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Citigroup posts \$10 billion loss; Street in shock Company also slashes dividend, goes abroad for \$12.5 billion more capital

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Citigroup's new chief executive may have to dismantle the country's largest bank to save it.

As the housing market continues to deteriorate and the economy slides toward a recession, Citi stunned Wall Street on Tuesday by posting a \$10 billion loss for the fourth quarter of 2007, the biggest in the bank's 196-year history.

That loss - equal to the cost of about 48,000 U.S. homes at today's sunken prices - forced Citi to slash jobs, cut its dividend almost in half and turn to foreign investors again for billions of dollars of new capital.

Securing the foreign investment gives Citigroup some more leeway, but the bank needs to begin turning a profit quickly. That may be difficult while the economy remains weak and the housing market is in a slump.

Citigroup's sobering retrenchment comes three months after CEO Vikram Pandit's predecessor vowed the bank would weather the credit crisis and emerge bruised, but not broken, by bad bets on mortgages.

With a new batch of indicators suggesting the economic slide may intensify and repayment woes are spreading to credit cards, auto loans and personal loans, analysts are predicting more dramatic moves might be necessary.

"It's clear we're in a state of panic," said Georgia State University finance Professor Alfred Mettler. "The CEO definitely wants a cleaned-up table. That new CEO would rather overreact than underreact."

Pandit and his humbled management team are likely still considering the sale of the brokerage arm Smith Barney and other businesses that analysts over the past several months have pointed out as possible divestiture options: credit cards, mortgages, units overseas or even the entire retail banking operation.

SNL Financial bank analyst Kris Niswander said the \$12.5 billion cash injection has mitigated the need to break off big parts of the business, but it does not erase that option.

Citigroup former chief executive Sanford Weill has been vocal about not breaking up the bank he created by merging Travelers Group with Citicorp, but Pandit is not beholden to him.

"He doesn't want to limit himself to what cards he is able to play," Niswander said.

News of Citigroup's loss, driven by a \$18.1 billion write-down and some \$4 billion put toward further deterioration in consumer credit, sent Citigroup's shares skidding more than 7 percent. That wiped away about \$10 billion in market value on top of the \$125 billion the shares already have lost over the past year.

Citigroup Chief Financial Officer Gary Crittenden startled analysts on a conference call by saying the bank doesn't expect the housing industry to stabilize soon. He predicted already slumping U.S. home prices could fall 7 percent further this year and by a similar amount in 2009.

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That led some analysts to predict more write-downs could come this year. Pandit acknowledged as much, saying "the environment continues to be uncertain" and that the company's results going forward "will definitely be influenced by the economy."

Besides the housing slump, economists are growing more worried about the snowball effects of a shaky job market - which has been exacerbated by the loss of tens of thousands of jobs in the mortgage and housing industries.

Citigroup added to the total Tuesday by saying it had cut 4,200 jobs in the fourth quarter, on top of 17,000 layoffs announced in the spring. And Crittenden said more job cuts are coming.

Most of the cuts have been, and likely will continue to be, traders and investors in markets and banking - the main source of the bank's losses.

Pandit, who replaced Charles Prince as CEO in December, said the fourth-quarter results were unacceptable. He said he had not finished his review of whether Citigroup's Smith Barney brokerage unit or other parts of the global bank's operations should be sold, or other once-unthinkable changes ordered.

Pandit also said Citigroup would continue to sell non-core assets. The bank has already sold shares in Redecard, a card business in Latin America, and an ownership interest in a unit of the Japanese brokerage Nikko Cordial it bought last year.

Only a couple of months ago, bank executives insisted the dividend would not be cut. But they backtracked Tuesday. The 41 percent cut in quarterly payouts to 32 cents a share will save the bank \$5 billion a year - but deprive shareholders of that cash.

Citigroup's infusion of \$12.5 billion in fresh capital included \$6.9 billion from the Government of Singapore Investment Corp. for a 4 percent stake.

Those convertible preferred shares, plus the \$7.5 billion Citi got in November from the Abu Dhabi Investment Authority in exchange for a 4.9 percent stake, come at a hefty price: Citi must now pay \$1.7 billion a year in new dividends for the high-yielding stakes.

The loss for the quarter was \$9.83 billion (\$1.99 per share), compared with earnings of \$5.13 billion (\$1.03) during the same quarter a year earlier. Citigroup's revenue fell to \$7.22 billion, down 70 percent from the final quarter of 2006.

Full-year net income for 2007 was \$3.62 billion, down 83 percent from a year earlier.

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