Citigroup Bailout Retrospective

In the announcement that the U.S.Treasury was likely to make a profit selling its stock in Citigroup, much was made about the great returns that sale would generate, and very little was said about how it all happened in the first place.

The potential profit was estimated to be about $7.5 billion assuming that the price of Citigroup's stock stays at its current level through the end of the year. The article joyfully announced that "it's a 14 percent rate of return on the $165 billion invested in the biggest banks. Hundreds of smaller banks also received [TARP] money and have been paying the government a steady stream of dividends and interest." Banking analyst Bert Ely said, "Overall, TARP may cost taxpayers money. But the banking part of it is going to be a moneymaker."

Just how much the taxpayers will wind up paying for the bailouts, even if the sale of the government's holdings of Citigroup stock goes well, is estimated to be in excess of $100 billion. This includes "investments" made in General Motors, Chrysler, and AIG which show little signs of being profitable any time in the near future. And this does not include $126 billion in taxpayer funds that have been used so far to support Fannie Mae and Freddie Mac, nor has Treasury announced any plans to withdraw such support in the future.

In the fall of 2008, Citibank received a total of $45 billion to keep it afloat. Later, $25 billion was converted to common stock, and $20 billion was paid back by Citigroup to the Treasury. But that is far from the end of the story.

The *Washington Post* wrote in December, 2009, that "the federal government quietly agreed to forgo billions of dollars in potential tax payments from Citigroup as part of the deal announced this week to wean the company from the massive taxpayer bailout….as a result, Citigroup will be allowed to retain billions of dollars worth of tax breaks." Robert Willens, a tax accountant, added, "The government is consciously forfeiting future tax revenues. It's another form of assistance, maybe not as obvious as direct assistance, but certainly another form. I've been doing taxes for 40 years, and I've never seen anything like this." A senior Republican aide who remained anonymous for the article confirmed the additional support from Treasury: "You're manipulating the tax rules so that the market value of the stock [would be] higher that it would be [without the breaks]. It inflates the returns that they're showing from TARP and it looks good for them."

Even this, however, leaves much of the story untold. Matt Taibbi wrote for Rolling Stone magazine in December about "the revolting and inexcusable $306 billion bailout that Citigroup received [as the] first major act of the [Obama] presidency. The day after Obama's election, the president-elect asked Michael

Froman to head up his search team for economic advisors. Froman was one of Obama's biggest contributors for his campaign, raising $200,000 as well as introducing him to a number of highly influential Wall Street bankers. At the time, Froman held a high-level executive position at Citigroup. One of the people Froman brought in as part of the new Obama economic advisory council was Jamie Rubin, the son of Bob Rubin, another executive with Citigroup. All this was taking place in early November. As Taibbi explains:

> So on November 23rd, 2008, a deal is announced in which the government will bail out Rubin's messes at Citigroup with a massive buffet of taxpayer-funded cash and guarantees. It is a terrible deal for the government, almost universally panned by all serious economists, an outrage to anyone who pays taxes. Under the deal, the bank gets $20 billion in cash, on top of the $25 billion it had already received just weeks before as part of the Troubled Asset Relief Program. But that's just the appetizer. The government also agrees to charge taxpayers for up to $277 billion in losses on troubled Citi assets, many of them those toxic CDOs that Rubin had pushed Citi to invest in. No Citi executives are replaced, and few restrictions are placed on their compensation. It's the sweetheart deal of the century, putting generations of working-stiff taxpayers on the hook to pay off Bob Rubin's [obscenity deleted] tenure at Citi. "If you had any doubts at all about the primacy of Wall Street over Main Street," former labor secretary Robert Reich declares when the bailout is announced, "your doubts should be laid to rest."

And so, by uncovering and reviewing the rest of the story left out of the MSNBC article, one is drawn to the inescapable conclusion that the U.S. Treasury didn't bail out Citigroup, making a profit along the way. Citigroup bailed itself out, using its influence in the Obama administration, and funding its rescue with taxpayer guarantees.

Photo: AP Images