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Banks See Ways Past Pay Limits

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Despite their tough talk about clamping down on pay, banks and securities firms are using other financial perks to ease the toll on employees.

[Bank of America Corp.](#) and [Citigroup Inc.](#) are doling out shares that employees can sell within months—much sooner than normally allowed. Other giant banks, including [Goldman Sachs Group Inc.](#) and [Royal Bank of Scotland Group PLC](#), let certain employees borrow money to relieve personal cash crunches. And some U.K. banks have considered raising base, or cash salaries—funds that won't be subject to the country's new 50% tax on bonuses.

Such moves are a contrast to concessions recently made by large financial firms in hopes of defusing public anger, and political retaliation, over the comeback of sky-high compensation. Many banks and securities firms are paying bonuses with a bigger percentage of stock. Goldman, for example, sharply reined in pay and benefits during the fourth quarter. This week, the firm told partners that 60% of their 2009 bonuses will be in the form of restricted stock.

The new pay culture is squeezing bankers with hefty mortgage payments and private-school tuition bills—and has prompted some companies to find ways to assist cash-squeezed employees.

"I know it sounds ridiculous to Main Street, but it's a hardship," says Gary Goldstein, who runs Whitney Group, a financial-services job-search firm in New York. "So firms are trying to help out any way they can."

Loans are the most popular form of financial aid for traders and investment bankers. Gustavo Dolfino, a senior managing director at recruiting firm Accretive Solutions, says loans "are happening all over" Wall Street. They include a type of bridge loan made to tide over employees whose fixed expenses outstrip available cash resources.

Such loans aren't new, experts say, but they are becoming more common. Unlike normal borrowers, bankers and traders sometimes can get below-market rates on loans or face lighter collateral requirements, industry officials say.

A rise in favorable employee loans could fuel new resentment over the pay culture at financial companies. Many banks remain tight about lending to consumers and small businesses. Loan balances at U.S. banks shrank by 2.8% in last year's third quarter, the largest decline in at least 25 years, according to the Federal Deposit Insurance Corp.

Royal Bank of Scotland is setting up a program for employees who want to borrow against a portion of their deferred compensation at market rates. A spokesman at RBS says few employees tapped the bank's loan program when it was offered last year.

UBS AG issued loans to more than a dozen employees who faced a cash crunch last year. The firm is weighing whether to offer similar in-house credit this year, a person familiar with the situation says.

Goldman has let a small number of employees take out loans through the company's banking unit. A spokesman says the loans don't carry bargain interest rates, aren't forgivable, and aren't connected to compensation.

Steven Eckhaus, a partner at law firm Katten Muchin Rosenman LLP in New York, says he recently worked on two cases in which banks explored employee loans. He expects to see more such inquiries.

"You're seeing a lot more flavors of compensation and the way pay is structured," Mr. Eckhaus says.

Citigroup officials have told some investment-banking employees that the company was considering offering loans to cash-strapped workers, according to people familiar with the matter. Citigroup decided not to launch a special loan program but is continuing to offer forgivable loans to a handful of employees, primarily as a recruiting and retention tool.

Employees typically aren't required to repay forgivable loans unless they leave the company.

Some banks are easing the restrictions on restricted stock, making the shares nearly as liquid as cash. At Bank of America, restricted stock being distributed at the investment-banking unit can be sold as soon as August. Citigroup is issuing \$1.7 billion of stock units that employees can sell in April.

Banking regulators globally have encouraged banks to make their pay deferral periods longer, at least a year or more.

Citigroup last week said it has capped most cash bonuses at \$100,000 per employee. But that limit doesn't count "deferred cash" awards, which some investment bankers and traders are getting. Those payments are locked up in Citigroup interest-bearing accounts for a few years before employees can get their hands on the cash.

A person familiar with the situation says Citigroup employees generally will get about 25% to 60% of their compensation as long-term deferred stock or cash.

In the U.K., banks are looking for ways to maneuver around the one-time bonus tax, despite warnings from U.K. Treasury and tax officials that any attempt to pay a bonus after the tax year ends in April would result in an extension of the law.

Because base salaries aren't subject to the levy, some banks have looked at jacking them up temporarily, according to U.K. tax officials and pay consultants. Some U.S. banks took a similar step last year after Congress clamped down on bonuses.

British officials have blessed the shift to higher salaries, saying they help rein in risky decision-making. But the salary increases must be permanent, or they will be taxed like a bonus. "A significant, one-off leap in salary is something we'll be keeping an eye on," says Paul Franklin, a spokesman for the U.K.'s tax service.

In December, [Barclays PLC](#) decided to raise salaries across the bank, backdating them to July. [Credit Suisse Group AG](#), [Morgan Stanley](#), UBS and Citigroup also have raised the base salaries of some employees.

—Joe Bel Bruno contributed to this article.

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