting 75 to 80 per cent cuts.

'It's a bloodbath on the credit side,' Mr Kim said.

Cuts were particularly deep at Merrill Lynch, which is expected to report massive credit and mortgage losses for the quarter ending Dec 31. Even top credit and mortgage staffers will see payments cut by 50 per cent, with others seeing their bonuses slashed 75 per cent.

The pain also extends to the top of the ladder. Morgan Stanley CEO John Mack this week said he will get no bonus this year, after US\$9.4 billion (\$13.7 billion) in losses led to a quarterly loss.

Bear Stearns, which posted a loss on Thursday, said CEO Jimmy Cayne and other top executives will get no bonuses.

The exception was Goldman, which reported record profit and revenue and boosted compensation by 23 per cent to \$20.2 billion this year, the most paid out by any bank ever. On average, Goldman's 30,500 employees each received US\$661,490, double the amount paid to counterparts at Morgan Stanley and Lehman.

A few stars will get much more. Goldman CEO Lloyd Blankfein is expected to take home as much as US\$70 million, while the proprietary traders who generated billions of dollars in gains betting against subprime will get US\$15 million each.

Elsewhere on Wall Street, not everyone will go home disappointed. Several businesses across Wall Street had banner years, such as mergers and acquisitions. Top-tier bankers in hot sectors, equities traders and stock underwriters saw bonuses rise 5 to 10 per cent, headhunters said.

Bankers in Asia and other fast-growing regions, hot commodities as Wall Street expands overseas, also got more.

'It depends on where you are. Some people will be OK,' said Mr Gustavo Dolfino, president of recruiting firm Whiterock Group.

Traders with strong technology, credit and risk analysis skills will still be in demand, while bankers in active sectors like energy and biotech can command higher payments.

Yet pain from fixed income losses is being felt in every business line. Equities traders at some banks, despite surging results, are seeing bonuses trimmed.

'Everybody takes the hit,' Mr Kim said.

One result of the subprime mess, which drained revenue and weakened balance sheets, is that many big banks are paying more of their bonuses in stock.

- Chinese inflation cresting, to fall in 2008
- Asian stocks rally higher on improved sentiment
- Bear Stearns posts huge loss, cuts exec bonuses
- Alitalia board seen picking Air France
- Mortgage mess squeezes Wall Street bonuses
- Housing in unprecedented situation: Paulson
- Auckland Airport has new potential bidder

UBS has said it will cap bonuses at US\$750,000 this year, with the rest in stock. The payment of 'Herbies', stock bonuses pioneered by former Merrill President Herb Allison in 1990, reduces a company's cash costs and provides an incentive for bankers to stick around.

The usual 50-50 split is being skewed to as much as 60 to 70 per cent stock at some banks, said Mr Eric Moskowitz, of New York recruiting firm Options Group.

'Mid to senior level people were paid more in stock,' Mr Moskowitz said. 'It's less liquid, so that's fewer new vacation homes. For the banker it also becomes a bet on the stock.' Investment banks that reported results this month say they are still hiring.

But after years of bold expansion and a flurry of hiring, banks are eager to control costs in businesses hit by the crisis and that means a small bonus is better than no bonus.

'This is not last year at all. Most people are just happy to keep their jobs,' Mr Dolfino said. -- REUTERS

Best viewed at 1152x864 resolution with IE 6.0 or FireFox 2.0 and above
Copyright © 2007 Singapore Press Holdings Ltd. Co. Regn No. 198402868E | [Privacy Statement](#) | [Terms & Conditions](#)