# The Original Too-Big-to-Fail Bank: Citibank's history is inextricable from that of the United States

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***Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi*, by James Freeman and Vern McKinley (Harper Business, 384 pp., $35)**

**"C**iti," as it is known, has embodied the best and the worst of America's banking industry. In *Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi*, *Wall Street Journal* assistant editor James Freeman and George Washington Law School visiting scholar Vern McKinley vividly recount the bank's story from its founding, two days before the start of the War of 1812, through the 2008 financial crisis. It's a fascinating, lively account that tracks the development of America's politicized banking and financial system through the story of a firm whose fortunes closely tracked those of the nation.

Citi was born of a compromise between two rival factions in New York's legislature. Its first president, Samuel Osgood, had been a legislator, New York Treasury commissioner, and postmaster general. Beset by self-dealing and weak management, Citi struggled in its early years. During the financial crisis of 1837, the richest man in America, John Jacob Astor, rescued the bank, making it "a squeaky-clean institution" for the next 80 years.

Citi found its footing under Astor's protégé, businessman Moses Taylor, who served as a hands-on director and then president. For most of the nineteenth century, Citi proved a safe haven for depositors; during the panics of 1857, 1873, and 1884, its deposits surged 42 percent, 32 percent, and 70 percent, respectively. Occasionally, Citi was called on to bail out the federal government. Americans today would find that hard to imagine.

An advocate of "ready money," Taylor kept Citi highly capitalized and sought stable deposits. He also had skin in the game, keeping much of his personal wealth on deposit with the bank. After Taylor's son-in-law served an unnoteworthy interregnum as president, cotton broker James Stillman took the reins in 1891. Under his leadership, Citi won Standard Oil and the U.S. government as clients and became the first American bank to reach $1 billion in assets. Anticipating the revolving door between Citi and Washington, Stillman recruited his eventual successor, Frank Vanderlip, from the Treasury Department. After secretly accepting Stillman's offer, Vanderlip spent another year there—a patent conflict of interest. He later became one of the architects of America's third central bank, the Federal Reserve System.

Politically driven restrictions on branch banking limited opportunities for domestic expansion, so from the Taylor era forward, Citi sought growth abroad. Vanderlip accelerated Citi's international presence. By 1920, the bank had 55 branches in the Western hemisphere. Its St. Petersburg branch opened in 1917, but the Bolsheviks were a wild card that Citi hadn't counted on. Decades later, the bank's exposure to the Cuban sugar industry would prove a problem as well.

The relationship between Citi and the government has exemplified economist George Stigler's concept of "regulatory capture," where agencies meant to oversee private entities wind up advancing their interests. Freeman and McKinley describe episodes where the phenomenon went a step further, to a "regulatory rush to surrender." On the eve of what financial-markets commentator James Grant calls the "forgotten depression" of 1921, the New York Federal Reserve Bank provided Citi with more capital than its shareholders possessed. In the Great Depression, Citi found itself on the ropes again, but refused to share financials with its regulator. During the 1970s and 1980s, the bank got involved with loan-making to developing countries, but when these loans went bad, the government stepped in with bailouts.

Freeman and McKinley call John Reed, Citi's CEO during the 1990s, "the banker who never made a loan." Reed did create a massive financial conglomerate by merging the storied bank with Sandy Weill's Travelers, which the two men awkwardly co-led from 1998 to 2000. Citi tapped former Clinton Treasury secretary Robert Rubin in 1999 to a senior advisory role, for which he reaped $115 million.

In 2006, Weill picked his general counsel Chuck Prince as successor. Prince knew the regulatory terrain, but he wasn't a "line guy"; it ended badly. Supported by interim chairman Rubin, former hedge-fund operator Vikram Pandit took the helm during the financial crisis. Like the CEOs of most too-big-to-fail banks, Pandit supported Dodd-Frank, which provided a regulatory moat for the financial giants.

Rubin and Clinton's second Treasury secretary, Larry Summers, pushed Timothy Geithner for head of the New York Fed, notwithstanding his lack of "academic credentials, relevant experience, and record of achievement." Rubin was Geithner's "professional patron"; during the financial crisis, Geithner, first at the New York Fed and then as Barack Obama's first Treasury secretary, Geithner delivered for Citi. With their "affordable housing goals" the Clinton and George W. Bush administrations had systematically weakened mortgage-credit standards in order to promote home ownership. After the bursting of the housing bubble, risky mortgages and mortgage-backed securities brought Citi to death's door. Bush instructed his Treasury secretary, Hank Paulson, not to let Citi die; Geithner conjured apocalyptic predictions if Citi failed.

Citi received $45 billion in Troubled Asset Relief Program (TARP) capital infusions, plus over $400 billion in asset and debt guarantees and other government assistance. Afterward, Geithner declared that the "world was fragile, and they really were so big, that if we didn't want a reprise of the Depression—an obliterated banking sector, 25 percent unemployment, thousands of businesses shuttered—we had to make sure they didn't drag down the system, even if it looked like we were rewarding the reckless." Post-crisis, Citi remained intertwined with Washington and focused on burnishing its political image. Critics lambasted Pandit for cochairing a global-glitterati schmoozefest in Davos in 2012. "What kind of signal does that send," asked banking analyst Mike Mayo, "that the bank that was the worst-performing in our country over the last decade and whose stock price is still down significantly since he took over, is the ambassador for our financial industry?" Former Clinton official and Rubin protégé Jack Lew joined Citi in 2006; Obama brought Lew on as Treasury secretary in 2013. America's "most political bank" today has on its board five former regulators, a former president of Mexico, a former regulatory consultant, a former president and COO of GSE Freddie Mac, one former NYC Planning Commission member, and a former economic adviser to Obama's presidential campaign. Former FDIC chair Sheila Bair described Citi as "the original too-big-to-fail bank" and "a sobering reminder that cozy relationships between banks and their government are nothing new in the U.S. and always end badly."

Citi holds terrific assets and has enjoyed sustained periods of excellence. It would perform better if management focused more on banking and less on Washington and political optics. Of course, government is the senior partner in and chief enabler of the politicization of banking. The lesson of Freeman's and McKinley's worthwhile and engaging read is that government should disentangle itself from banking and allow the private sector to fend for itself.

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