Restructuring an MBS Career

By Jon Jacobs
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With a new wave of layoff victims descending on Wall Street, where's the life raft for those who got washed overboard by the first - the professionals who structured, sold and traded mortgage securities and derivatives within sell-side firms?

MBS pros who lost their jobs face a stark choice: find an outlet for their skills on the buy side, take up a new specialty, or find a new career outside the financial services industry.

Those who lack the top-notch analytical or proprietary trading skills sought by distressed-debt hedge funds, may need to comb through their past experiences to identify specific skills and personal qualities transferable to a different niche, function or industry.

Salvaging Transferable Skills

"If their specialty has become irrelevant, they must reach back to earlier in their career," says Richard Lipstein, managing director at Boyden Global Executive Search. "Figure out what it is they do well. Figure how and where to sell themselves. Was it the structuring, the quantitative, the marketing, was it the idea generation? Where else, whether in or outside of Wall Street, can you profitably use those skills?"

For a person with strong sales aptitude and established client relationships, a natural option is leveraging the skill and the relationships to sell a different product type. Even the most satisfied clients, however, aren't necessarily transferable. No matter how much they may like or respect any one salesman, clients often are tied to particular dealers and products. For instance, Lipstein notes institutional investors who buy deals from bulge-bracket banks might not be at liberty to buy from a salesman who's moved to a boutique firm.

Unlike M&A dealmakers, MBS and CDO structurers and salesmen can't simply ride out the storm. Those businesses aren't just suffering a cyclical downturn, experts say - their demise is permanent. There's a broad consensus that even when markets eventually recover, mortgage structuring desks won't staff up to anywhere near their former size.

Land at a Distressed-Debt Fund?

The buy side is the obvious alternative - too obvious, unfortunately. It's true that hedge funds and private equity firms are ramping up their involvement with distressed mortgage-related assets. In the most dramatic sign to date, fund manager John Paulson - whose Paulson & Co. earned billions in profit the past two years by taking short bets against mortgage indexes - reportedly started buying beaten-down mortgage bonds last week.

But the total number of new jobs created in bottom-fishing debt funds will be no more than a fraction of the tens of thousands of mortgage pros cut loose by Wall Street. Those buy-side jobs will go primarily to individuals with proven ability to deconstruct and accurately value mortgage-backed securities, leveraged loans and other distressed assets, says Sandy Gross, managing partner of search firm Pinetum Partners. Such professionals generally have deep experience in quantitative research and modeling. "Figure out how are the skills going to be applicable to a hedge fund or PE firm. (Ask yourself) where and how am I going to add value and help a new employer make money from these securities?" says Gross, who recruits primarily for hedge funds.

She suggests individuals who occupied lower rungs on the MBS ladder, such as structurers who implemented models built by others, could try to join up with quant-savvy former teammates to gain entry to a buy-side shop.

And don't rush to write off experience in structuring just because the mortgage business cratered. Other structured vehicles will arise to take its place, believes New York career coach Win Sheffield. A firm he's familiar with, which pioneered the CDO concept, now is racing to identify securitized product types that hold prospects for future growth. "They're just trying to line up the next product, the next hot structured finance area," says Sheffield. His message: the business of securitizing assets will survive and even prosper, albeit not for exactly the same assets that built this decade's mortgage bubble.