

Citigroup Sells Subprime Lender to Springleaf

By JP Walsh, CFA, LL.M. Candidate 2015 | March 11, 2015

Citigroup has announced the sale of its consumer lending unit, OneMain Financial, to Springleaf Holdings for \$4.25 billion. Citigroup Chief Executive Officer Michael Corbat has called OneMain “[a terrific business](#)” after the subprime-lending unit turned profitable after difficult times throughout the global financial crisis (GFC). However, Mr. Corbat felt the business did not fit “the Citi model,” as the firm wants to focus on providing banking services to more affluent customers in the United States.

The sale took place despite OneMain becoming one of Citigroup’s [most profitable divisions](#), as the firm could borrow money at low interest rates and charge clients higher rates than conventional loans.

This deal is the latest in the too-big-to-fail bank's efforts to reduce its size as it faces increased regulatory controls. In recent years, Citigroup has also [jettisoned other business divisions](#) including the Smith Barney brokerage unit and life insurer Primerica.

Back in 2009, Citi executives were hoping to sell the subprime loan unit for \$1 billion but the firm was unable to find a suitable buyer. The recent sale for more than [four times its 2009 value](#) highlights how the tide has turned with an improving economy for the subprime lending sector.

Since the GFC in 2008, many banks undergo regular stress tests designed by the Federal Reserve to see if they can handle scenarios similar to that of 2008. Last year, [Citigroup performed poorly](#) in the test. This resulted in limits on its 2014 total net payout and pressure from institutional investors

The sale of OneMain will mean less risk-management for Citigroup, which will help it obtain higher capital distributions going forward. The slimmed-down Citigroup is still the third-largest U.S. bank by assets.

Wall Street analysts reacted positively to the deal as [Springleaf shares soared](#) 38 percent to a record \$52 and Citigroup's shares were also higher. RBC Capital markets Analyst Gerard Cassidy "[believe\[s\]](#) the opportunistic sale of non-core assets such as OneMain will allow Citigroup to simplify its business and focus on delivering sustainable, high quality returns from its core franchise.”

The deal, which must be approved by the Federal Reserve, is expected to close in the third quarter of 2015. At closing, the combined Springleaf-OneMain is expected to have almost 2,000 branches nationwide, which will make it the largest subprime lender in the U.S.