Crisis Tales: How Five On Wall Street Weathered The Storm
By **Anusha Shrivastava**
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NEW YORK (Dow Jones)--Few Americans escaped the credit crisis of 2008 unscathed. Nor have many yet recovered fully, three full years after the collapse of Bear Stearns Cos. threatened to touch off a chain reaction of bank failures and imperil the whole financial system.

That is particularly true of many people working on Wall Street when the crisis hit. Thousands lost their jobs, whether they bundled debt into exotic securities or traded plain-vanilla IOUs called commercial paper.

Some have secured new jobs, but plenty have been unable to find new employers and have started their own businesses or left financial services altogether.

Here are some of their stories.

Daniel Nigro was near ground zero of the credit crisis, working as a portfolio manager at Dynamic Credit Partners in New York which focused on collateralized debt obligations, a type of asset-backed security composed of any manner of debts, many of them subprime mortgages.

With their shifting portfolio of underlying assets, CDOs were among the more opaque financial instruments on offer during the credit boom, and among the hardest hit when investors lost faith in Wall Street legerdemain.

As Dynamic Credit Partners lost business in 2009, Nigro, like many portfolio managers, lost his job.

A garrulous man, Nigro, 53, isn't to be bitter. What hurts, he says, is that the main reason for the collapse was that people up and down the mortgage chain were often lying.

"Everybody had a hand in it," he said. "The homeowner who cheated on his application, the appraiser who inflated the price of a house, the broker who falsified data, the investment banker who bought the stuff and sold it without looking at it in detail, the rating agencies who rated the bonds. Cumulatively, the weight of it all got to be too great and the boat flipped over."

After leaving Dynamic Credit Partners, Nigro set up his own shop, Warfield Consultants, and has been consulting on various projects since then. He believes there is a need for seasoned portfolio managers like himself who can guide investors on where to put their cash to work.

Jack Malvey remembers dismissing friends and colleagues when they said his firm, Lehman Brothers, would suffer the same fate as Bear Stearns.

"We thought that was preposterous," he recalls, and he was in a position to know. Malvey, 59, was Lehman's chief global fixed-income strategist.

Even when, by June 2008, it became clear that the firm was in the middle of a serious battle, "we did not think there would be a complete obliteration of Lehman," said Malvey, who had been chief strategist for a decade at that point.

By September, all rescue efforts exhausted, Malvey found himself driving into the city from his home in Upper Montclair, N.J., so that he could clear out his office. Lehman, an aggressive buyer of mortgage-backed securities, was bankrupt.

News that Barclays Capital would buy Lehman's U.S. operations out of bankruptcy brought a "sense of relief and joy," said Malvey. He stayed at the firm until January 2009, when he decided to strike out on his own. He now works as a global capital markets consultant.

"I feel humbled by the experience," Malvey said of his time at Lehman. "I managed to miss the gravity of the deteriorations. I missed the strong linkage between the residential and commercial real estate markets. I did not fully grasp the magnitude of the systemic leverage. I sure wish I had done a better job."

Mark Adelson joined Standard & Poor's as chief credit officer in May 2008, in the uneasy period between the forced fire sale of Bear Stearns Cos. and Lehman Brothers' collapse into bankruptcy.

He stayed at S&P, even as it and other rating firms were hammered for giving triple-A ratings to mortgage-backed securities until just before many were dragged into default by an excess of subprime loans.

He stayed, he said, because he believes rating firms play an important role. They help investors "cut through the noise" when deciding where to put their money.

Adelson, 50, who worked at Moody's Investor's Service from 1991 to 2001, was critical of some approaches rating agencies took in the past, and said not everyone believes change is needed now because that implies past practices were flawed. There's "resistance from the front line," he said.

His goal is more comparability and transparency across all the asset classes S&P rates. Mortgage-backed bonds and other so-called structured finance are complete; corporate and sovereign debt are next. S&P hasn't published all of its new criteria because the volume of comments on draft proposals has been huge.

It's worth the investment of time.

"It's not about spotting crisis but about the protection you should have," he said.

This is not just hollow advice: Adelson has carried a flashlight and a Swiss Army knife in his pocket since the terror attacks of September 11, 2001. He says it doesn't cost him much and it's good to be prepared for the worst.

Laks Srinivasan, a graduate of the Wharton School at the University of Pennsylvania, was working at Fair Isaac Corp., the company that produces the three-digit credit scores that many lenders used to assess borrowers.

As a member of the innovation management group, he was not directly involved with the creation of the scores, but he surely saw the pain inflicted on lenders who relied too heavily on those so-called FICO scores.

"A FICO score is a blunt instrument, and yet it is a very key, pivotal loan-level measure," Srinivasan said. The capital markets were using the score without evaluating the nuances behind it.

A self-employed carpenter, for example, may have the same credit score as a union autoworker, but he won't have nearly the same job security.

Srinivasan, 42, an engineer by training, left Fair Isaac in 2008 to work for Opera Solutions LLC in Jersey City, N.J., to improve the access to information on bonds backed by loans for homes.

Now the co-head of global markets analytics at Opera Solutions, he says his model gives investors the ability to apply various hypothetical scenarios, from changes in the economy to declining home prices in a particular region, so they can better evaluate bonds.

"The transparency is through more data, better analytics and the potential for users to set up their own scenarios so they can better evaluate what they are buying," he said. "Machines can provide data, but you need man to look at the data."

Joe Soave ran the asset-backed commercial-paper desk at Credit Suisse, an unglamorous backwater where traders provided a market in the short-term IOUs that companies routinely use to raise cash for inventory, payroll and other recurring expenses.

As investors began to question the value of assets underlying mortgage backed securities, suspicions quickly spread to other so-called securitized products, including asset-backed commercial paper. Quickly, companies couldn't find buyers for new debt, and investors couldn't sell old debt.

"We started having meetings on weekends," Soave said. "It was emergency mode." For a while, he said, he barely saw his three young children because his days at work got so long.

The commercial paper market still hasn't recovered fully. About $1.1 trillion of it was in circulation as of March 23, according to the Federal Reserve, about half the $2.2 trillion peak in July 2007.

Soave, 42, eventually left Credit Suisse to co-found 20 Gates Management, which sets up entities to issue asset-backed commercial paper and provides consulting services to its clients. These include hedge funds and banks, he said.

Between low market volumes and regulatory changes, the commercial paper market remains troubled, but Soave said 20 Gates has found its niche and is building up its clientele.

"We're doing fine for a start-up," he said.

-By **Anusha Shrivastava**, Dow Jones Newswires; 212-416-2227; **anusha.shrivastava**@dowjones.com [03-28-11 1033ET]