A Bad Week

For Wholesale Banks
Citigroup

- $125mm to settle “predatory lending” charges by FTC
- $5mm to settle securities fraud charges (Grubman, Winstar) with NASD
- Seeking “global” settlement with SEC, and NY State AG
- Nonperforming loans increased $2 billion
- Financial press questioning business model and Weill’s role.
- NASD examining “tying” loans to securities business
JP Morgan Chase

- $1.4 billion write off in telecom sector (tied to inv banking deals)
- S&P downgrades debt, Moodies puts on watch list
- Private equity funds “bleeding red for years”
- Strategies & management in question – big syndicated loans player, corp. fin ties
- MV of JPM = $40 billion; JP Morgan was acquired for $35 billion in 2000 (trades now at 1x book value)
Chairman Mulemann fired
– McKinsey; 2 years in office
– Best regarded manager
Co-CEOs appointed, Grubel and Mack
“Speculation that CSFB will be sold”
Mass. AG recommends to E. Spritzer that criminal charges be filed re CSFB research reports

Where’s the synergy in the group?
Group consists of:
– Private Banking (CH)
– Retail Banking (CH)
– Winterthur Insurance
– CSFB (Ldn & NY)
Wholesale Lending

- Low fee high grade loans – low interest rates in exchange for investment banking business
- High fee low grade loans (“leveraged loans”) trade with bond markets and are sold to institutional investors
  - “Prime loan funds” and “CDOs”
- Increasing syndication to decrease positions held; trading volume in secondary markets up 15x from 1992
- Investment banks now in the business too
Global (Debt) Banking

Loans
Bonds
Swaps
Wholesale (Global) Banking

- (Global) Debt
- New Issues and trading in:
  - Bank loans
    - Investment grade
    - Leveraged loans
  - Swaps
    - Currency
    - Interest rate
  - Bond issues
    - Foreign bonds
    - Eurobonds

- (Global) Equities
  - New issues & IPOs
  - Secondary market trading
  - Smaller company (local) issues

- Corporate Finance advisory services
- Investment Management
International Debt Securities

- Domestic Bonds
- Foreign Bonds
- Eurobonds
- “Global” bonds
- MTNs & ECP
- Swaps as linkages
Characteristics of Eurobonds

- Unregulated market
- Rule 144a
- Currencies matter
  - Issuers
  - Investors
- Tax sensitive investors
  - Bearer bonds
  - No withholding taxes
- Sovereigns
- Banks
- Corporations
  - Investment grade
  - Junk
  - ABS’
Investors

- Institutions (banks acting for individual clients, “Belgian dentists”)
- Other private investors seeking secrecy
- Government entities
- Banks and financial institutions (pension funds) as assets
New Issue Methods

• MTNs:
  – Underwritten, NIFs and RUFs
  – “Tap” issues

• Loans:
  – Syndicates
  – FRN: Relative to LIBOR/”Euribor”

• Bonds:
  – Syndicates or “bought deals”
  – “Swap driven”
  – Fixed Income: Relative to US Treasuries (or Bunds)