

2nd UPDATE: Bear Stearns Consolidating Mortgage Operations

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Bear Stearns Cos. (BSC) said it will combine its two mortgage-origination businesses and cut 310 jobs, becoming the second Wall Street investment bank in two days to announce such layoffs amid industrywide retrenchment.

The investment bank, along with Lehman Brothers Holdings Inc. (LEH), is a leader in making and securitizing home loans. Bear Stearns' mortgage origination unit started the year with about 1,500 employees. Since then, the bank has cut about 600 jobs, including Wednesday's, according to a person familiar with the matter. In August, the company announced it would lay off 240 employees in subprime lending.

Chief Financial Officer Samuel Molinaro said last month that further cuts were likely.

Lehman, the biggest underwriter of mortgage-backed securities, fired about 2,500 residential mortgage employees in three rounds of layoffs this summer. Credit Suisse Group (CS) said Tuesday it would cut 170 residential-mortgage jobs and last month said that it cut about 150 positions related to mortgage-backed securities.

On Tuesday, Morgan Stanley (MS) announced a restructuring of its residential lending business that will result in 600 job cuts because of lower mortgage origination, accounting for about one-fourth of the New York investment bank's home-lending work force.

"You're going to see continued cutbacks in areas where there was a lot of growth in the past couple of years that are now troubled such as CDOs, structured credit, mortgages, general credit," said **Russ Gerson**, chief executive of **the Gerson Group**, an advisory and executive recruiting firm in the financial industry. "But I also anticipate a general cutback across the board as institutions go through compensation/promotion process over the next six to eight weeks."

Jeff Walton, who has been leading Bear Stearns Residential Mortgage, will be chief executive of the combined mortgage operation. Encore Credit chief Shabi Asghar will be president.

Bear Stearns plans to increase its mortgage offerings, said Tom Marano, global head of mortgages, rates and foreign exchange. That includes offering loans conforming to criteria set by Fannie Mae (FNM), Freddie Mac (FRE) and Federal Housing Administration loans. Investors are balking at buying securities backed by so-called nonconforming loans.

Wall Street until recently has minted money from packaging mortgages into securities for investors looking for high returns. The business crashed in the summer after rapidly growing defaults and delinquencies by borrowers with weak credit histories caused the value of securities backed by mortgage payments to plummet.

Shares of Bear Stearns were recently down 1.6% at \$126.54.

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