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FINANCIAL CRISIS INQUIRY COMMISSION

Interview of CHARLES O. PRINCE

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1285 Avenue of the Americas

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1 **Interview - CHARLES PRINCE**
2 A Charles Prince, P-R-I-N-C-E.
3 **Q Are you currently provide, Mr. Prince?**
4 A I am not.
5 **Q Do you have a consulting role anywhere?**
6 A I do.
7 **Q Where is that?**
8 A With a firm called Albright
9 Stonebridge Group.
10 **Q Where are you based?**
11 A They are based in Washington,
12 D.C. I am not based there. I consult with
13 them as needed.
14 **Q And, Mr. Prince, I understand you were CEO of course of Citigroup. Could you briefly describe the positions you held at Citigroup or any of its predecessors and the years that you held them?**
15 A Sure. And should I go all the way back to when I started, or as much as you want or --
16 **Q If you don't mind briefly just**

1 Interview - CHARLES PRINCE
2 BY MR. BONDI:
3 **Q Good morning, Mr. Prince. How are you?**
4 A Good morning. Well, thank you.
5 **Q My name is a Brad Bondi. I am with the Financial Crisis Inquiry Commission in Washington. We were formed by Congress to investigate the causes of the financial crisis, both domestic and globally, and to report on those causes in a report due December 15, 2010, this year. This interview is being transcribed. Because we are members of the government, I am obligated to tell you that the typical rules of 18 USC 1001 apply. And that means obviously you have to be truthful to government investigator. But I have no reason, Mr. Prince, to doubt your veracity.**
6 A Thank you for that.
7 **Q But I am obligated just to put you on notice.**
8 A Duly noted.
9 **Q Could you please state your full name for the record?**

1 **Interview - CHARLES PRINCE**
2 **identify the position, the company and the years, if you wouldn't mind, if you recall.**
3 A Sure.
4 I started with -- for these
5 purposes, I started with a company called
6 Commercial Credit Company in Baltimore,
7 Maryland, on January 15, 1979. And
8 commercial credit was a predecessor company
9 of what became Citigroup.
10 First let me tell you how it
11 became a predecessor company, than I'll give
12 you my tenure and so forth.
13 Commercial Credit was a
14 subsidiary of another company at that point
15 in time. It went public in 1986 under the
16 leadership of Mr. Weill and a series of
17 other individuals.
18 And then from 1986 until 1998,
19 commercial credit engaged in a series of
20 acquisitions and changed its name as it went
21 along so that by 1998, the company that was
22 Commercial Credit was then known as
23 Travelers Group. Travelers Group then in
24 1998 merged with Citicorp creating

1 Interview - CHARLES PRINCE
 2 Citigroup.
 3 My tenure with these various
 4 companies, I started as an attorney in 1979
 5 with Commercial Credit. I became general
 6 counsel of the company in about 1984 or
 7 thereabouts. I continued as general counsel
 8 of the company through its various
 9 iterations and name changes until the time
 10 of our merger in 1998, at which time I
 11 became the co-general counsel of the merged
 12 entity, Citigroup.
 13 My partner, as co-general
 14 counsel, retired a year or so later. So I
 15 then became sole general counsel in about
 16 1999. I stopped being general counsel I
 17 think sometime in 2000, maybe the fall of
 18 2000, and was promoted to be chief
 19 administrative officer.
 20 Then in about 2001, I was chief
 21 administrative officer. And then in 2002, I
 22 became the head of our corporate and
 23 investment bank. Then in 2003, became the
 24 CEO of the company and in 2006 became
 25 chairman.

1 Interview - CHARLES PRINCE
 2 the board. And he continued with that
 3 official designation. But Bob's role was a
 4 more informal or nuanced one than the title
 5 would suggest.
 6 Bob was a very important member
 7 of our board, of course. But he was also
 8 very involved in the strategic direction of
 9 the company, not so much the day-to-day
 10 operations. But where the company should be
 11 focused going forward, how it should grow,
 12 how it should think about its future. He
 13 was also fairly involved in client work,
 14 both in the private bank, on our
 15 institutional side. Given Bob's background,
 16 given his extremely high reputation, he was
 17 someone that people in our client base
 18 wanted to meet.
 19 **Q I understand things changed in**
 20 **the summer of 2007 in terms of the frequency**
 21 **of your interactions with Mr. Rubin. But**
 22 **prior to say summer of 2007 from let's say**
 23 **when you became CEO in October 2003 through**
 24 **early 2007, how often would you meet with**
 25 **Mr. Rubin?**

1 Interview - CHARLES PRINCE
 2 I am surprised I remembered all
 3 that.
 4 **Q I am impressed that you**
 5 **remembered it all, sir.**
 6 **When in 2003 did you become CEO,**
 7 **what was the official date?**
 8 A I think it was October.
 9 **Q When in 2006 did you become**
 10 **chairman, sir?**
 11 A That would have been at the
 12 annual meeting which was in April.
 13 **Q Who was chairman between 2003 and**
 14 **2006?**
 15 A Sandy Weill.
 16 **Q Mr. Prince, what was Mr. Rubin's**
 17 **role vis-à-vis your role as CEO?**
 18 A During --
 19 **Q Since you became CEO of**
 20 **Citigroup, what was his role vis-à-vis your**
 21 **role?**
 22 A Bob Rubin continued the role that
 23 he had before I became CEO. Before I became
 24 CEO, Bob was, I believe the official title
 25 was chairman of the executive committee of

1 **Interview - CHARLES PRINCE**
 2 A Well, with permission I will just
 3 disagree if I may with the premise.
 4 **Q Please.**
 5 A It didn't really change in the
 6 summer of 2007. As I am sure we will talk
 7 later, we talked about different things.
 8 **Q Yes, sir.**
 9 A But Bob's office was literally
 10 right next to mine. It was separated by a
 11 little conference room, but it was 20 feet
 12 away. And Bob and I would talk -- if we
 13 were both in the office, we would talk three
 14 or four times a day. He would walk into my
 15 office, I would walk into his office.
 16 If one or the other of us wasn't
 17 physically in town that day, then we might
 18 talk by phone every other day. So, the
 19 level of interaction was frequent.
 20 Bob was someone that I very much
 21 valued bouncing ideas off of, testing ideas.
 22 And when you are the CEO of a large company,
 23 there are very few people that you can do
 24 that with. But Bob's background and his
 25 general knowledge of the world was very

1 Interview - CHARLES PRINCE
2 significant, and so I would bounce lots of
3 different ideas off of him.
4 **Q You mentioned Mr. Rubin having a**
5 **role in the strategic direction of the**
6 **company.**
7 **Were there any particular areas**
8 **that he focused on in terms of strategic**
9 **direction, any particular areas of the**
10 **business?**
11 A Well, I would say no.
12 If you were to step back and look
13 at our company from a distance, you would
14 see that we had that three or four basic
15 groups of activities. One would have been
16 our international business, which was quite
17 large and quite important. One would have
18 been our U.S. consumer business, and one
19 would have been our corporate and securities
20 business.
21 We have we had private banking
22 activity, that probably would not have been
23 quite as high on the list. But those first
24 three groupings, each of which of course is
25 broken down into dozens of individual

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1 Interview - CHARLES PRINCE
2 businesses, I would say he spent a fair
3 amount of time on each of them.
4 **Q Mr. Prince, it seemed from --**
5 **please correct me if I am wrong -- it seemed**
6 **from some of the reports and P and Ls that I**
7 **have seen that the investment bank, CMB,**
8 **grew substantially from 2003 to 2007.**
9 **Was Mr. Rubin involved in any**
10 **strategic decisions that helped grow that**
11 **bank?**
12 A Well, I am not sure whether
13 capital markets and banking grew -- I am
14 thinking about the premise of your question
15 if I may and then I will come to the actual
16 question itself.
17 **Q Sir, please, if at any time any**
18 **of my premises are incorrect, we are on a**
19 **fact finding mission, so correct me, please.**
20 A I am trying to make sure we have
21 the full answer and the correct answer.
22 **Q Yes, sir.**
23 A I think that capital markets and
24 banking, I don't remember that in that
25 period of time growing in relationship to

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1 Interview - CHARLES PRINCE
2 the company. Its size of the pie, if you
3 understand what I mean by that, I don't
4 remember it growing significantly, going
5 from X percent to two X percent or something
6 of the company.
7 It may have been that the entire
8 industry grew and the company grew. So, I
9 remember it not as growing in a dramatic
10 sense. The numbers may suggest you are
11 right. I apologize if I am wrong there.
12 In terms of Bob's influence and
13 growth and so forth, obviously Bob's
14 background from Goldman Sachs and his long
15 history in the securities business gave him
16 a pretty special feel for that business as
17 compared to say our consumer business.
18 But, on the other hand, Bob was
19 long removed from being a trader. He hadn't
20 been a day-to-day trader for a long time.
21 And so it was much more of where do we want
22 the business to go in three years and
23 five years and ten years than it was in the
24 next six months let's try to do more of X,
25 if you understand the distinction I am

12

1 Interview - CHARLES PRINCE
2 drawing.
3 So, with that overview, you know,
4 Bob was very much involved in all of our
5 strategic activities. I am sure there were
6 dozens of things that he participated in. I
7 am hard pressed to pull out one to tell you.
8 I am sorry.
9 **Q As CEO, who directly reported to**
10 **you? I am trying to distinguish between,**
11 **you know, at the end of the day I assume**
12 **every one in the company ultimately reports**
13 **up to the CEO.**
14 A All 350,000 people.
15 **Q Yes, sir.**
16 **But who directly reported; in**
17 **other words, who were the direct reports to**
18 **you as CEO?**
19 A We had a group that we called the
20 Business Heads group. And in many companies
21 it would have been called a Management
22 Committee or an Executive Committee. We
23 called it Business Heads for reasons which
24 aren't particularly pertinent to the
25 question. And that is a good grouping, to

13

1 Interview - CHARLES PRINCE
 2 answer your question. It would have been
 3 the most senior leaders of line operations.
 4 So the head of our consumer business, the
 5 head of our corporate investment bank, the
 6 person who ran our business in Asia, that
 7 sort of grouping, as well as our most senior
 8 staff people. So, the head of risk, the
 9 head of legal, our chief administrative
 10 officer, our chief operating officer. It
 11 was more or less 10, 11, 12 people,
 12 something in that range.
 13 **Q How often would the Business**
 14 **Heads group meet? How often would you meet**
 15 **with the Business Heads group?**
 16 A Every Monday morning.
 17 **Q How long approximately would**
 18 **those meetings go?**
 19 A Seemed like forever sometimes.
 20 But it was officially for -- first an hour,
 21 then an hour and a half, then two hours as
 22 we wanted to cover more and more. So I
 23 would say for overview purposes an hour and
 24 a half to two hours.
 25 **Q Would this be a situation where**

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1 Interview - CHARLES PRINCE
 2 second hour we would talk about the budget
 3 process for next year. So we are going to
 4 do this then, this then and this then and so
 5 forth. Or we might talk about an upcoming
 6 meeting with an employee group in Japan and
 7 what are we going to accomplish in this
 8 particular area. Or we might talk about an
 9 acquisition for the company. We acquired
 10 companies right along. That sort of thing.
 11 So first half, a go-around, the
 12 second half a one off kind of activity.
 13 **Q Would you give a presentation or**
 14 **have a role in that meeting? Say at the end**
 15 **of the meeting would you share your**
 16 **thoughts? Or what was your participation in**
 17 **the meeting, in those meetings typically?**
 18 A It was a pretty informal meeting.
 19 So I would typically start by saying here
 20 are three or four things that are on my mind
 21 this morning. And then we would go around
 22 the table, and then we would have this
 23 special project or one-off activity. But it
 24 wasn't a formal meeting and it typically
 25 wouldn't have a formal agenda. We might

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1 **Interview - CHARLES PRINCE**
 2 **people would go around the room and report**
 3 **on their various areas, or would there be a**
 4 **set agenda for these type of meetings?**
 5 A You are very intuitive. There
 6 would be both. In other words, it was
 7 intended first and foremost as information
 8 sharing. We had lots of businesses, lots of
 9 areas, some of them the people who ran them
 10 were physically separated from each other:
 11 Uptown, downtown, Europe and so forth. And
 12 it was important for those people to
 13 interact frequently so that I knew what you
 14 were doing, you knew what I were doing, we
 15 could collaborate as necessary.
 16 The first half of each meeting
 17 would typically be a going around the table,
 18 what is going on in your business, what is
 19 going on in my business and so forth.
 20 The second half of the meeting
 21 would typically be involved with special --
 22 or what is the right way to put it -- one
 23 off kinds of activities.
 24 It might -- I am just picking
 25 examples at random. It might be in the

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1 Interview - CHARLES PRINCE
 2 have a follow-up from last week or something
 3 like that. But it wasn't a formal meeting
 4 with prepared remarks or anything like that.
 5 **Q Mr. Prince, you mentioned a few**
 6 **persons by title, and I just wanted to put**
 7 **some names with those titles.**
 8 **You said the most senior risk**
 9 **officer. Is that the chief risk officer?**
 10 A Yes, Dave Bushnell.
 11 **Q He would have been during the**
 12 **relevant time period of 2003 to 2007?**
 13 A Yes.
 14 **Q Head of legal, is that Mr.**
 15 **Helfer?**
 16 A Yes, Michael was the general
 17 counsel that whole time. I am not sure
 18 whether Michael was on the Business Heads or
 19 not.
 20 MR. KARP: He was not.
 21 THE WITNESS: Lou Kaden was on
 22 and Lou Kaden was the chief
 23 administrative officer and also a
 24 lawyer. And Lou represented the
 25 legal, the audit, and the foundation

