# Windfall Seen as Bank Bonuses Are Paid in Stock

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By Louise Story
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Even as Washington tries to rein in Wall Street pay, bankers are likely to make unusually large gains on the stock grants and options they received after shares in their companies fell sharply during the financial meltdown. Angry readers have told me they should. Especially if those companies end up losing money for investors, ripping off customers, or firing a lot of workers, after paying the boss a fortune.

Banks cut bonuses last year and shifted more pay into stock and options from cash, a tactic that lawmakers supported for its emphasis on long-term performance. Within months, the financial system began to mend — partly with the help of billions of dollars in government aid — and that stock began surging in value. Some of it can be cashed in starting in just a few months.

And so the bonuses Wall Street received last year, billed as paltry at the time, are turning out to be among the most lucrative payouts ever.

Goldman Sachs, for instance, sharply cut nearly all bonuses it paid last year but gave some executives more options than usual.

The company gave its general counsel, for example, 104,868 stock options and 14,117 shares in December, when the bank's stock was around $78.

Now the bank's shares have more than doubled in value, making that stock and option award worth nearly $12 million, according to Equilar, an executive compensation research firm in Redwood Shores, Calif.

That executive is just one of many Wall Street workers who have seen the bonuses they received last year soar in value, even though some of the shares cannot be sold for a few years.

Goldman's bonus pool last year was $4.82 billion, according to the New York attorney general's office, but because about half of that was paid in stock, it is now worth upwards of $7.8 billion. At JPMorgan Chase, workers have seen the value of the stock awarded them last year increase at least $3 billion.

"People have to look at the sizable gains that have been made since stock and options were granted last year, and the fact is this was, in many ways, a windfall," said Jesse M. Brill, the chairman of CompensationStandards.com, a trade publication. "This had nothing to do with people's performance. These were granted at market lows."

Wall Street has long used a mix of stock and cash for bonuses. But the greater emphasis on cash before the financial crisis began meant executives could walk away rich even as their companies collapsed.

That has left many on Wall Street — and in Washington — demanding that a greater portion of pay be made in stock in hopes of rewarding long-term performance rather than short-term bets.

The Treasury's special master of pay, Kenneth R. Feinberg, has said there is "too much reliance on cash" on Wall Street and has proposed stock as an alternative.

Banks began the trend by paying more in stock last year. Then, in February, Congress required that bonuses at bailed-out banks be paid entirely in stock. Last month, the Treasury Department took the idea further by proposing that some executives' salaries be paid in stock. The result is that Wall Street workers have more of their pay at risk than ever.

Still, some compensation experts say the risk has been decreased by the government's backing of the financial system and historically low stock prices. After all, they point out, companies like JPMorgan, American Express and Capital One issued stock and options last year when their share prices had little chance of going anywhere but up.

The stock gains raise questions about the wisdom of pushing pay too far in either direction, favoring either cash or stock. Normal theories about stock compensation and risk-taking may not hold true today, compensation experts say, in large part because of the government's continued financial support of the industry.

And they say the upside at many banks is far bigger than the downside, particularly for banks like Bank of America and Citigroup that have not yet seen their shares recover.

"Right now the world is set up for these people to take big gambles," said Kevin J. Murphy, a professor at the University of Southern California who advised the Treasury Department on pay. "The worst part of the asymmetry comes from the too-big-to-fail guarantee" that has been reinforced by the government aid.

Wells Fargo was one of more than a dozen major banks to award executives stock and options since the bailout. In February, the bank gave nearly three million options and roughly 528,000 shares to 11 executives. On paper, the grants have risen in value to $57.3 million from $12.1 million, according to Equilar.

Pat Callahan, one of the Wells Fargo executives to receive the grants, said the bank's board always considers equity grants in February.

"Of course in February the price was very low, but nobody knew what was going to happen," she said. "It's true that the stock price change from February to now is a mix of economic recovery and things that we've done."

The Wells Fargo options start to become available early next year, though executives there are not allowed to sell more than half of them until a year after they retire. Of course, the stock could fall rather than rise before then, as could shares of other banks like Goldman or JPMorgan.

The stock payouts strike some experts as a way to simply defer windfalls into the future.

“The stock doesn’t bother me. What bothers me are the gross amounts,” said Charles M. Elson, a corporate governance professor at the University of Delaware. “Most people are focused on cash payments, and they ignore the stock. When you issue stock in a period of economic distress, you’ve often given someone a gift.”

Many financial workers, of course, do not consider their compensation a gift, despite widespread criticism of their high pay.

And some pay experts point to stock losses on Wall Street in recent years. Ira T. Kay, the head of compensation at the consulting firm Watson Wyatt, said, “No one’s looking to give them sympathy, but it’s not correct to say they haven’t felt the pain of their shareholders.”

Still, at some banks, like Goldman and JPMorgan, the stock in the bonus pools from 2006 and 2007 has almost fully recovered its value.

For upcoming compensation at Citigroup and Bank of America, the Treasury required the banks to pay executives almost entirely in stock. That means if performance goals are met, 19 executives at Citigroup would split $113 million in stock this year and 12 executives at Bank of America would share in $73.6 million in stock. (Each bank is also paying roughly $5 million of these executives’ salaries in cash.)

But greater upside lurks. If Citigroup’s stock returns to its early 2008 price of $29, from just above $4 on Friday, the executives’ shares from this year alone would be worth more than $800 million. Even if the stock rose to only $12, their shares would be worth $340 million.

At Bank of America, seven executives could see their pay packages become worth more than $10 million apiece if the bank’s stock increases just $10. A bank spokesman, Bob Stickler, said, “Under that scenario, executives get paid because the shareholders are being paid.”

The Treasury Department declined to comment when asked if these bank executives were being set up for windfalls. Lucian A. Bebchuk, a Harvard Law School professor who advised Treasury on pay rules, said, “What should we have done differently?”

“It would be better if you could take the stock and somehow neutralize what the government did, but that’s really tricky,” he said. “If you have equity compensation, sometimes there are massive windfalls.”