Citi confirms plan to raise $33bn

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Citigroup on Monday confirmed it would launch a long-awaited $33bn capital raising this week in a move aimed at allaying investors' fears over the offering and concerns over mounting regulatory pressure.

The announcement came as the Federal Deposit Insurance Corporation, one of Citi's regulators, continued to press the bank to replace Vikram Pandit, Citi's chief executive, and his closest lieutenants, according to people close to the situation.

However, the FDIC has so far failed to persuade Citi's other main regulators – the Treasury, the Office of the Comptroller of the Currency and the Federal Reserve – to oust Mr Pandit and his team.

Citi will begin a conversion of preferred shares into common stock held by the US government and other shareholders this week, as reported by the Financial Times on Saturday.

The exchange offer, which was announced several weeks ago, will help Citi to bolster its ailing balance sheet and plug a $5.5bn capital shortfall found by the recent government "stress tests". After the conversion of its preferred shares, the government will own a stake of about 34 per cent in Citi.

The FT reported on Saturday that, in recent weeks, Citi had decided to delay its capital raise after the FDIC had threatened to lower a crucial financial health rating.

Citi on Monday said suggestions that federal banking agencies delayed regulatory approvals for the offer were "entirely incorrect".

But people close to the situation said the issue was not regulatory approval but Citi executives' belief they could not proceed with the offer until the row with the FDIC over the financial rating had been resolved.

The FDIC declined to comment.

People close to the situation said tensions between Citi and the FDIC, which has argued the institutions should replace Mr Pandit, a former investment banker, with an experienced commercial banker, remained high.

The launch of Citi's offer will come as a relief to several hedge funds. Many have been buying Citi's preferred shares while shorting its common stock in the hope of profiting from the conversion and further delays in the offering could have forced them to cover their short positions at a loss.

The repayment of government funds likely to be announced on Tuesday by up to 10 rival banks, including JPMorgan Chase and Goldman, has given Citi an added incentive to raise capital and mend its finances.

Separately, Bank of America announced on Monday that two more directors had left its board. Jackie Ward and Patricia Mitchell are leaving the bank, joining Temple Sloan and Robert Tillman in the ranks of BofA's recently departed board members.

Financial Times, New York, June 9, 2009, Companies, online.