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1 Interview - CHARLES PRINCE
2 and certain other functions.
3 BY MR. BONDI:
4 **Q I've noticed Mr. Kaden's name in**
5 **board minutes and several documents that**
6 **your counsel has produced.**
7 **What was his role as chief**
8 **administrative officer?**
9 A Yes. Chief administrative
10 officer would typically be -- and would be
11 the case for Kaden -- would typically be
12 someone who managed the administrative
13 functions. And so that would typically be
14 all of the staff functions, legal, audit,
15 public relations, the foundation.
16 In many companies, in most
17 companies it would also include risk. But
18 in our company when I became CEO in 2003, I
19 think literally the first thing I did that
20 day, literally, was to put David in that job
21 and to change the reporting structure so
22 that he no longer reported to the chief
23 administrative officer and the risk function
24 no longer reported to the business units.
25 Before that, it had reported inside the

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1 Interview - CHARLES PRINCE
2 business units.
3 And from that time through my
4 whole tenure, the chief risk officer was a
5 member of our Business Heads group and was a
6 direct report to me.
7 **Q Why did you make those changes**
8 **with respect to the chief risk officer?**
9 A The two changes, one putting him
10 in the job and then making it separate.
11 I thought that the fellow who was
12 the chief risk officer before David whose
13 name was Petros, P-E-T-R-O-S, Sabatakakus
14 (phonetic). Just do the best you can, but
15 it sounds, it spells sort of like it sounds,
16 Sabatakakus. He was a very good fellow but
17 did not have any understanding, detailed
18 understanding of how the securities business
19 worked. And I was very concerned that
20 Petros would not be able to adequately
21 manage the risk function as it related to
22 our securities business. And so Petros was
23 going to retire, and so he retired. We put
24 Bushnell in the job, I put Bushnell in the
25 job, to make sure that we had someone at

19

1 Interview - CHARLES PRINCE
2 chief risk officer level who understood how
3 those businesses worked.
4 David had been a trader much
5 earlier in his life and understood the
6 mechanics of how the business worked.
7 Making it independent of the businesses, I
8 think most people nowadays do that. I am
9 grateful that we were a little ahead of that
10 making it independent. It didn't get paid
11 based on the profits of the business unit,
12 it didn't get paid based on volumes or
13 revenues. And I think that is just good
14 corporate governance.
15 **Q Would Mr. Bushnell as chief risk**
16 **officer have a normal reporting role at this**
17 **Business Heads group meeting? Would he**
18 **provide a report?**
19 A Yes. He would be part of the
20 go-around.
21 **Q You mentioned the chief operating**
22 **officer. Who was that during the 2003 to**
23 **2007 time frame?**
24 A I don't know when Bob Druskin
25 became chief operating officer, but it was

20

1 Interview - CHARLES PRINCE
2 at least halfway through. And so for the
3 last couple of years at least, maybe the
4 whole time, but at least the last couple of
5 years Bob Druskin was the chief operating
6 officer.
7 **Q What did Mr. Druskin do as the**
8 **chief operating officer?**
9 A Well, his job, like most chief
10 operating officers, is to focus on, focus a
11 hundred percent of his time on the inside
12 part of the job, running the company. The
13 various business units reported to me and I
14 was responsible for the overall direction of
15 the company and so forth. But there was a
16 lot of travel involved in my job. And
17 someone needed to be at the desk every day
18 making sure the trains ran on time, to use a
19 cliched phrase, and that was Bob's job.
20 **Q When you first became CEO in**
21 **2003, were there some regulatory problems**
22 **that were immediately on your radar?**
23 A There were, there were regulatory
24 problems at many times, so I am not sure
25 which ones in particular you are referring

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1 Interview - CHARLES PRINCE
2 to.
3 **Q What I was getting at is we have**
4 **read about problems in Japan, problems with**
5 **bond traders in Europe.**
6 **Were those problems that were in**
7 **your focus when you became CEO in 2003, or**
8 **did they come about later?**
9 A Okay, I understand the question
10 now, sorry.
11 When I became CEO in 2003, I
12 thought that the most important thing I
13 needed to focus on was turning the company's
14 focus from an acquisition driven strategy to
15 more of a balanced strategy involving
16 organic growth. If you look at the history
17 of the company and how it combined and so
18 forth, we had been very, very busy with
19 acquisitions. And the larger the company
20 became, the harder it is to grow a company
21 through acquisitions, just by definition.
22 If you have a business that
23 makes -- I am making up examples -- that
24 makes \$100 and you want to grow ten percent
25 a year, you have to buy something that makes

22

1 Interview - CHARLES PRINCE
2 \$10. If you have a business that makes a
3 million dollars in this example and you want
4 to grow ten percent a year, then you
5 obviously have to buy a much larger company.
6 And so and the company became larger and
7 larger and larger, it became clear to me
8 that relying as much as we had historically
9 on acquisitions was not an appropriate
10 course going forward and we had to have more
11 balance and have more organic growth.
12 **Q Why wasn't it an appropriate**
13 **model going forward, this expansion model**
14 **that you have described?**
15 A I apologize. I thought I
16 explained it. Let me try it again.
17 The larger the size of the
18 entity, the more difficult it is to grow by
19 buying things. That is, you have to buy
20 more and more and more as your absolute size
21 gets bigger.
22 So to use very rough numbers,
23 during my tenure the company had about a
24 hundred billion dollars of revenue a year,
25 80 to 100 billion dollars of revenue year.

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1 Interview - CHARLES PRINCE
2 So if you wanted to grow ten percent a year,
3 so you wanted to grow your revenues from a
4 hundred to 110, okay, just a simple math
5 like that, you would have to go out and buy
6 \$10 billion of revenue somewhere. There
7 aren't a lot of companies that have
8 \$10 billion of revenue. And so identifying
9 them, courting them, and negotiating that
10 and integrating that, it gets more and more
11 difficult as the absolute size of the
12 organization gets bigger.
13 So an acquisition strategy, if
14 you are small, you can double and triple and
15 quadruple in size just by acquiring things.
16 If I can, can I give an analogy?
17 **Q Please.**
18 A If you had a law firm --
19 everybody here is a lawyer except this nice
20 lady. Everybody here is a lawyer.
21 **Q Karen is not.**
22 A She is going to be a lawyer some
23 day. Everybody here is a lawyer or is going
24 to be a lawyer.
25 If you have a law firm of 500

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1 Interview - CHARLES PRINCE
2 lawyers, which is not a small law firm, a
3 medium sized law firm, and you wanted to
4 double in size, you would have to go find
5 another 500 lawyers somewhere. Maybe one
6 firm of 500 or maybe two of 250, something
7 like that. And there would be the
8 appropriate complications of doing that:
9 Finding them, negotiating with them,
10 integrating them into a culture and so
11 forth.
12 If you had a law firm of 5000
13 lawyers and you wanted to double in size, it
14 would be almost impossible to do that
15 because there aren't 5000 lawyers out there
16 somewhere to find and integrate. And then
17 if you did that and you had 10,000 lawyers,
18 then you wouldn't have anybody you could
19 double with. You sort of run the string out
20 as it were if you understand what I mean as
21 I am trying to describe it.
22 So in that context, we had grown
23 very rapidly and very well, I think, and our
24 growth pattern had been quite good. But it
25 sort of topped out in terms of the ability

25

1 Interview - CHARLES PRINCE
2 to do that in just a practical sense. And
3 so my judgment was that at that point we
4 needed to continue to do acquisitions, but
5 make sure that the businesses we had on
6 their own were growing to contribute to
7 that. So, maybe instead of growing --
8 again, I am making up these numbers, just as
9 an example.
10 Instead of growing ten percent
11 through acquisitions, we would grow five
12 percent through acquisitions and five
13 percent through organic growth. So more of
14 a balance. Does that make sense?
15 **Q Yes, sir.**
16 **A** So that is what I thought going
17 in. Now your question was what about the
18 regulatory issues.
19 What happened was that almost
20 immediately we got diverted into these
21 regulatory problems. So, in 2003, we had a
22 regulatory problem with our consumer
23 business here in the States. And then I
24 think it was in early 2004 that the Japan
25 situation began to unfold in complicated

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1 Interview - CHARLES PRINCE
2 ways. And then the MTS trade you mentioned
3 in Europe was I think in the fall of 2004.
4 Dim recollection.
5 So we had -- in 2004, we had two
6 or three instances which in a cumulative
7 sense caused various regulators to stop and
8 say: Gosh, you guys got to tighten up your
9 ship here a little bit.
10 **Q Was one of those regulators that**
11 **suggested that you tighten up the ship, was**
12 **that the Federal Reserve when they put a**
13 **hold on the acquisitions in growth that**
14 **Citigroup could do?**
15 **A** Yes.
16 **Q What was their reason for putting**
17 **a hold on acquisitions in growth at**
18 **Citigroup, external growth?**
19 **A** I have to think back now. That
20 was quite a while ago.
21 My recollection of it is that
22 they were -- let me think now to make sure I
23 am recalling it correctly.
24 I believe that their reasons were
25 to make sure that our regulatory processes

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1 Interview - CHARLES PRINCE
2 were robust enough that they would have a
3 reasonable prospect for preventing the kinds
4 of issues that had come up in Japan and in
5 Europe.
6 The Japan private bank episode
7 was one in which -- as I recall it, one of
8 the bankers in Japan had engaged in some
9 inappropriate activities with a client that
10 was a charity or something like that. And
11 the regulators over there became very
12 focused on regulatory processes in Japan.
13 And then as that was unfolding, the MTS
14 trade happened in Europe.
15 The Japan issue was a pretty
16 clear regulatory violation in Japan. The
17 MTS one was less clear as to whether it was
18 a violation, but it provoked quite a
19 controversy. I believe that the Fed did not
20 want those kinds of incidents to occur and
21 wanted us to, in colloquial terms, take a
22 time out and to make sure that everything
23 was working very properly inside the company
24 and to make sure that we had very robust
25 regulatory processes.

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1 Interview - CHARLES PRINCE
2 **Q During that time out as you have**
3 **described, what did you do to address the**
4 **Federal Reserve Board's concerns?**
5 **A** We did lots of things. If I can
6 give you a summary answer, and then you can
7 ask anything further from that.
8 We obviously had quite a process
9 of increasing our regulatory functions: The
10 lawyers, the audit function, the control
11 functions.
12 We also embarked on what we
13 called the five-point plan, which was an
14 all-employee program. All 350,000 employees
15 had to go through training sessions in which
16 we emphasized the company's core values. We
17 emphasized long-term results over short-term
18 results. We emphasized protecting the
19 reputation of the company. Everyone had to
20 go through this training; everyone had to
21 certify that they had gone through this
22 training.
23 We had anonymous 360 reviews of
24 all of our managers so that if anybody had a
25 concern that their manager was engaging in

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1 Interview - CHARLES PRINCE
 2 inappropriate activity they could report
 3 this and so forth and so on. The five-point
 4 plan was a quite large undertaking. We had
 5 progress points against it that we reported
 6 on to the Fed and others.

7 **Q Was that five-point plan a success?**
 8 A Well, whenever you are talking
 9 about changing culture or reinforcing
 10 culture, it is something that is judged over
 11 the long term. I believe that since that
 12 2004, 2005 time period we have not had -- to
 13 my knowledge, we have not had the kind of
 14 regulatory eruptions or problems that we had
 15 in the 2003, 2004 time frame. And if the
 16 goal of the program was to prevent those
 17 from recurring and if they have not
 18 recurred, then I think you would say it
 19 probably was successful.

20 **Q In this time frame from 2003 and**
 21 **2005, approximately how much of your time**
 22 **was devoted to addressing these types of**
 23 **regulatory issues that we have been talking**
 24 **about and implementing the five-point plan?**
 25 A It is hard to say. Well, over 50

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1 Interview - CHARLES PRINCE
 2 on that a lot and tried to ensure that we
 3 had multiple pathways for information.
 4 Again if I can I will describe three or four
 5 to give you a sense of it.

6 One way of doing that was through
 7 what you might think of as a normal
 8 management structure. So all of our
 9 operations, all of our people, all of our
 10 countries were organized into some kind of a
 11 management hierarchy. So this business
 12 reported to this person, reported to this
 13 person and up to someone who was on the
 14 Business Heads Group. Or this region, this
 15 country and this region reported to someone
 16 up on the Business Heads group. And so the,
 17 in a management hierarchy sense, the person
 18 on the Business Heads was responsible for
 19 managing his or her business down to the
 20 bottom of that level, that vertical level of
 21 activity. That is one. In some ways that
 22 was the primary or central method of
 23 management flows.

24 We also had our various staff
 25 functions. So legal, audit, risk, in some

32

1 Interview - CHARLES PRINCE
 2 percent.

3 **Q Approximately how many**
 4 **subsidiaries or affiliates did Citigroup**
 5 **have during your tenure at CEO?**
 6 A I have no idea.

7 **Q Over hundred or so?**
 8 A Well, over a hundred, yes. They
 9 are all listed in the 10-K filing, pages and
 10 pages and pages of them.

11 **Q How many countries did you**
 12 **operate in?**
 13 A My recollection was that we
 14 operated in 102 countries. I don't know
 15 whether that was exactly right. I never
 16 went and counted each 102, but we always
 17 said it was 102.

18 **Q How did you ensure out of the 102**
 19 **countries and the many subsidiaries that**
 20 **Citigroup had, how did you ensure that**
 21 **critical information was reported up to you**
 22 **that needed to be reported up to you?**
 23 A That is a very good question, and
 24 something that any manager of a large
 25 organization needs to focus on. We focused

31

1 Interview - CHARLES PRINCE
 2 ways our public relations function had
 3 parallel vertical structures.

4 So, to take an example, if we had
 5 a business operation in India, there would
 6 be a risk person assigned to them. There
 7 would be a lawyer assigned to that in India.
 8 There would be an audit person assigned to
 9 that in India. And those people would
 10 report up their own vertical management
 11 chains parallel to the business vertical
 12 chain up to someone who was at a reporting
 13 level with the Business Heads.

