# Breaking Up the Big Banking Conglomerates in America

## Big Banks Worth More to Investors Broken Up Into Components than as Giant Conglomerates

By Washington's Blog
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*Shareholders Join Bankers, Economists, Financial Experts, Regulators and the American People In Calling for a Break Up of the Giant Banks*

The president of the Federal Reserve Bank of Dallas, Richard Fisher, has long said that the component parts of the biggest banks would be "worth more broken up than as a whole."

Last year, Crain's New York estimated that Citi's component parts are worth 40% more than Citigroup's current market price.

Forbes' Robert Lezner argues:

> The proper solution obviously is to break-up the banks into their stand-alone parts. Without government pressure, voluntarily, strategically, with the proper stated purpose of benefiting the banks shareholders, who have not gotten anywhere near back to the price of the their shares in late 2006 or 2007. (C is selling at 5% of its peak price; BAC at 25%, GS at 60%) I'm told there are hints of this solution bubbling amongst the bank analyst fraternity.
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> Spin off the asset management division that manages several hundred billion of other people's money into a public company that will have the multiple of a T. Rowe Price, or a BlackRock, which will have a transparent cash flow and sell at some price-earnings multiple higher than a bank today and behave according to the way the stock market behaves. It would be regulated by the SEC and be dependent on its own performance and not a bunch of financial activities with leverage that few can understand, much less put a dollar value on.
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> Then, spin off the consumer banking operation into a separate stand-alone business. Its profit margins will be transparent as the spread between the bank's borrowing costs and the yield on the loans or mortgages it finances. I'd be willing to bet these operations, with more predictable earnings and a steady dividend would also sell at greater than 10 times earnings. These spin offs would be regulated by the Federal Deposit Insurance Commission (FDIC), which might well strongly suggest a cap on the leverage that can be used of between 10 and 15 times.
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> Thirdly, the wholesale banking operations, the collateralized loans, the derivative positions, the futures, puts and calls would be in their own unit. Investors and analysts and regulators would be able to evaluate these institutions more rationally, especially if they are forced to disclose more

> exactly what they are doing globally and with whom.

Now, analysts at even the giant banks *themselves* are starting to agree.

Bloomberg [reported](#) yesterday:

> Shareholders at the biggest U.S. banking conglomerates may demand breakups if valuations remain depressed, according to analysts at Wells Fargo & Co. (WFC)
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> So-called universal banks such as Bank of America Corp., Citigroup Inc. (C) and JPMorgan Chase & Co. (JPM) are trading at a 25 percent to 30 percent discount to more-focused competitors, analysts led by Matthew H. Burnell wrote in a research report today. Goldman Sachs Group Inc. (GS) and Morgan Stanley (MS), which concentrate on investment banking, trading and money management, are within 8 percent of the estimated value of their parts, the analysts wrote.
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> "If regulators and/or legislators don't demand it, shareholders could also intensify demands to 'break up the banks.' "
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> Burnell's team calculated that pieces of Bank of America are worth 41 percent more than their tangible book value, a measure of how much shareholders would receive if the firms' assets were sold and liabilities paid off.
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> Citigroup should get a 24 percent premium, JPMorgan should get 69 percent and Goldman Sachs should be valued at 19 percent more than tangible book, the analysts said.
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> Citigroup, ranked third by assets and based in New York, and Bank of America, ranked second and based in Charlotte, North Carolina, trade at about 14 percent and 7 percent less than tangible book value, according to data compiled by Bloomberg.
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> JPMorgan, the biggest U.S. bank by assets, and Goldman Sachs, the fifth-biggest, trade for 28 percent and 9 percent more than tangible book value, respectively. The valuation for the two New York-based companies compares with the 281 percent premium fetched by Minneapolis-based U.S. Bancorp (USB), the nation's largest regional bank.
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> New York-based Morgan Stanley should be valued at a 13 percent discount to tangible book value, compared with the current discount of about 19 percent, the note said.
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> Michael Mayo, CLSA Ltd.'s bank analyst, wrote in a separate note yesterday that shareholders in the biggest firms are more likely to agitate for changes than in prior years.
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> "Almost every large investor from our meetings and conversations over the past four months agrees that bank managements should be held more accountable and more often intend to vote against directors, compensation plans, and other actions," Mayo wrote in an April 9 research note.

In a separate story yesterday, Bloomberg notes:

> JPMorgan Chase & Co. (JPM), the largest U.S. bank by assets and the top investment bank by fees, is questioning the so-called universal bank model's future.
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> Top-tier investment banks are "uninvestable at this point with a risk of spinoff from universal banks," JPMorgan analysts led by London-based Kian Abouhossein wrote in a research note today. They cited potential rule changes and curbs on capital and funding.

## Who Wants to Break Up the Big Banks … And Who Wants to Maintain the Status Quo?

Financial experts, economists and bankers say we need to break up the big banks.

The overwhelming majority of Americans want to break up the giant banks as well.

Given that shareholders are now starting to understand that breaking up the giants would be better for their own portfolios, the power of the markets may finally weigh in to split up the too big to fail banks.

So who is is *against* breaking up the giant banks?

Apparently, the only people opposing a break up are the handful of welfare queens – er, I mean current top corporate brass – who mooch off the public to reap insane windfalls, and the bought and paid for D.C. politicians who make money hand over fist by literally pimping out the American people to those Johns.

*And see this.*