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Citigroup is Dismantling Another Piece of the Empire that Sandy Weill Built.

Citigroup (C) was for decades a top underwriter of state and local government debt, making the bank a major financier of roads, bridges, and airports across the US.

Now it wants out of that business, dismantling yet another part of an empire amassed in the 1990s.

The decision, announced internally in a bank memo Thursday, is the latest example of how Citigroup is paring back its ambitions as it tries to revive its stock price and remove decades of bloat.

The municipal bond business — known for underwriting bonds that helped pay for everything from a makeover of Chicago's O'Hare Airport to the rebuilding of One World Trade Center following the 9/11 attacks — apparently was no longer delivering enough profits.

"The economics of these activities are no longer viable given our commitment to increase the firm's overall returns," Citigroup executives Andy Morton and Peter Babej said in the Thursday memo. Morton is the company's head of markets and Babej is interim head of banking.

The move, which came after months of review, will result in a wind-down of the unit by the end of the fourth quarter. Roughly 100 employees in the municipal sales, trading, and banking unit are expected to leave over the coming months.

The unwinding of a financial supermarket

There was once a time when municipal bond business was a key part of Citigroup's billing as a "financial supermarket" that could offer any and all services needed by consumers, businesses, and governments.

The high point of this model was an era-defining 1998 merger between Citicorp and Travelers that shattered a Depression-era division between retail banking and investment banking and cemented Citigroup's status as the world's largest financial institution.

The deal, engineered by Sandy Weill, gave Citigroup the investment banking operations of Salomon Brothers, which at the time was the industry's largest underwriter of municipal bonds and famously had a hand in helping New York City avoid bankruptcy during the 1970s.

In the decades since 1998, the colossus built by Weill proved to be too complex and unwieldy to manage effectively, and the 2008-2009 financial crisis dealt another blow to its sweeping ambitions. The company began to slowly unwind parts of the empire.

The muni bond exit is yet another step in that direction as CEO Jane Fraser tries to focus the company on serving big, multinational corporations, shed what isn't profitable, and operate more efficiently.

She is pulling back from consumer banking in various parts of the world, with plans to exit 14 consumer franchises in Asia, Europe, the Middle East, Africa, and Mexico.

She is also cutting jobs and reorganizing business lines as part of an internal restructuring that Fraser has called the “most consequential” change to how Citigroup operates in nearly two decades.

Layoffs associated with that restructuring began in November. Citigroup CFO Mark Mason said at a Goldman Sachs conference last week that the bank anticipates a charge of “a couple hundred million dollars” related to these restructuring efforts.

The hope is that these moves will revive Citigroup’s stock. Over the past decade, it has fallen more than 2%, significantly lagging Big Bank peers and even the wider KBW US bank index (^BKK), which has risen 44% over the same period.

Muni challenges

During much of that same period, Citigroup held a dominant position in the muni world. From 2015 until 2021, it was the country’s second-biggest underwriter of municipal bonds. But its ranking has slipped some in the last two years.

New capital requirements from regulators could make that business less profitable going forward. There are also government efforts at state levels to restrict the ability of certain banks to participate in muni bond offerings if they don’t comply with local preferences.

In Texas, for example, the bank found itself unable to conduct muni business after the attorney general’s office in January determined that Citigroup had “a policy that discriminates against a firearm entity or firearm trade association.”

The response followed a decision made by Citigroup to restrict its banking services to gun retailers that sold firearms to people under 21, which came as a response to the 2018 Parkland shooting in a Miami suburb.

The state has a law in place barring certain government contracts with companies that have anti-gun business practices.

Citigroup said in its memo Thursday that it will still work with state and local governments on infrastructure projects via public-private partnerships and the private placement market.

And the bank, according to the memo, will still purchase muni bonds and finance affordable housing projects in the US.

“We do think banks are likely to be less present in the muni market,” Pimco’s head of municipal bonds David Hammer told Yahoo Finance Friday when asked about Citigroup’s retreat.

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