14 So lawyers would report up their
 15 legal management chain up to the general
 16 counsel and then to the chief administrative
 17 officer, the audit function in a similar way
 18 and so forth. So, we had our management of
 19 business chain, we had our several
 20 administrative function chains, and then we
 21 had a wide range of direct to the employee
 22 communications. So, we would do once a year
 23 an employee survey, an anonymous employee
 24 survey, which would ask various questions
 25 which could then be collated and reported on

33

1 Interview - CHARLES PRINCE
2 and so forth.
3 We had anonymous hotlines for
4 reporting concerns or problems. Most of
5 that turned out to be about employee issues,
6 but some of it related to the business and
7 it was certainly promoted as for the
8 business.
9 So these are just several
10 examples. We were constantly looking for
11 additional ways to get information up and to
12 get information across because these
13 vertical structures I have described, you
14 don't want the information to sit inside
15 those. You want them to go across as much
16 as you can.
17 **Q In the 2007 year immediately**
18 **preceding the financial difficulties in the**
19 **market starting in the summer and during**
20 **that time frame of summer through November**
21 **2007, did you feel as CEO sufficient**
22 **information was reaching you so that you**
23 **could evaluate the situations at Citigroup?**
24 A I certainly thought so at the
25 time. We had lots of information on lots of

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1 Interview - CHARLES PRINCE
2 different scores. We are sitting here three
3 years later almost looking back at one very
4 significant issue. But at the time in the
5 summer of 2007, we were looking at lots of
6 issues. I mean what turned out to be the
7 CDO problems in our fixed income business
8 were not the biggest issue on the list of
9 things we were looking at in the summer of
10 2007.
11 And so if you imagine lots of
12 information flowing on lots of different
13 subjects in lots of different geographies, I
14 thought we had pretty good information flow.
15 **Q I know we are sitting here three**
16 **years later. And so in retrospect, was**
17 **there any information in retrospect that you**
18 **wish you had sooner?**
19 A You know, that is a hard question
20 to answer because the fundamental issue --
21 and I know we will get into this I'm sure in
22 great detail later. But the fundamental
23 issue was that the believed strength or
24 credit worthiness of the so-called super
25 senior tranches of these securitized

35

1 Interview - CHARLES PRINCE
2 products, that that belief was incorrect.
3 And when you say to yourself would you have
4 liked to have had more information about
5 that, I am not sure at the time that more
6 information would have changed anyone's
7 belief.
8 Instruments were downgraded in
9 the middle of October, and I think until
10 that point most of the people thought they
11 were very, very, very safe.
12 So, your question is there any
13 information I wish I had gotten earlier is a
14 hard question to answer because of that. It
15 wasn't so much a flow of information as it
16 was wrong conclusions about the information
17 that people had.
18 **Q Who made the wrong conclusions?**
19 A Well, we have to talk in more
20 detail about that. I mean the rating
21 agencies, the people in the business, the
22 regulators, everybody made the wrong
23 conclusions.
24 **Q We are jumping ahead of ourselves**
25 **I know, Mr. Prince?**

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1 **Interview - CHARLES PRINCE**
2 A I am sorry.
3 **Q No, that is my fault, sir. I do**
4 **want to talk to you in length about the CDO**
5 **business and what happened there.**
6 A Right.
7 **Q But let me get back to more about**
8 **the business and how it operated.**
9 **I have seen a report that said**
10 **that you used to joke about not having one**
11 **good culture but five or six good cultures.**
12 **Is that something that you would**
13 **joke about, is that true that you said**
14 **something like that?**
15 A I am sure I said that in jest at
16 some point.
17 **Q What did you mean by five or six**
18 **good cultures there?**
19 A The company had grown through
20 acquisition, as I said. As we got bigger,
21 many of the acquisitions were quite large.
22 And any company that you acquire which is
23 large and has its own historical base of
24 activities will have its own culture. And
25 so if you look at various companies that

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1 Interview - CHARLES PRINCE
2 were component parts of Citigroup, they had
3 come to be part of Citigroup through
4 acquisition. So we had started with
5 Commercial Credit, let's say. That was one
6 culture. We had the Travelers Insurance
7 culture when this was part of the company.
8 We had the Citibank culture, which was part
9 of the company. We had the Salomon Brothers
10 culture, which was part of the company. And
11 so forth and so on.
12 Merging those cultures into a
13 single culture, into a Citigroup culture,
14 what we tried to described in our five-point
15 plan as the one-Citi initiative, a one-Citi
16 culture as opposed to a confederation. That
17 was what I was trying to describe.
18 **Q I don't have much spare time, but**
19 **in the little that I do, I like to do some**
20 **reading. And as you can imagine, most of my**
21 **reading these days is focused on the**
22 **financial crisis.**
23 A I can recommend many other good
24 books for you.
25 **Q Yes, sir.**

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1 Interview - CHARLES PRINCE
2 **One book that I recently read was**
3 **former secretary Paulson's book. And there**
4 **was something in that book about Citigroup**
5 **that struck me.**
6 **He said that -- and I will**
7 **represent that this was from the book. But**
8 **he said that "Citigroup had an unwieldy**
9 **organizational structure." And then he went**
10 **on to say: "It lacked a single unifying**
11 **culture or clear business strategy."**
12 **What is your reaction to that**
13 **statement?**
14 A Well, I don't have much reaction
15 to that statement. People have points of
16 view. Hank is a decent person, and if that
17 is his point of view, then good for him.
18 **Q I take it you don't share that**
19 **point of view?**
20 A Well, when I ran the company I
21 didn't share that point of view. Now I
22 don't have a point of view. I am a retiree.
23 But I am not trying to avoid the
24 question. Look, we were trying to develop a
25 more robust culture for the company. There

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1 Interview - CHARLES PRINCE
2 is no question that was part of our effort
3 in the five-point plan. And as I said, we
4 were trying to move from a confederation of
5 companies and confederation of cultures to a
6 more unified culture.
7 In terms of an unwieldy -- I
8 don't know, it didn't seem unwieldy to me.
9 **Q In retrospect was it unwieldy?**
10 A No, it didn't feel unwieldy to
11 me. Probably did work as well as the
12 Treasury Department.
13 MR. BONDI: I would like to
14 show you a document.
15 (Thereupon, the e-mail Bates
16 numbered Citi FCIC E 31616 was marked
17 CR Exhibit 1 for Identification, as of
18 this date.)
19 BY MR. BONDI:
20 **Q For the record for her point, I**
21 **showed you what is Bates numbered Citi FCIC**
22 **E 31616, which appears, sir, to be an e-mail**
23 **from you to Mr. Druskin copying David**
24 **Bushnell and Mr. Crittenden and Mr. Kaden.**
25 **I want to focus your attention, sir, on what**

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1 Interview - CHARLES PRINCE
2 **you say in your e-mail that is dated October**
3 **2nd, 2007. And please, you know, there is**
4 **e-mails underneath that and please feel free**
5 **to read the entire context. But I did want**
6 **to focus your attention on that first**
7 **statement or the, excuse me, your e-mail**
8 **that, says, "Incredible lack of**
9 **coordination. We really need to break down**
10 **the silos," exclamation point. What is the**
11 **context there of your statement?**
12 A Let me just read this.
13 **Q What was the context of your**
14 **statement there about "incredible lack of**
15 **coordination. We really need to break down**
16 **the silos," exclamation point?**
17 A Well, I don't remember the e-mail
18 exchange. But what I see in reading it is
19 that someone in our consumer business -- I
20 can identify the names if you would like.
21 But someone in our consumer business was
22 looking at some new business in the credit
23 card area, apparently something called
24 Revolution Money. And our credit card
25 people, the consumer business people, were

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1 Interview - CHARLES PRINCE
2 looking into this somehow and in the course
3 of looking at it, perhaps to buy it or
4 something like that, it turns out that this
5 company that they were examining actually
6 had quite a detailed relationship with our
7 corporate side business. And so that came
8 to my attention, that one of our entities
9 was pursuing an outside group that it turned
10 out another entity inside the company had a
11 great relationship with or some kind of a
12 relationship with. And I expressed a sense
13 of frustration that that information wasn't
14 being shared across business lines, across
15 the silos.
16 You remember a moment ago I
17 talked about the importance not only of
18 information flow going up the vertical
19 columns but going across. And it would have
20 been nice, I apparently thought, if other
21 consumer people had checked with our
22 corporate people: Do you know anything
23 about Revolution Money? Or if our corporate
24 people had turned to our consumer people and
25 said we are doing business with this company

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1 Interview - CHARLES PRINCE
2 Revolution Money, you ought to take a look
3 at them instead of it working out the way it
4 worked out here. But I'm inferring all this
5 from reading. I don't have any independent
6 recollection of it.
7 **Q In relation with the events in**
8 **the fall of 2007 relating to challenges in**
9 **the marketplace, did you observe any other**
10 **silos at Citigroup?**
11 A In the fall of 2007, the issues
12 that we are examining here today were pretty
13 much contained inside the fixed income
14 business and didn't involve so much cross
15 business activities.
16 **Q Was there any silos within the**
17 **investment banking business that you**
18 **observed?**
19 A Oh, sure. Sure.
20 **Q Did the silos in the investment**
21 **bank pose any challenges during the**
22 **financial crisis or leading up to the**
23 **financial crisis?**
24 A I have to give you a slightly
25 long answer; I am sorry for that.

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1 Interview - CHARLES PRINCE
2 In the summer of 2007, not the
3 fall of 2007, the summer of 2007, the
4 biggest issue we were focused on was the
5 deterioration in the leveraged lending
6 business, the loaning of money to KKR,
7 Carlyle, people like that.
8 The CDO problems, which in the
9 fall of 2007, then came to have such serious
10 impact and which we are talking about today,
11 were not the highest thing on the list in
12 the summer.
13 The leveraged lending activity
14 related both to our fixed income business or
15 our lending business on the one hand. And
16 our advisory business in the investment
17 bank, different from the fixed income
18 business, the investment business, and so
19 those were silo issues as it related to
20 leveraged lending between those two parts of
21 the corporate and investment bank.
22 The CDO business, which in the
23 fall came to have such prominence, didn't
24 have those kinds of cross business issues
25 inside the corporate and investment bank.

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1 Interview - CHARLES PRINCE
2 It was pretty exclusively inside the fixed
3 income business.
4 Is that clear?
5 **Q Uh-huh.**
6 **To shift gears, I want to ask you**
7 **about another area of our focus and that is**
8 **the mortgage origination business.**
9 **(Thereupon, the printout of**
10 **remarks of April 19, 2007 to the**
11 **Greenlining Institute's 14 Annual**
12 **Economic Summit in Los Angeles,**
13 **California was marked CR Exhibit 2 for**
14 **Identification, as of this date.)**
15 BY MR. BONDI:
16 **Q Mr. Prince, I am showing you what**
17 **I will represent is a printout from some**
18 **remarks that you gave on April 19, 2007, to**
19 **the Greenlining Institute's 14 annual**
20 **economic summit in Los Angeles, California.**
21 **I wanted to ask you about a few**
22 **of the statements you made. And if you**
23 **could look to page two of that, I will draw**
24 **your attention to the bottom half of that**
25 **document. In particular, the paragraph that**

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1 Interview - CHARLES PRINCE
2 starts with: "And so" and I will just read
3 the statement for the court reporter and the
4 record and ask you to comment on it.
5 "And so the combination of two or
6 three factors, several of them good: Excess
7 liquidity and the desire for homeownership
8 have combined with one, which I think is not
9 so good which is the arbitrage of regulatory
10 responsibilities and have led to very
11 aggressive, very exotic mortgage products
12 which are then pumped into some of our
13 communities where they are clearly not
14 appropriate. And then when the housing
15 bubble naturally tips over, we go through
16 cycles all the time, then it is exposed that
17 those products were not appropriate, but
18 there was no regulatory framework which they
19 went through."
20 What do you mean aggressive, very
21 exotic mortgage products?
22 A Well, there are a number, but
23 there are two in particular that I think
24 would fit that category. One is the
25 negative amortization mortgage product and

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1 Interview - CHARLES PRINCE
2 the other was the adjustable ARM product. I
3 am sure you know what those are. I won't
4 bother explaining them. But I think in both
5 cases they posed real concerns for people
6 getting in over their heads.
7 Q Why were they posing concerns for
8 people getting in over their heads? Was it
9 the type of the product? Was it who they
10 were being marketed to? What was the
11 concern there?
12 A Well, because they weren't based
13 on what I would call traditional lending
14 criteria but were based in large part upon
15 an expected appreciation in home value, they
16 had the potential, potential, for being
17 oversold. That is, sold to people who
18 wouldn't necessarily qualify for those
19 mortgage products unless the future
20 appreciation would occur. And with the
21 process of regulating the origination of
22 mortgages, then and now, being as spotty as
23 it is, it led to the possibility of very
24 aggressive brokers going out in a largely
25 unregulated way and selling these products

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1 Interview - CHARLES PRINCE
2 into communities, to people, who probably
3 shouldn't have had them and who were
4 susceptible to the overselling of these
5 aggressive brokers.
6 Q Generally, do you know if the
7 products that you have described, were they
8 part of an originate-to-hold model where
9 that the mortgage brokers would hold them on
10 their books, or were they part of a model
11 that would distribute them on to the
12 secondary market for securitization, or do
13 you know?
14 A The latter.
15 Q What role did financial
16 institutions like Citigroup play in terms of
17 this secondary market demand for the
18 mortgages that you have described?
19 A What I was describing here of
20 course as you see in the next paragraph, I
21 say. "We have not participated in that. We
22 have not been a lender of exotic, aggressive
23 mortgages. We have not done option ARMs or
24 negative amortization products in the
25 subprime community."

