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Banks: Everything must go!

Financial firms may look to sell assets to get their balance sheets in shape. But finding buyers won't be easy.

By David Ellis, CNNMoney.com staff writer
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NEW YORK (CNNMoney.com) -- If it's not bolted down, you can bet that troubled financial firms are thinking of putting a price tag on it.

There has been plenty of talk lately about how the nation's largest banks and securities firms are looking to shed some of their assets.

Last week, specialty finance firm CIT Group (CIT, Fortune 500) announced plans to sell its home lending business to the Dallas buyout shop Lone Star Funds for \$1.5 billion and \$4.4 billion in assumed debt.

And there has been plenty of speculation about other possible sales. There have been reports that Merrill Lynch (MER, Fortune 500) may sell all, or part, of its stakes in asset manager BlackRock (BLK, Fortune 500) or the media outlet Bloomberg LP.

Swiss bank UBS AG (UBS) has reportedly retained Lazard to help conduct a strategic review of its businesses, including the separation of UBS' lucrative wealth management unit from its hard hit investment bank division. Executives from Merrill and UBS have declined to comment publicly about these reports.

"When the industry is hurting, the natural thing to do is look inward and say 'what do we have?' and 'what should we have?' " said Elizabeth Nesvold, managing partner at the New York City-based investment bank Silver Lane Advisors, which works with the financial services industry.

While selling assets may prove to be the next move for capital-hungry banks and securities firms, it will certainly stand as another challenge for companies that are already trying to juggle too much.

Cutting into muscle

Facing mounting loan losses and pressure from federal regulators, financial services firms have been scrambling to raise capital any way they can - including cutting their dividend or issuing

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To avoid offending shareholders any further, banks and securities firms have increasingly eyed asset sales as a sensible way of raising cash.

That may prove to be relatively painless for large firms such as Citigroup (C, Fortune 500), which announced in early May that it planned to sell more than \$400 billion in assets over the next few years, as part of an effort to whip the bloated New York City-based bank into shape.

During the recent boom years, the financial services giant acquired a medley of different business divisions. So it has plenty of fat to cut.

But for firms that aren't as diversified, sales could present a problem.

"You don't want to cut into muscle," said Jess Varughese, managing partner at Milestone, a New York City-based management consulting firm that focuses on the financial services industry.

For example, some estimate that Merrill Lynch 49% stake in BlackRock and 20% holding in Bloomberg could be worth as much as \$15 billion. But a sale, while raising capital, would also come at a cost.

Getting rid of its BlackRock stake in particular would eliminate a source of sales and profitability for Merrill at a time when the rest of its business is struggling.

In the first quarter, Merrill reported a 15% increase in revenues in its global investment management business and attributed much of the gain to its investment in BlackRock.

Removing such a key revenue stream could even prompt a downgrade of Merrill by credit rating agencies, notes Benjamin Wallace, a securities analyst at the Westborough, Mass.-based Grimes and Company Inc.

Talk is cheap

Wallace adds that a lot of the chatter about asset sales making the rounds may be just that: chatter.

If a bank was seriously thinking about dumping its brokerage business or jettisoning its asset management division, leaking details of the discussions is not in their best interests if they actually want to maximize the amount of money they will make on the sale.

"It's good old game theory," said Wallace. "If people know you are trying to sell something, they will push you harder on the price."

Also, talking about an asset sale may be one thing. Pulling off a deal in this market environment is quite another. There may be a dearth of willing buyers for bank assets in the coming months.

Because of the credit crunch, analysts say few banks or brokerages are well capitalized enough to go shopping. That leaves only a smattering of private-equity firms or hedge funds in the buyer pool.

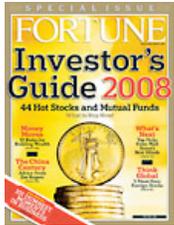
And with credit markets still under pressure, few firms may be able to secure the kind of financing needed to afford the asking price, notes Robert Bruner, dean of the University of Virginia's Darden Graduate School of Business.

"It seems that the range of buyers is much narrower today than it was perhaps a year ago because the buyer may not find it possible to finance a major purchase as easily," said Bruner, who focuses on corporate finance as well as mergers & acquisitions.

And asset sales, while attractive, are certainly not speedy.

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One prominent attorney who has consulted on a number of high profile deals noted that some sales can be cobbled together in a matter of days and banks can have the cash in hand just a few weeks later if everything goes smoothly.

But that appears to be the exception rather than the rule. If time is of the essence, notes Silver Lane's Nesvold, a cash-squeezed bank or brokerage may be forced to sell stock to raise capital.

"Doing a deal takes a fair amount of time and patience," she said. "It is not a quick turn for cash when you need to tighten up your balance sheet." ■

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