

SFGate.com
SFGate.com

Print This Article

Back to Article

Citi, Merrill on Hunt for More Capital

By JOE BEL BRUNO, AP Business Writer

Friday, January 11, 2008

(01-11) 04:10 PST NEW YORK, (AP) --

Two of the biggest names on Wall Street are scrambling again to secure major cash infusions from foreign governments to offset billions of dollars in losses from risky subprime mortgage securities, analysts said on Thursday.

Citigroup Inc. and Merrill Lynch & Co., the No. 1 U.S. bank and largest brokerage house, are facing potentially \$25 billion worth of losses when they report earnings results next week.

Both companies — led by new CEOs eager to make their mark — are expected to turn overseas for another injection of capital.

Wall Street's biggest banks and brokerages have been lining up investments from foreign governments to cushion against losses from bad investments in subprime mortgages, which are made to people with less-than-stellar credit, or in securities back by subprime mortgages.

Sovereign wealth funds, which are investment pools backed by governments, already have invested about \$27 billion in Merrill, Citi, Switzerland's UBS AG and Morgan Stanley.

The fact Merrill and Citi are going back for seconds indicates that the credit crisis might be taking a bigger toll on Wall Street than initially expected.

"The bottom line is that their losses are much more sizable than first thought, and they need capital to shore up their balance sheet," said Richard X. Bove, an analyst with Punk Ziegel & Co. "It's why they're out there looking for more."

Spokesmen for Citi and Merrill did not immediately return calls seeking comment.

The search for more foreign cash infusions by Citigroup and Merrill was disclosed Thursday by The Wall Street Journal.

This time around, Citi is said to be looking for about \$10 billion worth of capital, The Journal said. Abu Dhabi's state-run investment fund in November agreed to buy a 4.9 percent stake in the bank for \$7.5 billion.

Merrill Lynch is looking to arrange up to \$4 billion of new capital, most likely from a Middle Eastern government, The Journal said. The brokerage previously secured a \$4.4 billion investment from Singapore's state-run Temasek Holdings.

"Writedowns and losses will continue to mount," Goldman Sachs analyst William Tanona said in a research report about financial institutions, adding that getting more money from sovereign funds will be "capital raising for some, preservation for others."

Citi's board was expected to meet Monday to discuss cutting the bank's dividend in half. Though the bank has denied speculation about cutting the dividend, analysts said it could save about \$5 billion.

Layoffs at both Citi and Merrill also have been bandied about Wall Street during the past few weeks.

Staff reductions, along with the sale of non-core assets, are among ways analysts believe Citi CEO Vikram Pandit and Merrill CEO John Thain can shore up their balance sheets.

Both institutions have said they expect big writedowns, but analysts now think the losses might be bigger than originally anticipated.

What's Your Credit Score?

○ 720

● 598

○ 467

Know Yours Instantly!

*Pending verification of identity

Citigroup, right before ousting CEO Charles Prince, projected an \$11 billion writedown — though some analysts say it could be as high as \$20 billion.

Merrill Lynch did not make any predictions about how much it might write off during the fourth quarter, though analysts project it could be up to \$11.5 billion. Stan O'Neal, the brokerage's former CEO, was ousted shortly after the company took an \$8.4 billion writedown.

The New York Times reported on its Web site late Thursday that Merrill Lynch is expected to disclose a \$15 billion fourth-quarter writedown. The report cited unnamed people who have been briefed on the company's plans.

Global banks have booked almost \$110 billion of writedowns since last year because of bad bets on subprime mortgage securities, and the ensuing credit crisis.

The additional foreign investment could provoke more scrutiny in Washington, depending on its size. Generally, passive ownership stakes that don't include board seats or other levers of control and that are below 10 percent don't require approval by a federal government panel that reviews foreign investment for security concerns.

Sen. Chris Dodd, D-Conn., chairman of the Senate Banking Committee, said Thursday he supports foreign investments in the United States "so long as they do not compromise our national security or pose a threat to our economic stability."

The committee may hold hearings on the subject later this year, a Senate aide said. The aide spoke on condition of anonymity because she wasn't authorized to speak on the record on the subject.

Dodd's committee spearheaded legislation last year that strengthened the foreign investment review process. The action came after several high-profile deals, including a planned investment in U.S. port operations by a Dubai government-owned company, sparked major controversy.

Shares of Merrill Lynch rose \$1.55, or 3.1 percent, to close at \$52.03, while Citi added 62 cents, or 2.3 percent, to \$28.11.

AP Business Writer Christopher S. Rugaber contributed to this report from Washington.

<http://sfgate.com/cgi-bin/article.cgi?f=/n/a/2008/01/10/financial/f221808S06.DTL>

Associated Press Sections

Go

© 2008 Hearst Communications Inc. | [Privacy Policy](#) | [Feedback](#) | [RSS Feeds](#) | [FAQ](#) | [Site Index](#) | [Contact](#)