WRAPUP 3-Citigroup splits in two, B of A gets gov't aid

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* Citigroup to separate into two units

* Bank of America gets U.S. aid to absorb Merrill losses

* Citigroup, Bank of America post quarterly losses

* Shares under pressure

(Adds details on Wells Fargo and European banks, Bank of America CEO comment, updates share prices)

By Jonathan Stempel and Dan Wilchins

NEW YORK, Jan 16 (Reuters) - Citigroup Inc <C.N> plans to split into two units and Bank of America Corp <BAC.N> took $20 billion in government aid after the two banks suffered huge quarterly losses from the worsening credit crisis.

After losing more than $28.5 billion in the last 15 months, including $8.29 billion in the fourth quarter, Citigroup said on Friday it will divide itself into one business focused on commercial and retail banking, and another with brokerage, retail asset management, consumer finance and troubled assets.

Bank of America obtained a second capital infusion from the U.S. government, which agreed to limit potential losses on $118 billion in troubled assets. The bank added much of these assets when it bought Merrill Lynch & Co on Jan. 1. Bank of America also reported a $1.79 billion fourth-quarter loss and slashed its quarterly dividend to a penny per share from 32 cents.

"It doesn't give you a warm and comfortable feeling that we have bottomed from the banking standpoint," said Walter Todd, a portfolio manager at Greenwood Capital Associates in Greenwood, South Carolina.

Shares of several major U.S. lenders tumbled, with Bank of America falling to its lowest level since 1991.

Fueling the slide were worries about whether British lender Barclays Plc <BARC.L> and Royal Bank of Scotland Group Plc <RBS.L> had enough capital to cope with writedowns, and over Ireland's decision to nationalize Anglo Irish Bank <ANGL.I>.

$90 BILLION INJECTIONS

Bank of America and Citigroup face mounting pressure over how well they will absorb a surge in soured loans, amid a deep recession that shows few signs of easing.

The largest and third-largest U.S. banks by assets have now each taken $45 billion from the government's taxpayer-funded $700 billion Troubled Asset Relief Program.

"Everyone out there believes that the government will not let these banks fail," said Matt McCall, president of Penn Financial Group in Ridgewood, New Jersey. "I still don't know how we're going to pay for all of this."

Half of the TARP funds have been committed, and the U.S. Senate voted on Thursday to let President-elect Barack Obama tap the rest.

The second-largest U.S. bank, JPMorgan Chase & Co <JPM.N>, is viewed as much healthier than Bank of

America and Citigroup, despite posting a 76 percent drop in quarterly profit on Thursday. JPMorgan got $25 billion of TARP money.

In afternoon trading, Bank of America shares were down $1.20, or 14.4 percent, at $7.12, while Citigroup was down 6 cents, or 1.6 percent, to $3.77.

Other banks also fell, with JPMorgan down 8.7 percent and Wells Fargo & Co <WFC.N>, which became the fourth-largest U.S. bank when it bought troubled Wachovia Corp, off 10.2 percent. Wells Fargo is scheduled to report results on Jan. 28.

WEILL MODEL ABANDONED

Citigroup's quarterly loss equaled $1.72 per share, and was $2.43 per share before a gain from selling a German retail bank unit. Analysts, on average, expected a loss of $1.32 per share, according to Reuters Estimates.

Under the split-up, the New York-based bank will separate into Citicorp, housing its key businesses, and Citi Holdings.

Citicorp will be home to the company's retail banking and credit card businesses, its corporate and investment bank, Citi Private Bank and a transaction services unit.

Citi Holdings would house brokerage and asset management units, including the Primerica life unit, Nikko Cordial Securities and a 49 percent stake in a new brokerage venture with Morgan Stanley <MS.N>. It would also hold local consumer finance operations, including CitiFinancial and CitiMortgage.

Citi Holdings would also house $301 billion in assets that received government backing in a November rescue package. The unit would have about $850 billion in assets, or 44 percent of Citigroup's total $1.95 trillion.

The split-up abandons the New York-based bank's decade-old "financial supermarket" strategy once advanced by its former chief executive, Sanford "Sandy" Weill.

Vikram Pandit, the current CEO, is trying to preserve capital, while keeping what he called Citicorp's "global scope and regional strength."

Chief Financial Officer Gary Crittenden said the bank is "not in a rush to sell anything." Tight credit markets have dramatically thinned the pool of asset buyers.

MERRILL LOSS SHOCK

Bank of America's fourth-quarter loss was 48 cents per share, or 44 cents excluding merger costs. Analysts, on average, expected a profit of 2 cents per share.

"It is difficult to focus on what is going right at this time," a downbeat Kenneth Lewis, Bank of America's CEO, said on a conference call.

Results did not include Merrill, which Bank of America said lost $15.31 billion, or $9.62 per share, in the quarter.

This dwarfed the losses the Charlotte, North Carolina-based bank expected when it agreed to buy Merrill last Sept. 15, the same day Lehman Brothers Holdings Inc <LEHMQ.PK> went bankrupt, and prompted the push for government help.

Lewis said that in December he explored invoking a contractual provision to allow Bank of America to back out of the Merrill deal, but said government officials told him that doing so could create "serious systemic harm."

He said the Federal Reserve and Treasury Department gave assurances they would provide help if the $19.4 billion purchase closed. The government package caps Bank of America's potential losses on $118 billion of troubled assets, most of which come from Merrill.

Bank of America's own lending also suffered in the fourth quarter as it set aside $8.54 billion for bad loans, up from $3.31 billion a year earlier. Net charge-offs nearly tripled to $5.54 billion. Lewis said he expects "no relief" in the amounts set aside for credit losses for "several quarters."

(Additional reporting by Elinor Comlay, Joseph A. Giannone, Juan Lagorio; editing by Jeffrey Benkoe and John Wallace)

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