With Big Profit, Goldman Sees Big Payday Ahead

The New York Times
By Graham Bowley
July 14, 2009

Even on Wall Street, the land of six- and seven-figure incomes, jaws dropped at the news on Tuesday: After all that federal aid, a resurgent Goldman Sachs is on course to dole out bonuses that could rival the record paydays of the heady bull-market years.

Goldman posted the richest quarterly profit in its 140-year history and, to the envy of its rivals, announced that it had earmarked $11.4 billion so far this year to compensate its workers.

At that rate, Goldman employees could, on average, earn roughly $770,000 each this year — or nearly what they did at the height of the boom.

Senior Goldman executives and bankers would be paid considerably more. Only three years ago, Goldman paid more than 50 employees above $20 million each. In 2007, its chief executive, Lloyd C. Blankfein, collected one of the biggest bonuses in corporate history. The latest headline results — $3.44 billion in profits — were powered by earnings from the bank's secretive trading operations and exceeded even the most optimistic predictions.

But Goldman's sudden good fortune, coming only a month after the bank repaid billions of bailout dollars, raises questions for Washington policy makers. Goldman, analysts warned, is embracing financial risks that many of its competitors are unable or unwilling to take. While Goldman managed those risks this time, its strategy could backfire if the markets turn against it.

Another concern is that the blowout profits might encourage rivals to try to match Goldman in the markets so they, too, can return to paying hefty bonuses. Wall Street's bonus culture is widely seen as having encouraged the excessive risk-taking that set off the financial crisis.

"I find this disconcerting," said Lucian A. Bebchuk, a Harvard law professor. "My main concern is that it seems to be a return to some of the flawed short-term compensation structures that played an important role in the run-up to the financial crisis."

Even inside Goldman, executives acknowledged that the bank's stunning profits, coming when so many Americans are grappling with a deep, painful recession, presents something of a P.R. challenge.

"We are cognizant of it," said David A. Viniar, Goldman's chief financial officer. "We understand that we are living in a very uncertain world where a lot of people are out of work."

Goldman said pay fell last year when its profitability fell — after his blowout salary in 2007, Mr. Blankfein earned $1.1 million for the year and bonuses across the firm fell by an average of 50 percent. But Mr. Viniar said pay increases this year were justified by the return to strong profits.

“We pay for performance,” he said, although he underscored that the bank would not set its final compensation levels until the end of 2009, and held out the prospect that the rest of the year might not be as profitable as the first half, which compensation consultants also emphasized.

Still, in Washington, some lawmakers warned on Tuesday that a quick return to such high pay would stoke public anger as the Obama administration tried to overhaul financial regulation. They warned that Wall Street lobbyists were already trying to block financial reforms.

“People all over this country feel an incredible frustration that they are seeing their neighbors lose their jobs and the government is helping companies like A.I.G. and Goldman Sachs and then the next thing they are reporting huge profits and huge compensation,” said Senator Sherrod Brown, Democrat of Ohio and a member of the banking committee. “I think people are incredulous that this system is working this way.”

Other analysts welcomed Goldman’s results as a sign the financial industry was on the mend.

Last autumn, Goldman partners were hit hard personally as the bank’s stock, which represents a considerable part of many employees’ wealth, sank along with other financial shares.

As recently as the fourth quarter last year, Goldman itself had a quarterly loss and laid off workers; it has around 29,400, compared with 35,000 a year ago. But Goldman’s share price has rebounded smartly this year as the outlook for the bank brightened. Its share price, which closed at $149.66 Tuesday, is up about 77 percent since the start of the year, though still below its peak of $250 a share in 2007.

“We have two opposing principles that are about to smash together,” said Douglas J. Elliott, a fellow of the Brookings Institution, who added that the sense of outrage was palpable. “If people earn money for a financial firm, they feel entitled to a share of it. But that runs against the principle that they had to be helped through a very severe financial crisis and it does not feel right that bankers should be making so much money.”

Goldman’s profit was lifted by record quarterly revenue of $6.8 billion in its fixed-income, currency and commodities unit, where mortgage and other credit instruments are traded, and a unit where Goldman has embraced bolder risk-taking.

The latest results continue a robust turnaround for Goldman since it rode out the final tumultuous months of last year with aid from the government’s banking rescue. The earnings announcement came just one month after the bank paid back $10 billion in federal aid. Its equity underwriting business also generated record net revenue, worth $736 million in the second quarter, Goldman said, as the bank benefited among other things from a rush by other troubled banks to issue shares and raise their capital levels.

“We are performing well across the board,” said Mr. Viniar, the chief financial officer, adding that the strong performance reflected “blocking and tackling every day” by Goldman’s employees.

Many analysts welcomed the news as another sign that the financial industry was stabilizing. “These are pretty good results,” said Peter Nerby, an analyst at Moody’s, adding that this was an understatement. Other banks like JPMorgan Chase have been emerging as strong players since the financial troubles last year, and analysts also expect them to record strong results.

As well as receiving federal assistance last fall under the government’s Troubled Asset Relief Program, Goldman, along with other banks, has benefited from a government program that allows it to issue debt cheaply with the backing of the Federal Deposit Insurance Corporation. In addition, it received money from the government’s bailout of the American International Group, being paid 100 cents on the dollar for its $13 billion counterparty exposure to the insurer.

While some other banks, including Bank of America and Citibank, have not yet been able to pay back the money they received under the bailout program, Goldman Sachs has done so, along with dividends on preferred shares issued to the government. It is also in talks to buy back a warrant on Goldman stock held by the government.