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1 Interview - CHARLES PRINCE
2 "And our businesses -- " and I
3 was focused here particularly on our
4 consumer finance business and our mortgage
5 business," -- were not in the business of
6 originating those mortgages." And that part
7 of our business was an originate and hold
8 business.
9 Q Were there mortgage types,
10 mortgage products, that your securitization
11 business would purchase for securitization
12 purposes into RMBS that your mortgage
13 origination business would not originate?
14 A Yes.
15 Q What did you see in terms of
16 Citigroup's role in the demand for those
17 products if it was securitizing these
18 products from other originators?
19 A There is a continuum of activity
20 in my judgment at one end of which I would
21 see our activities as being inconsistent
22 with what I have described here in this
23 speech. And at the other end of the
24 activity as not being inconsistent with that
25 description in my speech.

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1 Interview - CHARLES PRINCE
2 By that I mean that if we have a
3 situation where our fixed business is buying
4 and trading with other institutions
5 securities which are traded in the
6 marketplace and those securities have
7 characteristics that relate to these
8 activities, I would not see that as
9 inconsistent with what I have said here in
10 the speech. That is, I would not see us as
11 participating in that business.
12 At the other end of the spectrum,
13 if we were funding directly people who were
14 doing this so that someone could say we were
15 indirectly doing it instead of directly
16 doing it, I would say that was not
17 consistent with what we wanted to do as a
18 company.
19 So, the activity you asked about
20 would depend for me on where it was in that
21 continuum. And one way to think about it is
22 the closer we got to the actual origination
23 of these products, the more uncomfortable I
24 would feel with that. If it was already out
25 in the marketplace and it was trading among

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1 Interview - CHARLES PRINCE
2 institutions who were trading lots of
3 different securities and this is one of the
4 securities they were trading, it is in the
5 public marketplace, then it is already out
6 there. It is being traded and we are just
7 participating in a trading activity.
8 But if we are actually getting
9 really close to the origination process, if
10 we were enabling the origination process,
11 then I would see that as inconsistent with
12 the direction that we had laid out for the
13 whole company which was not to originate
14 these products.
15 Does that answer your question.
16 **Q I think so. Let me ask a few**
17 **questions based on that.**
18 **With respect to RMBS,**
19 **securitization of mortgages in the RMBS,**
20 **would you say that that is closer to the**
21 **origination than say purchase of RMBS on a**
22 **structuring desk for CDOs?**
23 A I am not sure I can pars the
24 middle part of that continuum. I am not
25 sure I can say well, one notch to the left

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1 Interview - CHARLES PRINCE
2 is okay and one notch to the right is not
3 okay. So I am not sure I am going to be
4 able to answer the question with that degree
5 of specificity.
6 For the company as a whole we had
7 laid down the prescription that we did not
8 want to be involved in the origination of
9 these mortgages. And so I can't -- in part
10 because the mechanics that you are
11 describing are pretty discreet mechanics
12 inside the way the trading desks worked. I
13 am not sure I can answer as specifically as
14 that question would suggest.
15 **Q I have a more general macro**
16 **question.**
17 **In your opinion, what role did**
18 **Wall Street investment banks and large**
19 **financial institutions play in promoting**
20 **very aggressive, exotic mortgage products**
21 **that were originated by brokers, mortgage**
22 **brokers, and then sold off to investment**
23 **banks and financial institutions for**
24 **securitization?**
25 A Well, that is a very broad

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1 Interview - CHARLES PRINCE
2 question. It is a very good question and
3 from a policy standpoint it is the right
4 question to ask.
5 I think that the right way to
6 think about that question is this: In the
7 middle of the decade, the middle of 2000 to
8 2010 decade, the investing environment was
9 one where there were what seemed to be
10 historically artificially low interest
11 rates. That is, investing professionals
12 thought that we were in a period where rates
13 were unusually low.
14 Some people thought that was
15 because of the way that capital flows worked
16 with China and other companies buying
17 treasuries at such significant amounts that
18 is it reduced interest rates. Some people
19 thought it was because the Fed had lowered
20 interest rates after the tech bubble burst
21 and after 9/11 to save the economy. But for
22 whatever reason on any kind of historical
23 basis, rates seemed unusually low.
24 Some people thought -- and I
25 believe Alan Greenspan's been quoted -- that

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1 Interview - CHARLES PRINCE
2 there was a new parodyne of risk, that in
3 other words it was not a temporary
4 phenomenon, but it was going to be a more
5 extended phenomenon.
6 In that context, the growth of
7 securitized products securitized products --
8 the securitized products grew and the growth
9 of it became quite strong as the industry
10 was trying to create through financial
11 engineering safe, higher yielding assets.
12 In that context the need for raw
13 material to securitize was high almost in
14 the way that securitization could be seen as
15 a factory line. You needed raw material to
16 put in the front end of that.
17 I believe that in hindsight, the
18 lack of adequate regulation of the
19 origination of mortgages created a situation
20 where the demand side, the pull side of that
21 equation found a place where more raw
22 material could be created than could be
23 created safely. So that as more and more
24 and more of these subprime mortgages were
25 created as raw material for the

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1 Interview - CHARLES PRINCE
2 securitization process, not surprisingly in
3 hindsight more and more of it was of lower
4 and lower quality.
5 And at the end of that process,
6 the raw material going into it was actually
7 bad quality, it was toxic quality, and that
8 is what ended upcoming out the other end of
9 the pipeline. Wall Street obviously
10 participated in that flow of activity.
11 **Q Did Citigroup participate in that**
12 **flow of activity?**
13 A I think in hindsight, some of the
14 structures we did at the end were not on a
15 point in the continuum that I was
16 comfortable about with when I found out
17 about them. That is, I think at the end of
18 the process, in hindsight, as I understood
19 what was in some of those, I think that our
20 team was closer to the wrong end of the
21 continuum that I had set forth than, in
22 hindsight, I was comfortable with.
23 **Q If I can get you to elaborate on**
24 **what products you are speaking about there**
25 **that you said your team you thought was on**

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1 **Interview - CHARLES PRINCE**
2 **the wrong end of the spectrum.**
3 A Well, I have described a
4 continuum where at the level of publicly
5 trading securities, I did not have a problem
6 with that level of activity. And that the
7 closer we got to the origination function
8 itself of these mortgages, the less
9 comfortable I was with that. And if we were
10 close to the origination of that, then I
11 would be uncomfortable with that.
12 I found out at the end of my
13 tenure, I did not know it before, that we
14 had some warehouse lines out to some
15 originators. And I think getting that close
16 to the origination function being that
17 involved in the origination of some of these
18 products is something that I wasn't
19 comfortable with and that I did not view as
20 consistent with the prescription I had laid
21 down for the company not to be involved in
22 originating these products.
23 (Thereupon, the document Bates
24 marked Citi FCIC 91764 and 91765
25 continuing on to 765, which purports

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1 Interview - CHARLES PRINCE
2 to be the warehouse lines of credit
3 with mortgage originators from 2000 to
4 2010 was marked CR Exhibit 3 for
5 Identification, as of this date.)
6 BY MR. BONDI:
7 **Q Mr. Prince, I am showing you what**
8 **was produced by Citigroup's counsel and has**
9 **been Bates marked Citi FCIC 91764 and 91765**
10 **continuing on to 765, which purports to be**
11 **the warehouse lines of credit with mortgage**
12 **originators from 2000 to 2010. Have you**
13 **ever seen this document?**
14 A I have not.
15 **Q You spoke a few minutes ago about**
16 **concern over warehouse lines. Did any of**
17 **the originators on this list cause you**
18 **concern?**
19 A The only name that I recognize is
20 Ameriquet and that was a business that our
21 guys wanted to buy. And I told them we
22 couldn't buy it unless after they bought it
23 they did not originate any more of these
24 loans. Other than that I don't recognize
25 any names on the list, I'm sorry.

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1 Interview - CHARLES PRINCE
2 **Q Prior to the Ameriquest acquisition --**
3 A I recognize Banco Popular, but
4 that is a bank.
5 **Q Prior to the Ameriquest**
6 **acquisition, were you aware that Citigroup**
7 **had warehouse lines of credit extended to**
8 **Ameriquest?**
9 A I think just before, I think just
10 before. I think, I think just before they
11 proposed buying it they said we had some
12 lines out to them. I don't remember the
13 size of the lines or that detail, but I
14 remember them saying we had some lines out
15 to them. They were struggling with this and
16 that, and we wanted to buy them because
17 after the credit crisis, they had a good
18 platform for originating good mortgages.
19 And I said we, I wouldn't permit them or
20 approve them buying it unless they agreed
21 that from the day we bought it going
22 forward, they wouldn't originate any more of
23 these bad loans, which they eventually said
24 yes to and I think they went ahead and
25 bought it.

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1 Interview - CHARLES PRINCE
2 **Q How did you feel when you learned**
3 **that Citigroup had warehouse lines to**
4 **Ameriquest originate bad loans?**
5 A I think as I said just now, I am
6 just going to repeat myself, I think the
7 closer we got to originating loans, the more
8 I thought that was inconsistent with my
9 direction for the company.
10 **Q In let's just say January 2007,**
11 **in January 2007, would you have known about**
12 **these warehouse lines of credit that had**
13 **been extended to Citigroup? Was this**
14 **something that was on your radar?**
15 A Extended by Citigroup, no.
16 **Q I have roughly totaled up the**
17 **initial facility size of over \$11 billion.**
18 **Would it have caused you concern**
19 **if in January 2007 someone came to you and**
20 **said we have over \$11 billion in facilities**
21 **to mortgage originators?**
22 A Well, to mortgage originators who
23 are originating these bad products, yes.
24 **Q Do you know what kind of products**
25 **were being originated by the mortgage**

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1 **Interview - CHARLES PRINCE**
2 **originators on this list?**
3 A I don't.
4 **Q But you later learned that**
5 **Ameriquest in your words were originating**
6 **bad loans.**
7 A Well, again, my judgement was
8 these were not the kind of loans we wanted
9 to originate. I will call them the exotics.
10 Bad could mean bad credit. I am not focused
11 on the credit quality at this point. I am
12 focused on the type of loan they were
13 originating, the exotic loans that I
14 referred to in my speech that you gave me a
15 moment ago.
16 And when the Ameriquest
17 acquisition was presented to me, it was
18 presented in the context that they were
19 having some difficulties, it was an
20 opportunity to buy something at a lower
21 value because they were having difficulties
22 I think in a regulatory sense, and that
23 those regulatory issues related to these
24 exotic loans that they had been originating.
25 And I said we can't buy it if they are going

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1 Interview - CHARLES PRINCE
2 to originate these exotic loans going
3 forward; we don't do that.
4 MS. BUERGEL: Just to be clear,
5 each warehouse line is governed by
6 several written agreements that
7 specify the types of loans that can be
8 put into the line. So the lines don't
9 extend to just any activity of each of
10 the warehouse originators. They each
11 have very specific agreements that
12 govern.
13 THE WITNESS: You asked me if I
14 would be surprised if we had lines out
15 to people originating, I have no idea
16 whether these people originated
17 exotics, whether our lines with them
18 allowed them to put exotics with it, I
19 have no idea. You gave me a list of
20 names and numbers, I don't know how
21 they connect at all.
22 BY MR. BONDI:
23 **Q In other words, as CEO you didn't**
24 **approve the warehouse lines?**
25 A Good heavens, no, no.

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1 Interview - CHARLES PRINCE
 2 **Q I noticed New Century on the**
 3 **warehouse line list here. It states there**
 4 **was an opening date of the warehouse**
 5 **facility of August 1st, 2006 and a**
 6 **termination date of March 8, 2007.**
 7 **During that time frame of**
 8 **August 1st, 2006, to March 8, 2007, were you**
 9 **aware that Citigroup had a warehouse**
 10 **facility with a warehouse line to New**
 11 **Century?**
 12 A No.
 13 **Q And on this list there is several**
 14 **times where it is listed nonagency whole**
 15 **loans.**
 16 A Right.
 17 **Q What is a nonagency whole loan?**
 18 A In the mortgage business there
 19 are agency loans and nonagency loans.
 20 Agency loans are those you can put on to
 21 Fannie and Freddie. So there is a buyer of
 22 those.
 23 Nonagency loans are those that
 24 Fannie and Freddie won't buy for I don't
 25 know what reason. There is some set of

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1 Interview - CHARLES PRINCE
 2 he said that this was a platform for
 3 originating mortgages, meaning a company
 4 with offices around the country with a
 5 technology base, with trained people and so
 6 forth. And that this platform was available
 7 for us to purchase, that at the time we were
 8 looking at it, the mortgage business had
 9 some difficulties, but in his judgement,
 10 those would be temporary. And that when the
 11 temporary difficulties in the mortgage
 12 business was over, this would be a very
 13 valuable platform to have as part of the
 14 company.
 15 **Q How did you become comfortable**
 16 **with the decision?**
 17 A There with two aspects to the
 18 decision. One is the financial aspects, we
 19 are going to pay so much, we are going to
 20 make so much and so forth. And the second
 21 was whether or not we would buy something
 22 which had this history of doing these
 23 things. And as I said a moment ago, I said
 24 we wouldn't buy it if they were going to
 25 continue to originate those. We weren't

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1 Interview - CHARLES PRINCE
 2 criteria by which they will do it. So the
 3 agency business is a business that has much
 4 more of a flow activity to it. The
 5 nonagency business doesn't have that same
 6 purchaser on the other end.
 7 **Q Are nonagency loans securitized**
 8 **in the RMBS?**
 9 A I don't know the answer to that.
 10 **Q I want to ask a few more**
 11 **questions if you don't mind before we take**
 12 **break if you are okay.**
 13 A Sure.
 14 **Q You mentioned the decision to**
 15 **acquire Ameriquest. Who at Citi was**
 16 **involved in that decision to acquire**
 17 **Ameriquest?**
 18 A It was presented to me by Tom
 19 Maheras.
 20 **Q What did Mr. Maheras say when he**
 21 **presented this as a potential acquisition**
 22 **for Citigroup?**
 23 A I will just repeat what I said a
 24 moment ago.
 25 I think, my recollection is that

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1 Interview - CHARLES PRINCE
 2 going to be in that business. We had
 3 suffered the revenue loss in our consumer
 4 side of not being in that business for
 5 several years. And we weren't going to
 6 start now. And the financial side of it,
 7 that is how much we paid and the return on
 8 the investment and so forth, I don't
 9 remember the details of that, but it came
 10 out well enough. And on the basis of those
 11 two things being right, my recollection is
 12 that we approved it and they went ahead.
 13 **Q Was the motivation to purchase**
 14 **Ameriquest driven in any part by Citigroup's**
 15 **potential exposure to Ameriquest?**
 16 A I don't remember that, no.
 17 **Q Did Mr. Maheras ever express**
 18 **concern over Citigroup's exposure to**
 19 **Ameriquest leading into the transaction to**
 20 **purchase Ameriquest?**
 21 A I don't remember that. I
 22 remember it being an opportunity to buy
 23 something during what he thought would be a
 24 temporary dip in the mortgage market.
 25 **Q Did you ever see any reports that**

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1 Interview - CHARLES PRINCE
2 were presented to you during the
3 negotiations to acquire Ameriquest
4 expressing concern over the loan qualities,
5 loan quality of the files at Ameriquest?
6 A I don't remember it, but I am
7 sure in the context of it. Remember, we
8 were going to buy something that had a
9 history of problems. We weren't buying a
10 gold-plated business. We were buying a
11 business that had difficulties. And we were
12 buying, trying to buy it because it was
13 inexpensive reflecting those difficulties.
14 So, I am comfortable without recalling it
15 that there was a strong examination of the
16 loan book and that David and his people were
17 heavily involved in that, but I don't recall
18 it independently.
19 Q In retrospect, was the decision
20 to acquire Ameriquest a wise decision, a
21 wise investment?
22 A My guess is no. But the honest
23 answer is I don't know what happened to it.
24 I think, I think we bought it in 2007,
25 didn't we? Is that right?

