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Bear Stearns Firings May Presage Trend

By **BRADLEY HOPE**, Staff Reporter of the Sun | August 17, 2007

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THE FIRING OF 240 BEAR STEARNS EMPLOYEES IN THE INVESTMENT bank's mortgage units this week could presage a round of layoffs on Wall Street, observers said.

One hundred employees from the bank's subprime unit, Encore Credit Corp., and 140 from its Residential Mortgage Corp. were laid off, a source with knowledge of the change said.

News of the layoffs, which broke yesterday, comes amid a roiling credit market that has sent the stock market plummeting in the last month. The market plunged 340 points yesterday before closing with a nearly 16-point loss, dozens of mortgage companies are imploding, and several blue-chip firms are trading at 52-week lows.

A headhunter for the financial industry, Daniel Sarch, said those employees who deal with the riskier subprime investments will likely lose their jobs in the near future.

The president of JobsOnWallStreet.com, Revital Goldwasser, said she has seen a large influx of mortgage professionals, from underwriters to sales brokers, posting their résumés on her site and reaching out to the job placement company she runs.

"People from the mortgage side of the business are trying to enter Wall Street" in large numbers, Ms. Goldwasser said.

Still, the sustained success of the last five years should provide a buffer against a drastic downturn, she said. And some employees, such as traders, whose skills can be easily transferred, will be moved to other units of the bank.

"We're not in a panic mode, yet," Mr. Sarge said.

A spokeswoman at Bear Stearns, Renu Aldrich, said the decision to reduce staff was made after evaluating market conditions. The Manhattan-based bank has 15,000 employees worldwide.

The markets have been unpredictable, worsening the financial situation for several companies. The Dow Jones Industrial Average recovered in the last 45 minutes of trading to close down 0.12%, at 12,845.78. It was the sixth straight day of a down market.

The most recent victim in the market chaos is First Magnus, a large private mortgage lender that announced it would stop

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accepting loan applications yesterday. The company posted the announcement on its Web site, citing a "collapse of the secondary mortgage market. ... We explored all options before taking this action but were left with no viable alternative." The company has 5,000 employees, according to an article in the Austin Business Journal.

Also yesterday, Countrywide Financial Corp., the world's largest mortgage lender, said it had borrowed $11.5 billion from a group of 40 banks to pay off loans. As a result, Standard & Poor's lowered its ratings on the company, making it more expensive for it to borrow money.

The vice chairman of Moody's Investor Service, Christopher Mahoney, told investors in a conference call yesterday that market conditions could lead to a collapse of a large hedge fund, which would further exacerbate the downward spiral of the market, according to an article in MarketWatch. He said the collapse could be similar to that of Long-Term Capital Management, a fund that had to be bailed out by banks after the East Asian financial crisis of 1997–98.

"We've seen quite a bit of contagion over the past two weeks, and it doesn't seem to be abating," he said, according to the article.

Employees at hedge funds that are overexposed to the subprime market could be the next group to be fired, the editor of the trade publication Absolute Return, Michelle Celarier, said.

"The market was going in one direction for such a long time, and now it's going in another direction," she said. "There's a huge shift and not everybody will make the transition."

Private equity business also could slow down because of the tightened credit market, leading to more layoffs.

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