Citigroup CEO Pandit gets emergency help

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By Jessica Hall and Jonathan Stempel

PHILADELPHIA/NEW YORK (Reuters) - When Vikram Pandit took the helm at Citigroup Inc last December, critics worried about his lack of consumer banking experience, that he was too low key, a technocrat, not one to inspire a troubled banking giant that needed help.

The U.S. government has now decided to step in with that help.

Citigroup agreed late Sunday to accept what is effectively government insurance on a $306 billion portfolio of troubled assets, in exchange for issuing $27 billion of preferred shares to the government and to slash its dividend.

The agreement is essentially an admission that Pandit was too slow to shed assets, slash jobs, beef up technology and make Citigroup function not as a bunch of a silos but, as its name suggests, as a group.

"He didn't go into crisis mode early enough, or at least it wasn't obvious," said Duke University finance professor Campbell Harvey. "It should have been a more aggressive reduction of risk 11 months ago."

Indeed, investors long ago decided Citigroup was on the wrong path, driving its shares down 89 percent since Pandit took over. They fled in droves this month after the government said it would no longer buy Citigroup's toxic assets under an industrywide plan to bail out the banking sector.

Even before Sunday, Citigroup has raised $75 billion of capital since the global credit crisis began, and Pandit had set plans to cut 20 percent of the 375,000 employees he inherited. Pandit even brought back a variation of the once popular advertising tagline "The Citi never sleeps."

But his efforts to buy Wachovia Corp and get its $418.8 billion of deposits were thwarted by Wells Fargo & Co, which swooped in with a higher bid.

And decisions last week to move tens of billions of dollars of assets back on the bank's balance sheet made investors nervous that Citigroup's losses could be magnified. The bank has reported $20.3 billion of losses since Pandit took over.

Pandit long maintained that the bank had enough capital. Investors remained unconvinced.

"What he should say is, 'I expect continued problems and we may need to raise additional capital. Beware,'" said Daniel Alpert, a managing director at boutique investment bank Westwood Capital in New York. "Really, that's what the market is saying for him."

NOT RIGHT KIND OF EXPERIENCE

Born in Nagpur, India, the 51-year-old Pandit obtained two electrical engineering degrees and a doctorate in finance from Columbia University.

He joined Citigroup in July 2007 when the bank acquired his hedge fund and private equity firm Old Lane Partners LP for about $800 million. Earlier this year the fund faced massive redemption requests and was forced to shut down.

Prior to Old Lane, Pandit worked at Morgan Stanley, where he headed institutional securities, overseeing banking, trading, prime brokerage and investments, and was credited with expanding outside the United States.

While his unit performed well, Pandit often sparred with fixed-income chief Zoe Cruz, who said he was too conservative and unwilling to use leverage

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to magnify bets -- ironically, a major reason Citigroup and many rivals got into trouble.

Pandit left when he was passed over for the co-president's job in March 2005. Cruz would also later leave Morgan Stanley after trading losses began to mount.

Pandit had originally been hired at Citigroup to lead the bank's alternative investments operations.

But four months after Pandit joined, chief executive Charles Prince resigned under pressure, just as bank was facing billions of dollars of losses subprime mortgages. Those losses were just the beginning.

BOLD MOVES NOT ENOUGH

Citigroup did not have a deep bench of candidates to replace Prince, and when Pandit was tapped for the top job, critics pointed to his inexperience running a big consumer bank. Some also called him too timid for the challenge.

"Pandit is an academic, not an operator," said William Smith, chief executive officer of Smith Asset Management, which owns Citigroup shares.

Still, Pandit had made some bold moves, such as agreeing to acquire the stricken Wachovia's banking assets, and sharing the risk with the Federal Deposit Insurance Corp.

Publicly, Citigroup's board has been supportive of Pandit, with board member Richard Parsons recently saying the bank has a "terrific management team."

Not everyone agrees.

"The share price right now is a vote against management and the board of directors," Smith said. "You're seeing an inept management team being rewarded by the U.S. government."

Citigroup's stock on Friday fell as low as $3.05, before closing at $3.77 on the New York Stock Exchange.

"People didn't know how bad it really was," including Pandit, according to Harvey, the Duke professor. "He was handed a nightmare."

(Reporting by Jessica Hall in Philadelphia and Jonathan Stempel in New York; Additional reporting by Paritosh Bansal and Dan Wilchins in New York; Editing by Chris Wickham)

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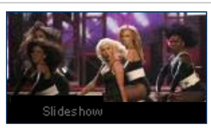

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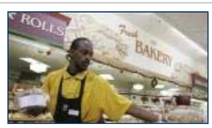
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