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1 Interview - CHARLES PRINCE
2 Q Yes, sir. I believe the
3 transaction closed in September of 2007.
4 A Yeah. Well, it wasn't part of
5 the company very long on my watch, so I am
6 not sure whether it was good or bad.
7 Q Do you want to take a break?
8 MR. KARP: Sure. That will be
9 fine.
10 MR. BONDI: Thank you. We will
11 take a break.
12 (Brief break.)
13 MR. BONDI: We will go back on
14 record.
15 BY MR. BONDI:
16 Q I wanted to get your thoughts on
17 the concept of originate-to-hold versus
18 originate-to-distribute mortgages.
19 Because earlier we talked about
20 how Citigroup's mortgage origination
21 generally held these mortgages in their
22 portfolio.
23 Do you think that an
24 originate-to-hold model versus an
25 originate-to-distribute model results in

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1 Interview - CHARLES PRINCE
2 higher quality mortgages being made?
3 A There is much public talk about
4 that. That is a question posed for policy
5 makers.
6 I think that if you look at the
7 starkest version of it and you look at an
8 institution that at one end of the spectrum
9 originates and holds everything, and you
10 look at the other end of the spectrum at an
11 entity which originates and doesn't hold
12 anything, in the starkest terms, the first
13 one, the originate and hold, has to care
14 more about the quality of assets than the
15 one that originates and doesn't hold. That
16 is at the starkest level.
17 I don't remember the names of the
18 institutions, but I remember reading about
19 several brokers who originated mortgages,
20 went out of business, sort of fly by night
21 kind of people, and then showed up two weeks
22 later, same guys, different corporate name,
23 originating, so forth. And I read an
24 article that said some of those people now
25 are setting up shop to refinance mortgages.

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1 Interview - CHARLES PRINCE
2 If you think about that at that level, then
3 I think that the point is well taken. There
4 is another category of institutions that
5 originate and distribute where the
6 institutional consequences of distributing
7 bad products are quite negative.
8 So, take Lehman brothers as an
9 example or Bear Stearns as example. These
10 are firms where there is an institutional
11 interest, or there was an institutional
12 interest, in continuing to do business, in
13 continuing to have a good reputation as a
14 counter party.
15 And for institutions like that, I
16 would say those folks would be one step
17 removed from the starkest version of
18 originate and distribute, doesn't
19 necessarily care about the quality of the
20 products.
21 So, clearly the more you hold,
22 the more you are going to care about it.
23 But I don't think it is an either/or
24 necessarily, I think it could be either/or
25 or maybe a little bit in the middle.

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1 Interview - CHARLES PRINCE
 2 **Q I would like to show you what has**
 3 **been marked as Exhibit 4.**
 4 **(Thereupon, the presentation**
 5 **Bates Citi 7657 was marked CR**
 6 **Exhibit 4 for Identification, as of**
 7 **this date.)**
 8 BY MR. BONDI:
 9 **Q And for the record, I will**
 10 **identify that it is Bates Citi 7657 and it**
 11 **was produced by Citigroup's lawyers to us.**
 12 **First of all, just looking at the cover**
 13 **page, do you recall if you ever received or**
 14 **saw this presentation?**
 15 A I have seen it. Can I say I have
 16 seen it in preparation?
 17 MR. BIRENBOIM: Yes.
 18 THE WITNESS: Do I violate
 19 something if I say that?
 20 MR. BIRENBOIM: No.
 21 THE WITNESS: I have seen it in
 22 preparation.
 23 BY MR. BONDI:
 24 **Q Prior to preparing for today's**
 25 **interview, did you ever see this document?**

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1 Interview - CHARLES PRINCE
 2 of so-called super senior tranches of
 3 transactions."
 4 In the time frame of April 2007
 5 to June 2007 when this presentation was
 6 given to the SEC, were you aware that the
 7 CDO desk at Citi had exposure to subprime
 8 collateral in ABS CDOs through its purchase
 9 of so called super senior tranches of
 10 transactions?
 11 A I don't recall having that
 12 information then, no.
 13 **Q You weren't aware that Citigroup**
 14 **had super senior positions on its books in**
 15 **April or June of 2007?**
 16 A No, I don't think so.
 17 **Q The next sentence says, "The**
 18 **probability of default is deemed by rating**
 19 **agencies to be extremely small, so this**
 20 **exposure is not aggregated in our totals."**
 21 **In the time period of April**
 22 **through June of 2007, would you have been**
 23 **aware that the exposure from the super**
 24 **senior tranches were not aggregated in your**
 25 **totals?**

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1 Interview - CHARLES PRINCE
 2 A I don't recall seeing it before
 3 that, no.
 4 **Q If you could take a look at what**
 5 **is the third page marked 7659, which looks**
 6 **to be another title page, another cover page**
 7 **from perhaps the earlier time this was**
 8 **presented, do you recognize this**
 9 **presentation or receiving this presentation?**
 10 A I would give you the same answer.
 11 **Q I ask you to flip to page seven**
 12 **of this presentation, which I will represent**
 13 **was the presentation given to the SEC in**
 14 **June of 2007.**
 15 A So I am clear, page seven is
 16 "Overview, Where Exposure is Found"?
 17 **Q Yes, sir.**
 18 A Thanks.
 19 **Q If you look in the section, the**
 20 **bullet, direct your attention to the bullet**
 21 **titled. "Super Senior and Liquidity Put**
 22 **Positions."**
 23 **The first subparagraph there,**
 24 **"The CEO desk has exposure to subprime**
 25 **collateral in ABS CDOs through its purchase**

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1 Interview - CHARLES PRINCE
 2 A No, I don't think I had any
 3 exposure to or discussion of or knowledge of
 4 the area until it sort of came up in
 5 September.
 6 MS. BUERGEL: To be clear, the
 7 totals being referred to there are the
 8 totals in the deck, in this
 9 presentation, and I think your
 10 question implied your totals as in
 11 your Citigroup totals, and I just
 12 think that is an unfair way to ask the
 13 question. The totals are the totals
 14 in this deck.
 15 BY MR. BONDI:
 16 **Q The next paragraph refers to**
 17 **liquidity puts. In the time period of April**
 18 **to June 2007, were you aware of liquidity**
 19 **puts associated with asset backed commercial**
 20 **paper which was associated with super senior**
 21 **tranches of CDOs?**
 22 A I would give you the same answer,
 23 which is no.
 24 **Q Going back to both of these, when**
 25 **did you first become aware that Citigroup**

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1 **Interview - CHARLES PRINCE**
 2 **owned super senior positions in CDO**
 3 **tranches?**
 4 A I think that the first time it
 5 came to my attention as any kind of an issue
 6 would have been in the September 2007 time
 7 frame. As I said earlier in the summer, the
 8 focus as it related to the corporate
 9 investment bank, which again was only one
 10 part of the company -- we had a lot of
 11 things going on in the company, but as far
 12 as it related to that part of the company,
 13 the focus was on the leveraged lending
 14 portfolio. And I think the issues of the
 15 CDOs and super seniors so forth came up as
 16 any kind of an issue was in September, came
 17 up to me as any kind of an issue.
 18 **Q Prior to September 2007, were you**
 19 **even aware that Citigroup held positions in**
 20 **super senior tranches of CDOs?**
 21 A No.
 22 **Q There is reference here to**
 23 **liquidity puts?**
 24 A Uh-huh.
 25 **Q Was your understanding of**

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1 **Interview - CHARLES PRINCE**
 2 **liquidity puts in this context? Do you have**
 3 **one?**
 4 A Well, as I have come to
 5 understand it since, a liquidity put is
 6 something which obligates the company,
 7 obligates the bank, to fund someone if they
 8 can't find liquidity to fund it themselves.
 9 So, in this case if someone owned
 10 something and was funding it through selling
 11 commercial paper to the outside world and
 12 for some reason they couldn't sell the
 13 commercial paper, then Citigroup would be
 14 obligated to provide the funding for them.
 15 Now, that is a general answer.
 16 And that is the level of my understanding of
 17 it. There may be more detailed
 18 complications mechanically, but that is my
 19 understanding of it.
 20 **Q When did you first become aware**
 21 **that there were liquidity puts associated**
 22 **with commercial paper sold by Citigroup**
 23 **relating to the super senior tranches of**
 24 **CDOs? Would that have been September 2007**
 25 **as well?**

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1 **Interview - CHARLES PRINCE**
 2 A Yes, that was probably later than
 3 September. The CDOs were the first things
 4 that came up and then the liquidity puts
 5 came up afterwards.
 6 **Q What was your reaction when you**
 7 **heard about the liquidity puts?**
 8 A Well, it is hard to give an "as
 9 of then" answer because so much has happened
 10 since which has colored that. But if can, I
 11 will put it in a little context.
 12 The banks, financial
 13 institutions, are in the business of
 14 providing liquidity. It is not at all
 15 unusual for a financial institution to
 16 provide a liquidity support, one of the main
 17 lending instruments for a bank is a
 18 commercial paper back-up line. So all of
 19 the major companies in the U.S., the
 20 manufacturing company, industrial companies,
 21 fund themselves through commercial paper.
 22 And they take out back-up lines from banks
 23 to guarantee that if the commercial paper
 24 market seizes up, they can go borrow money
 25 from the banks. Commercial paper back-up

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1 Interview - CHARLES PRINCE
 2 lines. Every bank issues them, every major
 3 company has them to back up their commercial
 4 paper issuance. It is a way of getting the
 5 benefit of the lower cost of short-term
 6 funding without taking the risk of the
 7 short-term funding.
 8 From the bank's standpoint, the
 9 risk of the liquidity guarantee for
 10 commercial paper being called upon is quite
 11 low. And so you make some money off of
 12 that, but you don't have a huge exposure.
 13 So, the notion of a liquidity
 14 guarantee extended someone else is not an
 15 unusual notion, not one which is strange or
 16 which would cause one's eyebrows to raise.
 17 In the context of the CDO
 18 business of course it turned out to be quite
 19 a negative. But at the time this first came
 20 to my attention in the September time frame,
 21 even at that point people believed that the
 22 super seniors would not have any losses.
 23 So, again, I am reconstructing
 24 what happened in September for you because
 25 sitting here today looking backwards, you

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1 Interview - CHARLES PRINCE
2 would have an entirely different view. But
3 in reconstructing what happened then, the
4 notion that there were these better than
5 triple A rated instruments out there, that
6 we were providing liquidity support for,
7 those words would not have excited anyone.
8 As it turned out, when the rating
9 agencies downgraded everything multiple
10 steps in a single several days, that changed
11 the world. But when it first came up, I
12 don't remember it being a moment of great
13 excitement.
14 **Q When you talk about it first**
15 **coming up, that was in September?**
16 A To me, yes, first coming up to me
17 in September.
18 **Q September 2007?**
19 A Yes, middle. As I said I think
20 the CDO issue came up in the middle of
21 September. The liquidity puts came up a
22 week or so later.
23 **Q If you could flip to the page 11**
24 **of this deck, which is Bates Citi 7673.**
25 A Yes.

