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Premium Content

Months after its IPO, Citizens Financial finds itself at a crossroads

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Citizens Financial Group (NYSE: CFG) CEO and chairman Bruce Van Saun has a lot of reasons to be stressed. There's the ambitious profitability target he's set for the Providence-based bank, a goal that could be harder to reach the further away the Federal Reserve pushes its long-awaited interest rate hike. There's the roster of banking heavyweights he's hired in the past few months, whose personalities and visions will need to be assimilated into the company. There's the hundreds of new hires he's vowed to make in key units, and the hundreds he's promised to cut.

All of which speaks to the difficulty of turning an institution that tottered for years as the U.S. arm of a struggling foreign parent into a thriving, stand-alone public bank.

"The biggest challenge we face is the amount of change we're trying to manage," Van Saun told the Business Journal. "I'd say there's a decent amount of stress just to keep up with the pace we're trying to make these changes."

Massachusetts has a lot riding on Van Saun's success in making the transition. Citizens holds $1 of every $8 in the state's retail bank deposits, with only **Bank of America** boasting a larger share. And Boston is home to much of the bank's commercial lending operations and jobs, a portfolio Van San wants to bulk up. Indeed, Citizens, with unspecified thousands of Bay State employees, is now the closest thing Massachusetts has to a full-fledged big bank of its own.

It's a comeback story that's already had its fare share of twists and turns. A year ago, Citizens was under the thumb of the Royal Bank of Scotland Group and seemingly the object of desire of another foreign power: Japan's **Sumitomo Mitsui Financial Group** was rumored to be in discussions to acquire the bank from RBS. The talks never bore out, however, and last fall

Citizens underwent an initial public offering that lowered RBS' stake in the bank to about 70 percent. Today, the Scottish bank's stake is closer to 40 percent, and it plans to rid itself of its remaining shares by the end of 2016.

A flood of new faces

Some of the bank's biggest changes have occurred in its executive offices. In early March, Citizens hired a new chief financial officer, Eric Aboaf, to take over for retiring CFO John Fawcett. Weeks later, it announced it would bring on a new head of commercial banking, Donald McCree, to replace Robert Matthews, who passed away suddenly in December. The duo's pedigrees speak to the new Citizens' aspirations: Aboaf is a veteran of **Citigroup**, while McCree worked for more than 30 years at **JPMorgan Chase** and its predecessors.

Van Saun said his team faces more pressure to perform, now that the bank is public. "You have to have a little more of a sense of urgency, a little bit of an edge to make sure you're anticipating what the market wants from you," he said.

While Van Saun said he's satisfied with the top-level team Citizens now has in place, the personnel changes at some of the bank's key units are just beginning. Last year, the bank set out to hire approximately 350 additional mortgage loan officers by the end of 2016, which would effectively double its roster of mortgage bankers. It also plans to hire 100 within its wealth management and small-business banking units.

With around 40 percent of its deposits in Massachusetts, Citizens employed 14,500 people as of the end of 2014.

Citizens can now attract a better class of banker than it could under RBS, according to analysts. "If you're a commercial lender, and part of your compensation can be tied to a bonus with an independent company with potential to grow, that's something that's more attractive than a bonus on what your Scottish parent's stock price is doing," Keefe, Bruyette & Woods analyst Brian Klock said.

But even with that incentive, the bank has been losing loan officers at a higher rate than anticipated. "We just have to get better… in making sure that when people come they can get their productions right up to levels and they can be effective in our platform," Van Saun told analysts this week.

The mixing of an aggressive new class of lenders with Citizens' pre-IPO old guard could lead to some awkward tension. Citizens may weed out those bankers who can't handle the heightened expectations that come with being a public bank, said Patrick Rohan, a managing director at the consulting firm FinPro. "It will take some time, and there will probably be some pain and heartbreak along the way," he said.

To help pay for the influx of talent, Citizens has been laying people off, in large part through the elimination of back-office and middle management jobs. Even with the hundreds of planned new hires, the bank is aiming for a net loss of 470 jobs from the end of 2013 to the end of 2016.

Getting the numbers right

Citizens' investment in real estate talent is driven in part by the ground it lost while tethered to RBS. From the end of 2007 to the end of 2014, **Citizens Bank's** real estate loans fell from $55 billion to $32.7 billion, a 41 percent decline. By comparison, real estate lending at **PNC Bank** and **M&T Bank**, which are considered peers of Citizens, increased by 129 and 45 percent, respectively.

Over that same period, Citizens' annual net income shrank from $1.1 billion to $820 million, and its total loans and leases outstanding from $92.3 billion to $75.9 billion.

While PNC and M&T's return on equity, an important indicator of profitability, hovered around 10 percent, Citizens struggled to achieve half of that mark.

While Citizens has reported recent improvements in that area, its march may be hindered if the Federal Reserve doesn't raise interest rates as soon as market watchers once predicted. The reason: Citizens is in a more asset-sensitive position than the banks it's chasing, analysts say.

If that's the case, the bank will have to look toward other revenue opportunities to drive growth. At the same time, the bank is aiming to hit its $200 million cost savings goal through job cuts, a smaller real estate footprint and other means.

Helping Citizens is the Fed's endorsement of its capital plan in March, which included a $250 million private offering to buy back 10.5 million shares from an RBS subsidiary.

The Fed's decision marked a big victory for Van Saun, who overhauled the bank's capital-planning team after the Fed objected to its plan last year. The bank spent $25 million on consulting firms, contractors and other expenses to make sure it didn't fail down the road.

The bank is continuing to beef up its capital planning team. Executives believe they need a team of 60 to 75 people to remain in the Fed's good graces, and Van Saun said they're about three-quarters of the way to that goal. Many of the team members have been new hires from other banks or consulting firms. "We need to keep upping our game," he said.

The long game

For Van Saun and Citizens, there's one date that matters more than any other: Dec. 31, 2016. The bank has circled that date as the day of reckoning for many of its goals. It's also RBS' deadline to sell off all of its Citizens stock.

In many ways, the bank's goals are designed to undo the damage done by being tied to RBS. Where Citizens, with $136 billion in assets, goes from here is a favorite guessing game among bankers and analysts, since Van Saun and the bank are focused so intently on the ongoing overhaul.

"They're an awkward size," one local bank executive said. "They're big enough to play in the big leagues, but they lost their international wing (with RBS' departure)."

Asked which banks he'd like Citizens to emulate, Van Saun pointed to $345 billion PNC Bank, based in Pittsburgh, and $187 billion **BB&T**, based in North Carolina. Both are considered super-regional banks. Said Van Saun of BB&T: "Their business model isn't that similar, but the way BB&T has a real community orientation, that's also part of our DNA." Of PNC: "They have a good balance between their commercial and consumer segment. They've invested in the customer experience and technology."

Klock, for one, thinks Van Saun is undershooting. "They can be much bigger than a PNC," he said. "What they have the opportunity to do is grow in the East Coast markets they're in."