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From the Los Angeles Times

Sub-prime crisis claims boss of biggest bank

Charles Prince steps down at Citigroup, which confesses that as much as $11 billion of additional losses may be coming.

By Walter Hamilton
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NEW YORK — The sub-prime mortgage crisis claimed its second Wall Street chief executive in less than a week on Sunday as Charles Prince, the embattled head of Citigroup Inc., stepped down. The nation's largest banking company warned it might also suffer a whopping $11 billion of additional mortgage-related losses.

Although many investors wanted Prince out, word of deepening write-offs sent the stock tumbling again today. Citigroup's shares closed down $1.83, or 4.8%, to $35.90. The stock has plummeted 36% this year.

Citigroup named as chairman former Treasury Secretary Robert E. Rubin, the current head of its executive committee. Win Bischoff, the chief of Citigroup's European unit, was made interim CEO.

The changes bring to a close the stormy tenure of Prince, a Southern California native and USC graduate, who announced his departure at an emergency board meeting.

"Given the size of the recent losses in our mortgage-backed securities business, the only honorable course for me to take as chief executive officer is to step down," Prince, 57, said in a statement.

Citigroup's disclosure that it would write off $8 billion to $11 billion was a stunner. "It's a huge number," said Jeff Arricale, manager of the T. Rowe Price Financial Services mutual fund.

Citigroup's stock sold off Friday after an analyst predicted that the company might write off an additional $4 billion on top of a $5.9-billion hit it took last month. That grim forecast now appears optimistic.

The new write-off underscores the fact that, almost a year into the sub-prime crisis, the brightest minds on Wall Street still are unable to get a handle on their companies' financial exposure. Citigroup blamed its new problems on the continued deterioration of the sub-prime securities market since the end of September.

Peter Schiff, head of brokerage Euro Pacific Capital in Darien, Conn., said he had no idea how much Wall Street would ultimately lose, "but it's going to be a ton."

Prince's departure cheered investors who had criticized his four-year stewardship, but it is unlikely to change Citigroup's fortunes in the near future, analysts said.

During the housing boom, Wall Street made enormous profits by turning mortgages -- many of them sub-prime home loans made to borrowers with shaky credit -- into bonds and a bevy of exotic securities.

The banks sold many of the securities to big investors but also held on to huge swaths, which have shriveled amid the housing crisis.

Will Prince's exit "make a major difference in the short term?" asked David Dreman, chairman of Dreman Value Management in Aspen, Colo. "I don't think so. Wall Street wants heads."

Citigroup revealed Sunday that it had about $55 billion in sub-prime-related assets and was setting up a special unit that would focus solely on whittling down those risky loans.

The resignation followed the ouster Tuesday of Stan O'Neal from the top job at Merrill Lynch & Co., which was triggered by the brokerage firm's $8.4-billion write-down tied predominantly to mortgage-related losses.

The propinquity of the two departures shows how the market for sub-prime securities has continued to darken in just the last few weeks.

Both men appeared secure in their positions after the sub-prime crisis erupted early this year and then deepened over the summer. Several companies indicated in the last two months that the bulk of the mortgage-related trauma had passed, but investors felt deceived when that proved untrue.

O'Neal left Merrill with a $161.5-million retirement package; Prince walks away with an estimated $99 million in vested stock holdings and a pension, according to an analysis by New York-based compensation consultant James Reda. Prince had already pocketed $53.1 million in salary and bonuses over the last four years, Reda said.

Prince would be leaving with far more money if not for Citigroup's dismal stock performance during his tenure, Reda said. He has more than 1 million stock options, but most are worthless because Citigroup shares have dropped 20% since he became CEO in October 2003.

Rubin was formerly co-chief of Goldman Sachs and served as President Clinton's Treasury secretary from January 1995 to July 1999.

However, his once-glowing reputation has been sullied by Citigroup's travails. Though Rubin has repeatedly stressed that he plays only a minor role in Citigroup's daily operations, he has been a chief advisor to Prince.

"Since joining Citigroup Mr. Rubin's performance has vacillated between disappointing to terrible," Richard Bove, an analyst at Punk Ziegel & Co., wrote in a note to investors.

Prince served for many years as the chief lawyer to Sanford Weill, a Wall Street legend who transformed a battery of disparate companies into a financial colossus. Despite Citigroup's gargantuan size and well-known brand name, Prince faced numerous obstacles when he succeeded his friend four years ago.

He never fully overcame several fundamental problems: The size of the company makes it unwieldy. Costs have long been considered too high. And the bank's North American consumer business has been a laggard.

The company had $2.35 trillion in assets as of Sept. 30, making it the largest bank in the U.S. It has about 300,000 employees and operates in 100 countries.

In the U.S. alone, it had 1,015 Citibank branches, 2,467 CitiFinancial branches and 803 Smith Barney brokerage offices as of Sept. 30.

Citigroup, said Arricale of T. Rowe Price, "gave us nothing on the upside and now they're giving us all the downside."

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