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1 Interview - CHARLES PRINCE
2 **Q Direct your attention to the**
3 **first part where it is under super senior**
4 **book, the second dash.**
5 **"This so-called super senior**
6 **tranche is viewed by the rating agencies to**
7 **have an extremely low probability of**
8 **default, less than 0.01 percent."**
9 **Was that what was represented to**
10 **you in September 2007 from persons at**
11 **Citigroup?**
12 A I am going to give you a long
13 answer that is yes. The long answer is I
14 don't know whether they used these words, I
15 don't know whether they used this percentage
16 number of one basis point, but the context
17 of this sentence is what was represented.
18 **Q Direct your attention to the**
19 **fifth dash down under that section super**
20 **senior book, states: "Our current open**
21 **position as 14.6 billion."**
22 **Do you recall in September 2007**
23 **being told the amount of the open position**
24 **on super seniors that Citigroup held?**
25 A I can't reconstruct it that

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1 Interview - CHARLES PRINCE
2 finely, meaning that I have had so much --
3 it has been such an issue since then, and
4 all of the information and the conversations
5 have telescoped, that I can't reconstruct in
6 my mind whether in late September when
7 people first talked to me about this they
8 said and the number is X. I can't
9 reconstruct that, I am sorry.
10 **Q Take me back to September 2007**
11 **when you were first told about the super**
12 **senior tranches. Who told you?**
13 A My best recollection is that at
14 one of our Business Heads meetings Tom
15 Maheras brought it up.
16 **Q Why did Mr. Maheras bring it up?**
17 A I can't put myself in his head.
18 I don't know the reason for that.
19 Again, as I am reconstructing
20 that time period, we had spent several
21 months talking and focussing on the
22 leveraged lending book. And, again, it is a
23 little bit of speculation on my part, but my
24 guess is that in that context, Tom said at
25 one of the meetings, you know, we should

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1 Interview - CHARLES PRINCE
2 also think about the CDO book. He brought
3 it up then. That is my recollection of how
4 it came up.
5 **Q As you sit here today, what**
6 **precisely do you remember Mr. Maheras saying**
7 **about the super senior tranches?**
8 A Again, I can't reconstruction it
9 because so much has happened. The intensity
10 of the next 30 days, more or less, sort of
11 collapses everything in my mind. And I
12 don't -- because it wasn't presented at the
13 time in a startling fashion, you know, you
14 remember things if they startle you, if they
15 surprise you, if they stand out in your
16 memory.
17 This one didn't start that way.
18 This was: Let me also mention this. And
19 then it got bigger and bigger and bigger
20 obviously over the next 30 days. So if you
21 look back to the first one, there is nothing
22 about that first conversation which with
23 stand out in your mind.
24 **Q At what point did the super**
25 **senior positions cause you alarm?**

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1 **Interview - CHARLES PRINCE**
2 A Well, let me, if I can, turn
3 around at the end and back it up. It might
4 be an easier way to answer the question.
5 The super seniors really, the
6 whole process around the super seniors
7 really collapsed when the rating agencies
8 downgraded, all the rating agencies down
9 graded thousands of securities from triple A
10 to basically junk in a day or two. And
11 that, that kind of collapse in the judgment
12 of the rating agencies was a precipitous,
13 meaning like a big explosion.
14 If you back up from that, that
15 was as I recall middle of September kind of
16 time frame, middle of October kind of time
17 frame. If you back up from that a week or
18 so, so maybe the first week of October, we
19 were engaged in a dialogue -- me, Tom
20 Maheras, several of our other people -- of a
21 round of almost daily telephone calls and
22 meetings, what is happening in the market as
23 it relates to these kinds of securities.
24 And those meetings or telephone calls would
25 involve myself, Tom Maheras, Randy Barker,

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1 Interview - CHARLES PRINCE
2 several of their people at a lower level in
3 the organization. Bob Rubin was in a number
4 of them. Bob Druskin was in a number of
5 them. Lou Kaden was in a number of them.
6 This is in the couple of weeks, as I recall
7 it, ten days before the rating agency
8 downgrades.
9 During that period of time, I had
10 convened these daily meetings and calls
11 because I was more uncomfortable with the
12 situation. And yet during that period of
13 time, Tom had said and said till his last
14 day at work: We are never going to lose a
15 penny on these super seniors. We are never
16 going to a lose penny on these super
17 seniors. And of course we were going
18 through accounting closings, you would close
19 a month, you would close a quarter and so
20 forth.
21 And when you do that, you have to
22 engage in certain decision-making processes
23 as it relates to valuations. And so there
24 was a natural, driven by the calendar, a
25 natural internal dialogue about this. And

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1 Interview - CHARLES PRINCE
2 as we went along and I was more and more
3 uncomfortable with this and more and more
4 uncomfortable with Tom's conclusion on
5 ultimate valuations, that is when I really
6 began to have some very serious concerns
7 about what was going to happen.
8 **Q What was making you feel more and
9 more uncomfortable with Tom Maheras'
10 conclusion that Citigroup would never lose a
11 penny on its super seniors?**
12 A Well, the external environment
13 during those 30 days, three or four weeks
14 time frame, it was obviously continuing to
15 deteriorate and all of the, all of the
16 indicators that I could see that related to
17 certain trading indices, what other people
18 in the industry were to doing, et cetera, et
19 cetera, you know, as you look around the
20 world, the things you see happening
21 suggested a further deterioration. And Tom
22 and Randy and others were pretty resolute
23 that we were thinking about this in the
24 wrong way, that these instruments had been
25 structured in way that they would hold their

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1 Interview - CHARLES PRINCE
2 triple A value, that we wouldn't lose any
3 money, I would say leading right up to when
4 the rating agencies collapsed.
5 **Q For the record, Mr. Maheras, at
6 the time he said this, was the CEO of the
7 investment bank?**
8 A I think at that point Tom and,
9 Tom Maheras and a fellow named Michael Klein
10 were co-CEOs of the investment bank,
11 corporate and investment bank.
12 Michael focused on the investment
13 banking side of the house. And Tom Maheras
14 focused on the fixed income or trading side
15 -- fixed income equities, sort of the
16 trading side of the house versus the
17 investment bank side of the house.
18 **Q You mentioned Randy. Is that
19 Randy Barker?**
20 A Yes, sorry.
21 **Q What was Mr. Barker's role in
22 September 2007?**
23 A As best I can recollect it,
24 Barker was the head of the fixed income
25 business under Maheras. So, again, I'll

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1 Interview - CHARLES PRINCE
 2 make sure I am as clear as I can be.
 3 Maheras and Klein were co-heads
 4 of an entity and the entity basically had
 5 two halves and Klein had the half which was
 6 the investment banking side and the
 7 corporate lending side. And Maheras had
 8 the, all the trading businesses. So fixed
 9 income and equities and commodities and so
 10 forth.
 11 And under Maheras, then, on this
 12 side of the -- there were various
 13 businesses. As I membered, fixed income,
 14 equities, commodities, rates and currencies
 15 and so forth. And I think that Barker was
 16 the head of the fixed income part of that
 17 trading side of the business. Maheras had
 18 been the head of the fixed income business
 19 before he stepped up to being the co-head of
 20 the whole thing.
 21 **Q In terms of this belief that**
 22 **Citigroup was not going to lose any money on**
 23 **its super senior CDO positions, that was a**
 24 **belief that was shared by Mr. Maheras and**
 25 **Mr. Barker?**

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1 Interview - CHARLES PRINCE
 2 A I believe so, yes.
 3 **Q Who else shared that belief?**
 4 A Gosh, I don't know. There were I
 5 am sure other people inside fixed income who
 6 shared that belief. I am not sure that
 7 anyone else of the people that I mentioned
 8 on these calls and meetings that I set up
 9 that were outside of the fixed income
 10 business ever expressed that. I think that
 11 was pretty well contained to the fixed
 12 income business, but of course they
 13 understood it better than, or were supposed
 14 to understand it better than the rest of us.
 15 **Q How early in September would Mr.**
 16 **Maheras have shared this belief that**
 17 **Citigroup was not going to lose any money?**
 18 **Was that contemporaneous with the first time**
 19 **he presented the super senior positions as**
 20 **being on the books to you, or was that at a**
 21 **different time?**
 22 A What I remember about that is
 23 that throughout the entire time period we
 24 discussed this, meaning till the last day
 25 and any time before that, it was here are

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1 Interview - CHARLES PRINCE
 2 these positions, this -- somebody says this
 3 might be an issue or this indicator suggests
 4 it might be an issue or something like that,
 5 but don't react to that. We are not going
 6 to lose any money on these positions; they
 7 are good.
 8 **Q Your reference to the last day.**
 9 **When was the last day?**
 10 A Well, Tom left the business in
 11 the second week in October, I think,
 12 something like that, of 2007?
 13 **Q And then following that time**
 14 **period, the belief that Citigroup was not**
 15 **going to lose money on super senior**
 16 **positions was no longer expressed within the**
 17 **organization? I am just trying to get a**
 18 **sense --**
 19 A I think what happened after that
 20 was that we changed management when Tom left
 21 and then basically over the -- then I think
 22 either just before he left or just after he
 23 left, the rating agencies collapsed and then
 24 there was a fairly short period of time,
 25 maybe it was a week, maybe it was ten days,

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1 Interview - CHARLES PRINCE
 2 during which the analysis of the positions
 3 vis-à-vis the new lowered ratings was done
 4 up and then that led to the time when I
 5 resigned.
 6 **Q When Mr. Maheras first expressed**
 7 **to you that Citigroup was not going to lose**
 8 **a penny on its super senior CDOs, did you**
 9 **ask to see any stress testing?**
 10 A I can't -- I can't reconstruct
 11 the time frame during which we did that
 12 because as we were going through the end of
 13 September and closing the books, there was
 14 some stress testing done by Gary Crittenden
 15 and others working with Maheras.
 16 I am confident, without
 17 remembering, that the first time Tom brought
 18 it up, he didn't say and here's a stress
 19 test to prove what I'm saying. I mean, he
 20 didn't do that. But whether or not a couple
 21 days later or a week later there was stress
 22 testing or whether that was two or
 23 three weeks, later I can't separate those in
 24 my mind.
 25 But it was not a situation where

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1 Interview - CHARLES PRINCE
2 the first time it came up at our Business
3 Heads meeting, if that is how I recall it,
4 he would have had a big, you know, brief in
5 support, it wouldn't have been that kind of
6 a situation.
7 **Q When Maheras first said that**
8 **Citigroup was not going to lose a penny on**
9 **its super senior position, was Mr. Bushnell**
10 **present?**
11 A It was a Business Heads meeting.
12 David would have been at the meeting.
13 Whether he was absent that day for some
14 reason, whether he was out of the room or
15 not, I can't remember. But it was at a
16 meeting at which David would have been
17 present.
18 **Q Do you ever recall Mr. Bushnell**
19 **expressing his belief on the super senior**
20 **positions?**
21 A I think that David -- David was
22 part of these daily telephone calls and
23 meetings we had during that interim period.
24 So, again, I can't reconstruct carefully
25 enough the first time Tom mentioned it

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1 Interview - CHARLES PRINCE
2 versus the next day versus the next day.
3 But I think if you take the 30
4 days from mid September to mid October,
5 clearly by the time sort of the second week
6 in October was coming along, so two thirds
7 of the way through their process, we are in
8 these daily meetings and calls and so forth,
9 I think David was cautioning that I am not
10 sure Tom is right about this. I can't
11 remember him saying those exact words so I
12 am not suggesting that.
13 But the tonality, if I can use
14 that word, of the people was Tom and Randy
15 were resolute, you know, don't, don't do
16 something here which you are going regret,
17 you not going to lose money on those things.
18 Don't take a huge write down or a big
19 reserve. And I would say that Gary
20 Crittenden and David Bushnell -- if I can
21 put it sort of at the other end of the
22 figurative table -- were saying, you know, I
23 am not sure that is right; I think we should
24 test this a little bit more. It was that
25 kind of a dynamic.

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1 Interview - CHARLES PRINCE
2 **Q What was the nature of Mr.**
3 **Maheras' departure from Citigroup?**
4 A I have actually tried to
5 reconstruct that in my mind, and it is a
6 little fuzzy around the edges. But here's
7 the essence of it.
8 There came a point in time when
9 it was my judgment that Randy Barker should
10 leave the company. And that judgment was
11 based on my view that we were going to end
12 up losing money on these positions and that
13 someone else should manage the process of
14 recovering what we could from that issue.
15 It is very customary in the banking world
16 that if someone makes a loan, any kind of a
17 loan, and it goes bad, that the work out of
18 that loan should be managed by someone other
19 than the person who put it on the books,
20 someone who is objective and doesn't have
21 any history with it, so on. And so that was
22 my judgment, that that should happen.
23 Maheras and Barker were quite
24 close personally. And I would say it is
25 fair to report that Tom resisted that.

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1 Interview - CHARLES PRINCE
2 I insisted that that be the case. And as
3 part of the restructuring process that
4 resulted from Barker leaving the company, so
5 not that day but within several days
6 afterwards, Maheras came to me and said that
7 he thought he did not want to continue. And
8 those were the circumstances of him leaving.
9 **Q So it was your decision to**
10 **terminate Mr. Barker?**
11 A Yes.
12 **Q Did you consult anyone else on**
13 **the decision to terminate Mr. Barker?**
14 A I am sure I did. I am sure I
15 talked to Druskin, I am sure I talked to
16 Rubin, I am sure I talked to a number of
17 people, but it was my decision, not theirs.
18 **Q And did you decide to terminate**
19 **anyone else in connection with this CDO**
20 **business?**
21 A I don't remember anybody else
22 that I took action on personally, no. I
23 mean I know a number of people were
24 terminated, but I don't think anyone else I
25 acted on personally.

