Banks' Disastrous Bonus Season Is Only the Beginning

Dan Freed

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NEW YORK (TheStreet) -- Wall Street 2011 bonuses are expected to be down 20% to 30% on average. Those who expect things to bounce back in 2012 or 2013 may be in for a nasty surprise.

More detailed compensation data will not be available until companies file proxy statements in the Spring, but Johnson Associates, one of Wall Street's most widely-followed compensation consultants, had a bead on things as long ago as early November when he published his annual projections. The 20-30% numbers he predicted then are now being widely confirmed by recruiters across the securities industry.

Fourth quarter results from companies like **Goldman Sachs**(GS), **Morgan Stanley**(MS), **Citigroup**(C) and **Bank of America**(BAC)did nothing to change Johnson's grim outlook, according to Johnson Associates managing director Alan Johnson.

"We were projecting a disappointing fourth quarter and that's kind of how the year turned out," he said in an interview on Friday.

At Bank of America, investment banking profits were down 36.3% versus the fourth quarter of 2010, according to Sandler O'Neill research. Trading-related revenues were down 16.3% over the same time period. As if that weren't bad enough, the bank has already set aside or written off some $35 billion to clean up troubled mortgages underwritten during the housing boom, and may need another $12 billion before it is past the issue, according to Citigroup research.

"Bank of America is not a pretty story, and what we've heard is that they're paying only in stock: not in cash," says Rose Marie Orens, senior partner at Compensation Advisory Partners, who has advised companies that received government bailouts on their compensation practices, as well as testifying before Congress on the subject. A Bank of America executive who spoke only on condition of anonymity says bank employees are getting some cash bonuses, but would not give any further details.

Bloomberg News reported Thursday that some Bank of America investment bankers would see cash bonuses limited to $150,000, citing anonymous sources.

Morgan Stanley, meanwhile, is capping cash bonuses at $125,000, according to widespread reports.

"I don't know if those bonuses are coming back, ever," says Tim White, managing partner at Kaye/Bassman International, a recruiter based in Dallas.

One might expect a recruiter to be a bit more bullish. After all, the bigger the bonuses, the bigger the cut for the recruiting industry, but White is not the only one in his profession who believe things have changed for the long term.

White argues the Dodd Frank Wall Street reform legislation "has created an intimate relationship between the federal government and banking." Going forward, shareholders, the Federal Reserve, elected officials and regulators "are going to have a tough time swallowing seeing people on Wall Street getting huge bonuses," he says.

That means even if profits come back, bonuses might not. As long as profits are down, they certainly won't.

"If your earnings go down and your stock price goes down, your pay shouldn't go up," Orens says.

Given that it typically equals half the revenues at investment banks, cutting compensation is an obvious way to restore some profitability, as Goldman Sachs showed when it beat analyst estimates by dramatically reducing pay.

"Smaller bonuses were inevitable, will continue and should be even smaller," wrote William Cohan, a former **JPMorgan Chase**(JPM) investment banker who has written books on Bear Stearns, Goldman Sachs and **Lazard**(LAZ), in an email exchange. "It's the only way these public firms can show profits these days."

-- *Written by Dan Freed in New York*. Follow this writer on Twitter.