

THE STRAITS TIMES.

BREAKING NEWS

November 22, 2008 Saturday



NEW YORK - CITIGROUP has begun talks with the US government as its plummeting share price raises doubts about the bank's ability to survive, a person familiar with the matter said.

The bank has met with officials from the Federal Reserve and the US Treasury Department in recent days to discuss its options, which include an endorsement from the government and another capital injection from the Treasury, the person said, requesting anonymity because he is not authorised to speak to the press.

The bank's management has also internally discussed selling off units or finding another bank to merge with. But it is not clear if anything short of capital from the government will soothe markets that are increasingly questioning whether Citigroup has enough capital to withstand the recession, the person said.

Citigroup spokesman Christina Pretto declined to comment. Citigroup's shares lost 20 per cent of their value on Friday, closing at US\$3.77, down 60 per cent for the week and reaching their lowest level since December 1992. 'It's fear and panic at this point,' said Mr Gerard Cassidy, a banking analyst at RBC Capital Markets in Portland, Maine. 'Investors have seen similar movies this year, and the endings are very unpleasant.'

Chief Executive Vikram Pandit, working hard to regain employee confidence on Friday, said on a company-wide conference call that the bank does not want to change its business model and plans to keep its Smith Barney brokerage, despite news reports to the contrary.

He also said Citigroup had a solid capital position, and that employees should not focus on the bank's falling share price because that is not what regulators and credit rating agencies worry about, the people said. Citigroup's board met on Friday to discuss the bank's options, a person familiar with the matter said. The Financial Times reported that although there were no concrete plans for management changes, the board was looking at Mr Pandit's position.

The bank believes it has time to negotiate with the government, because depositors and derivatives clients are not showing any signs of fleeing the bank. Three hedge fund investors that spoke to Reuters on Friday said they continue to trade with the bank. The cost of protecting Citi's debt against default rose on Friday, but is still low enough to imply that investors are not worried about the bank making good on its obligations.

Some analysts believe that even if customers are standing by Citigroup now, they might shy away from the bank if the company's share price falls too much.

Mr Sean Egan, analyst at ratings agency Egan-Jones Ratings, said, 'Citigroup needs a deep-pocketed investor that is ready, willing, and able to step up in the next few days, and the only one who comes to mind is the government,' adding that at least US\$50 billion (S\$76 billion) may be necessary.

The bank is running ads in major US and international newspapers on Sunday emphasising its stability, noting that '200 million people around the globe have put their trust in Citi to take control and secure their futures.'

The incredible shrinking Citi

Citigroup's market value fell to US\$20.5 billion on Friday. That's less than the US\$25 billion taxpayer-funded injection that Citigroup just received from the federal government, and a fraction of the US\$75 billion of capital that Citigroup has raised since the credit crisis began last year. The bank's market value topped US\$270 billion in late 2006.

The latest declines left Citi smaller by market value than each of Canada's top three banks: Bank of Nova Scotia, Royal Bank of Canada and Toronto Dominion Bank. Citigroup's market value is now also in line with Goldman Sachs Group's. Investors speculated on Friday that Goldman might look to buy Citigroup, but a person familiar with Goldman's strategy said it is not interested.

Analysts speculated that the bank may look to sell its Banamex business, the second-largest bank in Mexico, in a deal that could raise as much as US\$15 billion for Citigroup.

Regulators have intervened before

Within the last three months, major US lenders Wachovia and Washington Mutual suffered rapid outflows of deposits, as losses mounted on mortgages and other debt. Under pressure from regulators, Wachovia agreed to sell itself, while Washington Mutual failed and its deposits and some of its assets were bought by JPMorgan Chase.

On Monday, Pandit set plans to shed 52,000 of Citigroup's 352,000 jobs by early 2009, and to move tens of billions of dollars in troubled securities onto its balance sheet. The bank is also pushing the US Securities and Exchange Commission to reinstitute a temporary ban on short sales of financial stocks, a person familiar with the matter said. The broader industry is also lobbying for a temporary ban.

In the credit derivatives market, the cost to protect US\$10 million of Citi's debt for five years rose to US\$470,000 annually, up from US\$395,000 annually on Thursday, according to Phoenix Partners Group.

Those levels are fairly low compared with other banks that have been in distress recently. Protecting US\$10 million of Wachovia's debt against default just before it agreed to sell itself would have cost US\$1.49 million a year.

The comparatively low cost to protect Citigroup's debt combined with the low share price signal that markets expect the company to raise large amounts of preferred or common equity, potentially with government help. But the cratering stock price, on top of the job cuts, had employees on edge. 'Now I know what the people at Lehman Brothers felt like,' a bank staffer said, referring to the investment bank that filed for bankruptcy protection on Sept 15.

Mr Gustavo Dolfino, president of recruiting firm WhiteRock Group, said he had been receiving more calls from employees at the managing-director level at Citigroup in recent days. 'I've spoken to a number of people that are very concerned about their jobs and the bank's survival,' Mr Dolfino said.

On Thursday, Saudi Prince Alwaleed Talal said he planned to increase his stake in Citigroup to 5 per cent from less than 4 per cent. The bank's largest individual investor called Citigroup's shares 'dramatically undervalued'. -- REUTERS