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1 Interview - CHARLES PRINCE
2 **Q I want to ask you about the**
3 **liquidity puts that are also referenced in**
4 **this document.**
5 **Can you tell me what you recall**
6 **about the time you first were told about the**
7 **liquidity puts associated with the asset**
8 **backed commercial paper issued from the,**
9 **secured by the super senior tranche?**
10 A I can't really. Again, I want to
11 put it in the context of what was happening.
12 We spent the summer thinking
13 about the leveraged lending book. Then in
14 the middle of September Tom Maheras says
15 well, you know, we also have to think a
16 little bit about these CDOs and so forth.
17 And then that sort of the separate channel
18 started happening. And then my best
19 recollection is that a week or two later
20 somebody said well, the CDOs are X, but also
21 have liquidity puts relating to the CDOs.
22 But it in my mind sort of folded into the
23 same issue, and it wasn't as if a third
24 train of activity went along as compared to
25 it just being a larger second train of

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1 Interview - CHARLES PRINCE
2 activity if that makes sense to you.
3 So, it is not as if somebody came
4 up one day and said ah, liquidity puts, and
5 I said oh, liquidity puts. It wasn't that
6 sort of a moment. It was sort of adding on
7 to existing discussion.
8 **Q When do you recall being informed**
9 **or were you informed about the size of the**
10 **exposure associated with the liquidity puts?**
11 A I can't remember the specifics of
12 when that number was put on the table or not
13 put on the table.
14 **Q Do you recall ever being**
15 **eventually told of the number associated**
16 **with that?**
17 A Sure. Obviously in hindsight I
18 have read all the papers and I know what
19 happen and so forth. But I can't
20 reconstruction in my mind a particular time
21 when someone came in and said here's the
22 number and that sticks out in my mind.
23 **Q The commercial paper that was**
24 **associated with the liquidity puts, do you**
25 **recall being told that the commercial paper**

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1 **Interview - CHARLES PRINCE**
2 **was now back on Citi's books?**
3 A I am not sure whether that
4 happened when I was there or not. I mean
5 there was quite a discussion about taking
6 these things back on to Citi's books, but I
7 thought that happen after I left.
8 **Q I would like to show you another**
9 **document which has been marked number five.**
10 **(Thereupon, the documents Bates**
11 **Citi FCIC 24594 were marked CR**
12 **Exhibit 5 for Identification, as of**
13 **this date.)**
14 BY MR. BONDI:
15 **Q I am showing you what has been**
16 **produced to us by Citigroup, it is Bates**
17 **Citi FCIC 24594 and it is some attachments**
18 **along with a cover e-mail from a Christina**
19 **Pretto to you dated July 30, 2007.**
20 **First, who is Christina Pretto?**
21 A She was one of our PR people.
22 **Q Do you recall receiving this**
23 **e-mail on or about June 30, 2007?**
24 A I don't.
25 **Q I would like to turn your**

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1 **Interview - CHARLES PRINCE**
2 **attention to the second attachment here,**
3 **second attachment to the e-mail. It is**
4 **Bates Citi FCIC 24607 and it is a Power**
5 **Point deck entitled Tracking the Twin Storms**
6 **Catalyst of Market Volatility.**
7 A Got it.
8 **Q Do you recognize this document,**
9 **sir?**
10 A I am sure I have seen it, but I
11 can't remember in what context I saw it, I
12 am sorry.
13 **Q Do you recall seeing it during**
14 **your tenure as CEO at Citigroup?**
15 A I am sorry, I can't place it as
16 to whether I saw it then or whether I saw it
17 during preparation.
18 **Q I would like to draw your**
19 **attention to the first page of the**
20 **presentation on the executive summary.**
21 A Yes.
22 **Q The third bullet down states,**
23 **"The value of investment grade CDOs built up**
24 **out of subprime mortgages has declined**
25 **dramatically leading to significant losses.**

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1 **Interview - CHARLES PRINCE**
2 **Total damage has been estimated at 50 to 100**
3 **billion."**
4 **Do you recall having the, do you**
5 **recall hearing that statement or reading**
6 **that statement in or about July 30, 2007?**
7 A I don't, but the -- it was clear
8 that in the summer of 2007, many of the CDOs
9 had, many parts of the tranches of the CDOs
10 were declining in value. I want to
11 distinguish that between the super seniors.
12 Super seniors, at that point no one thought
13 had any issues. In fact, no one thought
14 those had any issues until October. But it
15 is clear that some of the lower tranches had
16 declined in value by the summer. So, do I
17 remember seeing that at the time, no. I
18 mean I see it on the piece of paper now.
19 MR. KARP: Just so the record
20 is clear, because the quote would not
21 revealed this, this is for the entire
22 industry.
23 A For the entire industry.
24 **Q I think the presentation in fact**
25 **is titled Catalyst of Market Volatility.**

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1 **Interview - CHARLES PRINCE**
2 **In the summer of 2007, did it**
3 **case you any concern that there were**
4 **significant losses looming in the CDO**
5 **business in general? When I am talking**
6 **about business, I am talking about industry**
7 **business, not necessarily Citi specific.**
8 A At the time, people believed that
9 the housing market would decline to a
10 certain degree. Without having read the
11 document, you can see in the little box on
12 this page under "consumer" that it says,
13 "Subprime foreclosure delinquency will
14 likely impact less than one percent of U.S.
15 housing stock."
16 And at the time, people believed
17 that the housing market would be affected in
18 ways where some of the lower or lowest of
19 the tranches of CDOs would be affected. I
20 think at the time no one had any or I know
21 at the time no one had any idea or hint that
22 the housing decline would be as significant
23 or as broad as it turned out to be. So,
24 your question was about CDOs, I didn't think
25 about CDOs at that point in time. We were

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1 Interview - CHARLES PRINCE
2 thinking much more broadly about how would
3 it affect the real estate business
4 generally, how would it affect our consumer
5 business, which has an originate and hold
6 strategy. The parts of the CDOs that would
7 be affected based on our thinking at the
8 time wouldn't be things that we owned at
9 all. So, the answer to your question is no,
10 but it is a very long no.
11 **Q So, in the summer of 2007, it was**
12 **your understanding that you did not, you**
13 **meaning Citigroup, did not hold the lower**
14 **tranches of CDOs that were being affected?**
15 A That was my understanding, yes.
16 **Q In the summer of 2007, did you**
17 **ever ask Mr. Maheras or any of his**
18 **colleagues in the investment bank, what**
19 **tranches do we hold or what is our exposure?**
20 A You know, in hindsight that is an
21 excellent question. At the time, it
22 wouldn't have occurred to anyone to do that.
23 And if someone had asked the question, the
24 answer that would have been given wouldn't
25 have in any way given you different

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1 Interview - CHARLES PRINCE
2 information.
3 I believe it is true that not
4 only the risk function, but the management
5 of the business believed that our holdings
6 and our activities were a hundred percent
7 mark to market on a daily basis, so that we
8 had no nonmarked risk.
9 I believe that at the time people
10 felt that there were almost literally no
11 scenarios under which the super seniors
12 could be touched, so it wouldn't have
13 occurred to anyone either to ask the
14 question or to volunteer the information to
15 say now don't forget, we also have these
16 super seniors which are triple A and there
17 is no chance in the world that they will
18 ever be touched. That wouldn't have come up
19 in a normal context.
20 Looking back, I mean it is very
21 easy to see that is the one issue that you
22 should have asked. I understand that. But
23 at the time, you have to deal with what was
24 reality at the time and whether it was the
25 presentation that you just showed me to the

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1 Interview - CHARLES PRINCE
2 SEC or the internal dynamics of marking to
3 market, the super seniors were not thought
4 to be of subprime character, as I have gone
5 back now and looked at that time.
6 Obviously at the time it wasn't a
7 topic of discussion. But as I looked at it
8 in hindsight, it is clear that people didn't
9 think of it as being in that character or
10 that category at all.
11 So, your question was did anyone
12 examine Tom Maheras on what the other
13 categories were we hold and how do you think
14 about it and so forth, that wasn't part of a
15 real world situation at the time.
16 **Q In the summer of 2007 when events**
17 **were unfolding in the market as described in**
18 **this presentation, did you ask anyone at**
19 **Citigroup to run any stress test to see how**
20 **is Citi going to fair if events unfold in**
21 **the market, if things deteriorate in the**
22 **market?**
23 A I didn't have to. People ran
24 stress tests all the time. There is an
25 index of -- and I can't remember the name of

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1 Interview - CHARLES PRINCE
2 it -- of housing prices around the country
3 which is used by everyone.
4 **Q ABX?**
5 MS. BUERGEL: Case-Shiller.
6 A Case-Shiller. And people would
7 run stress tests off of that. And they
8 would say okay, if Case-Shiller is down five
9 percent, what does it mean? If it is down
10 three percent what does it mean? If it is
11 down five percent in so many cities, what
12 does it mean and so forth? And I remember
13 vividly David and others saying to me -- and
14 I remember vividly the conversation. I
15 don't remember what time frame, but it could
16 easily have been in this time frame. People
17 saying to me: Gosh, housing rises would
18 have to go down 30 percent nationwide for us
19 to have, not a problem with CDOs, but for us
20 to have, quote, problems. And that has
21 never happened since the Depression. I
22 remember it vividly, those conversations.
23 So, it wasn't a situation where I
24 could have commissioned stress tests. We
25 had stress tests all the time.

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1 Interview - CHARLES PRINCE
2 **Q If I could get you look at one**
3 **additional page on this document here, which**
4 **is the next page, 24609.**
5 A Yes.
6 **Q And it says, the title, Tracking**
7 **the Twin Storms. Highlighting the**
8 **Parallels. And to your counsel's point, I**
9 **believe this is describing the market as a**
10 **whole?**
11 A Yes.
12 **Q There is a section on the left,**
13 **the subprime mortgages, it says, "Which**
14 **securities are involved?" It says, "CDOs**
15 **built out of subprime mortgages."**
16 **At the time you got this**
17 **presentation in July of '07, summer of '07,**
18 **did you realize that Citi had CDOs that were**
19 **built out of subprime mortgages?**
20 A You know, I can't honestly
21 recall. As I said, the first time that CDOs
22 came up as any kind of an issue for us, any
23 kind of a problem or concern, was in the mid
24 September time frame. This was I think
25 talking about the industry as a whole. I

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1 Interview - CHARLES PRINCE
2 don't remember anybody saying: And don't
3 forget, Chuck, we got some of these as well.
4 I don't remember that as well.
5 MR. LERNER: For the record, I
6 don't think he said he remembered
7 receiving it at that time.
8 MR. BONDI: I understand that.
9 **Q I was asking you if you**
10 **understood at the time, though, generally,**
11 **not based on this presentation, but**
12 **generally the CDOs that Citigroup had were**
13 **built out of subprime mortgages?**
14 A I am not sure that I at that
15 point in time even had any specific
16 understanding of our, of the mechanics of
17 our CDO business. This was, this was a very
18 small part of one part of one division of
19 the company. I mean, we had a large
20 business. There would be no reason, unless
21 I happened to have worked in the fixed
22 income business, for me to have any
23 familiarity with that detailed level of
24 product activity.
25 **Q On this same page, there is a**

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1 Interview - CHARLES PRINCE
2 section called, looks like What Went Wrong?
3 Under subprime mortgages it says, "Lax
4 lending standards, high LTVs, piggyback
5 loans, low or no doc and teaser rates."
6 Are the description of the
7 mortgage types on this presentation here the
8 types of mortgage products that we talked
9 about earlier in connection with your
10 Greenlining Institutional speech that you
11 had some concerns about?
12 A Some yes and some no. The ones I
13 mentioned earlier as examples of exotic
14 mortgages were the negative amortization and
15 the adjustable ARMs, which have to do
16 fundamentally with how much you are required
17 to pay back on a current basis. And by
18 deferring how much you have to pay on a
19 current basis, you are really betting on
20 home price appreciation rather than the
21 ability of the borrower to pay.
22 These items that are referred to
23 here, some of these relate to that and some
24 don't: So teaser rates or a category of ARM
25 mortgages, but they are not necessarily

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1 Interview - CHARLES PRINCE
2 adjustable ARMs. Adjustable ARMs are you
3 the borrower can decide how much you want to
4 pay fundamentally.
5 A teaser rate could be that, or
6 it could be simply it is two percent for the
7 first 12 months and then it jumps to
8 12 percent. So you don't get to decide. It
9 is an automatic, it is a formulaic change.
10 So it could be similar or it could be
11 different.
12 A low or no doc loan is one that
13 doesn't have to do necessarily with you the
14 borrower deciding how much you can pay back
15 on a current basis, but could simply be that
16 you say you have so much income and you
17 don't have so much income. Or the appraisal
18 saying that the house is worth a hundred
19 thousand dollars and it is really only worth
20 \$50,000. So it could be a different
21 category of issue than the ability to pay
22 issue.
23 High LTVs and piggyback loans
24 basically go to how much of the value of the
25 house is loaned against. Some of the -- in

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1 Interview - CHARLES PRINCE
2 the old days, you would have an 80 percent
3 LTV. You couldn't borrow more than
4 80 percent of the value of the house. And
5 then it would go to 90 percent, then
6 95 percent and then a hundred percent. In
7 some cases people were doing 105 and 110
8 percent LTV. And so that is a different
9 issue. It is a related issue.
10 And if you put them altogether,
11 that is really the worst possibility. If
12 you have something where the borrower says I
13 make so much money, but they really don't,
14 and you have a situation where the appraisal
15 says it is worth a hundred thousand dollars
16 and it really isn't. And then you are
17 lending 110 percent LTV against an inflated
18 LTV, then you are really in trouble. And
19 that is basically, you know, if you pick an
20 example of a horrible loan, at the end of
21 the process, you had borrowers who had no
22 income borrowing 105 or 110 percent of an
23 inflated LTV value, and then walking away
24 from the loan, and not surprisingly the loan
25 didn't have much value.

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1 Interview - CHARLES PRINCE
2 Q Mr. Prince, is it fair to say
3 based on what you testified earlier that
4 during your tenure at Citigroup, you
5 wouldn't have known if any of these mortgage
6 types high LTV, big piggyback loans, no or
7 low doc or teaser rates were somehow in the
8 CDOs that Citigroup had created?
9 A Well, I think that is correct.
10 The reason I am hesitating a tiny bit in
11 answering is I think at the very end, in the
12 last week or so of my tenure, there were
13 some suggestions that there was a little
14 more of this, not a lot, but a little more
15 of this in some of our originations or some
16 of our CDO products than I had understood
17 before. But if you take that caveat, that
18 one week a little more information, a little
19 more -- if you take that caveat to your
20 question, the answer would be yes.
21 Q I am going to ask you, sir, to
22 take a look at another document.
23 I am going to show you what has
24 been produced to us by Citigroup, Citi FCIC
25 E 24768. And it is an e-mail chain. At the

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1 Interview - CHARLES PRINCE
2 top of the e-mail chain is an e-mail from
3 you to Mr. Druskin dated August 3rd, 2007.
4 (Thereupon, the e-mail chain
5 Bates Citi FCIC E 24768 was marked CR
6 Exhibit 6 for Identification, as of
7 this date.)
8 BY MR. BONDI:
9 Q It is responding to an earlier
10 e-mail to you from Mr. Druskin.
11 First, at the bottom of this
12 e-mail, let's talk about the first e-mail
13 here, there is an e-mail from William
14 Kister.
15 A Yes.
16 Q Looks to a distribution list, and
17 it is titled Citi Markets and Banking
18 Revenue Highlights for August 2nd, 2007.
19 A Yes.
20 Q And July Update.
21 First off, would it be William
22 Kister?
23 A I have no idea. I am sure he is
24 a very valuable employee of the company,
25 though.

