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Citi Splits Consumer Banking, Card Units

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By MADLEN READ

Citigroup named a veteran retail banker Monday to head its North American consumer banking unit, splitting it off from its credit-card business as Citi struggles to become profitable again after suffering its biggest quarterly loss in its 196-year history.

The latest move is the biggest sign yet that CEO Vikram Pandit, appointed in December, wants to fix Citi's major parts rather than sell them off to raise cash - at least for now.

It also addresses shareholder concerns over what steps Pandit would take to attract more consumers to Citi's retail banking unit.

Citi's worst problems are in its investment banking segment, which made huge losing bets on the mortgage industry. But its bread-and-butter business of lending to and collecting deposits from average people has also been underwhelming shareholders.

Citi is ubiquitous throughout the United States, but in recent years has lost customers to rival banks such as JPMorgan Chase & Co. and Wachovia Corp.

The quality of service at Citigroup branches has "room for improvement," said Marino Marin, managing director at the boutique investment bank Gruppo, Levey & Co. "They need to regain the trust of the customer."

Pandit's new hire, Teresa Dial, certainly has an impressive track record.

Dial, 58, spent nearly three decades at Wells Fargo & Co., including serving as president and CEO of its Wells Fargo Bank subsidiary. And since June 2005, Dial has been leading the turnaround of Lloyds TSB Group PLC's retail banking in the United Kingdom.

Meanwhile, Steven Freiberg - the head of the old global consumer group who will now lead the global credit card business - is bringing to the table about 25 years of credit-card experience at Citi.

And in another change, Pandit is giving more autonomy to executives in Citi's various locations around the world, most of which are growing faster than the flagging United States. Ajay Banga has been put in charge of the Asia Pacific region; William Mills is leading Western Europe, the

Middle East and Africa; Shirish Apte is head of the Central and Eastern Europe region; and Manuel Mora will continue to oversee Mexico and Latin America.

Overall, the changes point to an effort to decentralize management at the sprawling New York-based company. And, as Deutsche Bank analyst Mike Mayo wrote in a note, they appear to rule out either a more radical restructuring, or the sale of a major business or geographic region.

Nearly four months on the job, Pandit has reconfigured Citi's mortgage business, closed some retail branches and made some new key hires in its investment bank and its risk management.

Most industry experts have been cautiously optimistic about Pandit's incremental moves.

"He's not selling Citigroup in pieces, but he's dividing Citigroup into pieces to measure them better and manage them better," Marin said.

Citigroup shares rose 29 cents, or 1.4 percent, to $21.12 in late trading Monday.

But in the eyes of many investors, the changes are a bit like "rearranging deck chairs on the Titanic," said Dan Alpert, managing director of Westwood Capital.

Amid worries about the still-tight credit markets, Citi's shares recently dropped below $20 - the lowest price since Sandy Weill spearheaded the merger between Travelers Group and Citicorp in 1998 that led to the formation of Citigroup as it's known today.

Citi's market capitalization since the summer, right before the mortgage and credit crises blew up, has lost more than 40 percent and sunk to $107 billion. That's well below what it would take to recreate the company; the Citicorp-Travelers merger back in 1998 was valued at $140 billion.

Analysts expect Citi to write down its portfolio of investments - many of which are backed by mortgages - by an additional $10 billion to $20 billion when it reports first-quarter results in two weeks. Some believe the bank will have to raise more cash by selling additional stakes in itself to outside investors or by slashing its dividend again.

Since November, Citi has sold stakes to investors including the Abu Dhabi Investment Authority and Government of Singapore Investment Corp. for a total of $20 billion. It has already reduced its quarterly dividend to shareholders by about 40 percent; if it cut its dividend completely, the bank could raise nearly $7 billion a year.

Citi's key debt ratios are healthier than they need to be for the bank to be considered "well-capitalized" by the Federal Deposit Insurance Corp. But analysts note that many of its assets were bought at a price that was higher than book value. This extra value is an intangible asset called "goodwill," and can't be sold for cash.

And even if Citi has suffered the worst of the credit crunch already, investors - and customers - remain worried about the bank's ability to grow and be competitive.

So while most investors are looking at Pandit's restructuring as a way of squeezing the most profits out of Citi's various arms, the moves may also serve another purpose: allowing each business to become more independent so if Citi is still hurting a year or two from now, Pandit can shed it easily and for a good price.

"If the rest of Citigroup incurs a lot of losses, it gives them something to sell," Alpert said. "Even if there are credit card industrywide losses, their credit-card franchise is one of the best in the world."