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Citicorp's coverup is cracking

Little by little, the news about the secret 1991 bailout of America's biggest bank is coming into the public view.

The saga of bankrupt Citicorp, the United States' largest and perhaps most bankrupt bank, took another turn for the worse the first week of October, with the sudden resignation of Citicorp President Richard Braddock, and yet another admission of increased federal control over the bank.

Citicorp revealed, in a prospectus for a $650 million stock offering filed with regulators Oct. 6, that the bank has agreed not to make any "significant" acquisitions or expansions of its consolidated assets, without the prior approval of either the Comptroller of the Currency or the Federal Reserve.

That announcement follows an Aug. 14 after-hours admission by Citicorp's embattled chairman, John Reed, that a "Memorandum of Understanding" had been signed with regulators in February 1992. Reed attempted to downplay the announcement by insisting that the memorandum was merely a formality, and that Citicorp was well on the road to recovery.

Nothing could be further from the truth, which is that Citicorp has failed and is being kept alive only by the infusion of huge amounts of federal and other monies.

The de facto federal takeover of Citicorp occurred near the end of the third quarter of 1991. At the end of July 1991, Rep. John Dingell (D-Mich.) had told a congressional hearing that Citicorp was "technically insolvent" and "struggling to survive." Dingell warned that the bank had been borrowing heavily from the Federal Reserve's discount window. On Aug. 2, Standard & Poor's dropped its outlook for Citicorp from "stable" to "negative," citing the bank's deteriorating real estate loan portfolio and its low level of reserves relative to its admitted non-performing assets.

Within days of these events, Citicorp was hit with runs in Hong Kong and Pakistan, throwing the bank into a severe liquidity crunch and forcing it to borrow heavily from the Fed.

Faced with escalating losses, federal regulators secretly seized control of Citicorp, and began the hopeless task of trying to bail out the bankrupt bank, outside the public view.

One of the first acts of the new regime was to force Citicorp to eliminate the dividends it paid on its common stock for the first time since 1813. The bank was also forced to add nearly $900 million to its vastly underfunded loan loss reserves, mostly for loans to less developed countries, giving it a loss for the third quarter of 1991 of $885 million. But the amount fell far short of addressing the bank's overwhelming domestic loan problems, especially in real estate, where its $13 billion portfolio included over $3 billion in admitted non-performing loans, on top of $1.4 billion of foreclosed properties held by the bank.

Faced with a depleted capital position and tens of billions of dollars of non-performing loans, the new Citicorp regime set out to raise capital through stock issues and asset sales, and through implementing an internal austerity program of further job and spending cuts. The bank eliminated 9,000 jobs in 1991. The inability of the bank to admit its losses was demonstrated by the puny $133 million in losses the bank reported for the fourth quarter, giving it a claimed loss for the year of $457 million.

To help bring the bank's balance sheet under control, former Dutch Finance Minister H. Onno Ruding was brought in as vice chairman of corporate banking. Ruding, as a former chairman of the Interim Committee of the International Monetary Fund, is an acknowledged expert in implementing austerity measures. Ruding's appointment was also designed to attract foreign investors who had been scared off by the bank's former regime. The bank also brought in W. Neville Bowen, the former head of Hill Samuel Investment Management Group of Britain, to head its investment management arm, which invests money for wealthy individual and institutional clients.

To deal with its multibillion-dollar capital shortage, Citicorp engaged in a series of asset sales and stock issues. Citibank sold part of its 40% holding in the Saudi American Bank Corp. for a reported $470 million, sold its credit card processing unit for $175 million, sold an Indianapolis office building for $115 million, and sold its Italian banking subsidiary and Ambac, its municipal bond insurer.

But the sales have not kept pace with the losses, especially the evaporation of the value of Citicorp's real estate portfolio. Citicorp has been devastated by a series of bankruptcies among major real estate developers, including Olympia & York, Randsworth Trust, Mountleigh, and John Portman. Approximately one-third of Citicorp's real estate loans are in California and other West Coast states, where the real estate crisis is rapidly reaching blowout proportions.

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