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1 Interview - CHARLES PRINCE
2 Q Is this an e-mail that you
3 received?
4 A Yes. This is our daily report.
5 The markets and banking business would,
6 because of the kind of business it is, had
7 to close their books every day and so every
8 day you would get the results from the day
9 before of activity. And so we would get one
10 of these every day. This one happened to be
11 for that particular day.
12 Q And you would get these e-mails
13 on a daily basis during your entire tenure
14 as CEO?
15 A Yes.
16 Q Were these e-mails that you would
17 have read on a daily basis?
18 A You bet, you bet.
19 Q Looks like Mr. Druskin in
20 response to this e-mail says to you, "This
21 looks like water torture, just awful." And
22 you respond, "Worse."
23 A Yes.
24 Q What was he referring to and what
25 were you referring to in your response, if

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1 Interview - CHARLES PRINCE
2 you know what he is referring to and what
3 are you referring to?
4 A The -- there are some unusual
5 aspects to running a securities business,
6 both in the way that people participate and
7 in the way you manage the business.
8 In most businesses, you have a
9 budget forecast, you do certain activities
10 to generate revenue, you try to hold down
11 your costs, you try to make a profit. And
12 most of those activities, if you are
13 building refrigerators or something, have
14 some level of predictability to them, some
15 level of direction to them. You have long
16 term contracts with suppliers, you have long
17 term contracts with customers, you have an
18 ability to see into the future a little bit.
19 In the securities business, your
20 ability to see is measured on a daily basis.
21 You have a budget for the year, you have a
22 budget for the month, for the quarter. You
23 have analysts who are predicting what you
24 are going to make without knowing what the
25 markets are going to do. And you are held

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1 Interview - CHARLES PRINCE
2 to the standards of your earnings estimates.
3 So, today as we sit here there is
4 an earnings estimate out for Citi that says
5 at the end of the first quarter, their
6 earnings ought to be X. And a large part of
7 Citi's earnings today relate to the
8 securities business.
9 The people who put those analyst
10 estimates together have no idea whether the
11 markets are going to be up, down or sideways
12 between now and the end of March and yet
13 they have estimates out there. So on a
14 day-by-day basis, inside the company, your
15 reviewing the progress of your business day
16 by day by day against your budget, against
17 the outside world's estimates and some days
18 the markets will be way up and you make lots
19 of money and you feel great. And some days
20 the markets are way down and you lose lots
21 of money and you feel awful.
22 So, on this particular day if you
23 look at the first line of the first e-mail
24 in the chain under "daily commentary," it
25 says, "Fixed income markets lost \$66

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1 Interview - CHARLES PRINCE
 2 million, \$100 million below forecast.
 3 Meaning that we for that day had hoped to
 4 make 166 million I guess, right? No, if we
 5 -- we hoped to make \$34 million that day,
 6 more or less, and instead we lost \$66
 7 million that day. All right? And then
 8 there are a series of sub-bullets below that
 9 which break to fixed income business down by
 10 components.
 11 And then you go down a little bit
 12 and you see the next heading is fixed income
 13 underwriting, gained \$2 million, but that is
 14 still 6.8 million below forecast. And then
 15 the next heading was equity markets made
 16 almost \$6 million, but that is still
 17 \$9 million below forecast. So, when you put
 18 the whole thing together -- is there a total
 19 at the bottom? I haven't read these in a
 20 long time. Here it is at the top.
 21 The revenue for August 2nd, day 2
 22 of 23 -- so we are measuring it for the
 23 month -- was a loss of \$49 million, 162
 24 million below forecast. Month to date
 25 revenue -- so again we are measuring how we

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1 Interview - CHARLES PRINCE
 2 are doing against the month's budget was a
 3 loss of twenty-five, two hundred fifty one
 4 below forecast.
 5 So, this is a daily snapshot that
 6 comes out. It came to, it comes to 10 or 11
 7 people, mostly in the corporate banking
 8 business and to a couple of us at
 9 headquarters. And Druskin got his and said
 10 these daily losses are awful; they are like
 11 water torture, meaning day after day after
 12 day. And I apparently sent back something
 13 saying that it wasn't worse than water
 14 torture. I can't recall exactly the context
 15 in which I said that, but it may be self
 16 evident.
 17 **Q In other words, this wasn't a**
 18 **typical time period in the market?**
 19 A Oh, for all I know, this is day
 20 two of 23 and there is a cumulative, for all
 21 I know week before that we made a bunch of
 22 money. So this is one snapshot on one day.
 23 **Q This is reacting to that**
 24 **particular point in time?**
 25 A Right.

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1 Interview - CHARLES PRINCE
 2 **Q But were you concerned about**
 3 **conditions more broadly than just that day**
 4 **in this August time frame here? Were you**
 5 **concerned more generally about the direction**
 6 **that the market was heading?**
 7 A Well, sure is the answer. But
 8 again I would ask you to put this in
 9 context.
 10 When we reported our results at
 11 the end of the second quarter -- so this is
 12 now mid-July, early July for the end of the
 13 second quarter, we reported both on a
 14 quarterly basis the second quarter and for
 15 the first six months of the year, the first
 16 and second quarters together, the best
 17 results in the company's 200-year history,
 18 the first quarter of 2007 -- first half of
 19 2007 was the best six months in the 200-year
 20 history of the company. This is now 30 days
 21 after we reported the results. So was I
 22 concerned about where the markets were
 23 heading? Sure. But the markets are
 24 typically slow in August.
 25 In hindsight of course it got

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1 Interview - CHARLES PRINCE
 2 much worse, but I am trying to recollect how
 3 I felt at that point in time. We were doing
 4 great in the first six months of the year.
 5 And in July we recorded those results, we
 6 had our annual off-site with the board in
 7 July. We as a group, as a company felt very
 8 good about where we were. And then August
 9 came, it was a little slow. Then in
 10 September the leveraged lending thing went a
 11 little more south on us, et cetera.
 12 So I would not see this even
 13 recalling it now, this is not a canary in a
 14 mine signalling some great calamity coming.
 15 It is daily report that Druskin and I both
 16 complained gosh, we had a bad day yesterday.
 17 **Q What was the, as you put it, the**
 18 **canary in the coal mine? What was it to you**
 19 **that you thought these aren't normal**
 20 **conditions, we are headed to awful times**
 21 **ahead?**
 22 A When the rating agencies collapsed.
 23 **Q That was the October time frame?**
 24 A Mid October.
 25 **Q 2007.**

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1 **Interview - CHARLES PRINCE**
2 **What in your view is the**
3 **significance of the rating agencies to the**
4 **overall financial crisis?**
5 A Well, I mentioned earlier an
6 overview that I have of the currency flows
7 and the artificially low interest rates, you
8 remember all that.
9 I think as part of that the
10 increase in structured products resulted in
11 an increase the complexity of financial
12 products almost by definition. The
13 structured products were more complex than
14 simpler products. And I think as investors
15 were looking for enhanced yields in an
16 artificially low yield environment and as
17 the industry created more structured
18 products to try to satisfy that demand, the
19 rating agencies performed an absolutely key
20 go, no-go, kind of role.
21 If the rating agencies hadn't
22 approved the products, hadn't certified them
23 as it were, people wouldn't have bought
24 them. The more complex the instruments are,
25 the more people rely on the ratings. And so

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1 **Interview - CHARLES PRINCE**
2 it is two sides of the same coin to say that
3 as products became more complex, ratings
4 became more important.
5 And as the industry grew in those
6 four, five years in the middle of the
7 decade, the structuring business grew, the
8 ratings became more and more and more
9 important. And that is why when the rating
10 agencies collapsed and downgraded, you know,
11 swathes of securities, not one, not one
12 grades, not two grades, but collapsed them
13 to junk bond status, it destroyed really, it
14 was the precipitating event in the financial
15 crisis.
16 **Q How much did Citigroup rely on**
17 **ratings for its own decisions with respect**
18 **to its for instance CDO holdings?**
19 A I don't know the answer to that.
20 I mean I wasn't involved in those decisions.
21 My belief is that the team did not rely
22 exclusively on the ratings, they didn't rely
23 primarily on the ratings because I think our
24 people were better than that. But I don't
25 know is the answer.

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1 **Interview - CHARLES PRINCE**
2 **Q Why is that your belief, though,**
3 **what is the basis for your belief to say**
4 **that you didn't believe your team relied**
5 **exclusively or primarily on ratings?**
6 A Salomon Brothers, Tom Maheras and
7 his team, were widely thought of as the best
8 fixed income house on Wall Street and had
9 been for a long time.
10 I was frequently told by the
11 regulatory agencies that David Bushnell was
12 the best risk manager on Wall Street. It
13 would have been inconceivable in that
14 circumstance for people with those levels of
15 experience and activity to primarily rely or
16 exclusively rely on some third party to do
17 their due diligence. It is inconceivable to
18 me that would be the case.
19 **Q In July of 2007, in an article**
20 **with the Financial Times, you were quoted as**
21 **saying, "When the music stops in terms of**
22 **liquidity, things will be complicated. But**
23 **as long as the music is playing, we have got**
24 **to get up and dance. We are still dancing."**
25 **What did you mean by that quote?**

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1 **Interview - CHARLES PRINCE**
2 A Well, I thank you at least for
3 the courtesy of using the entire quote. The
4 Financial Times likes that so much and
5 applies it so broadly that they don't put in
6 the first part about liquidity stopping and
7 being complicated.
8 This was a quote, or part of an
9 interview I gave in Japan, as I recall it,
10 to an FT reporter. And what I was referring
11 to was the leveraged lending business. And
12 you will recall that I said a couple of
13 times that in the summer of 2007, the
14 problem child focus in our corporate and
15 banking business was on leveraged lending.
16 Let me back up a step there.
17 In the leveraged lending
18 business, we and other members of Wall
19 Street had been in the business of lending
20 money to the private equity firms. And the
21 private equity firms had pushed the banks to
22 the point where the terms and conditions of
23 that lending were quite favorable to the
24 private equity firms and were quite
25 unfavorable for the banks. And all this has

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1 Interview - CHARLES PRINCE
2 been widely reported.
3 The -- and widely recorded in the
4 context of these were really quite unusual
5 circumstances for the banks to loan money to
6 the private equity firms on these kinds of
7 terms.
8 In talking about this private
9 equity lending business in the context of
10 this interview, what I was trying to convey
11 was the sense that for a number of reasons,
12 it was impossible, in my view, for any one
13 major participant on its own to stop doing
14 those kinds of loans. Nothing illegal about
15 these loans. The question was were they on
16 good terms for the lender, were they smart
17 for the lender to do? And it was my
18 judgment then and it is my judgment now that
19 it was impossible for any individual
20 institution to simply say I am not going to
21 to that anymore.
22 And of course if I had called my
23 counterparts at the other banks and said
24 let's all say we are not going to do it this
25 way, smart lawyers would have said you are

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1 Interview - CHARLES PRINCE
2 going to go to jail if you do that.
3 So, my notion was -- and I guess
4 it was either unartfully phrased or too
5 artfully phrased that as long as that
6 situation obtained, as long as the music was
7 playing, that you had to, you had to dance
8 to that music. You had to be part of that
9 activity level. Although, I did point out
10 that when this excess liquidity driven
11 situation for the industry changed, it would
12 be complicated. But this was, I want to
13 emphasize, this was all in the context of
14 the lending to the private equity firms. It
15 had nothing to do with the mortgage
16 business, it had nothing to do with what
17 turned out to be CDOs. That was not part of
18 my thinking or on the radar screen at all.
19 **Q Appreciate that clarification.**
20 **Something you said that struck me**
21 **as interesting again from the book that I**
22 **referenced earlier from Mr. Paulson.**
23 A You marked that up quite a bit,
24 those tabs.
25 **Q You should see my other books.**

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1 Interview - CHARLES PRINCE
2 **This is a reference on page 69 of**
3 **Secretary Paulson's book, and I do want you**
4 **to know I read other books beside Secretary**
5 **Paulson's books.**
6 MR. KARP: I see you read
7 Chairman Bernanke's books.
8 MR. BONDI: And other, and
9 others.
10 BY MR. BONDI:
11 **Q Secretary Paulson is referring to**
12 **an event, a dinner at the New York Fed in**
13 **June 26th of 2007. About a month or so**
14 **before this quote it seems like, June 26,**
15 **2007.**
16 **And he recounts this dinner, says**
17 **that you were present. Do you remember**
18 **being at a New York Fed dinner on June 26,**
19 **2007 with Secretary Paulson?**
20 A I don't remember the date, but it
21 was common for then Chairman Geithner of the
22 New York Fed to have dinners for the Wall
23 Street CEOs at which Secretary Paulson or
24 others would come.
25 **Q On the bottom of page 69, he**

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1 Interview - CHARLES PRINCE
2 writes, "Chuck Prince, the Citigroup CEO,
3 asked whether given the competitive
4 pressures there wasn't a role for regulators
5 to tamp down some of the riskier practices."
6 Basically, he asked, "Isn't there
7 something you can do to order us not to take
8 all these risks?" And he goes on to say,
9 "Not long after I remember Prince was quoted
10 as saying: As long as the music is playing,
11 you have got to get up and dance."
12 Do you remember expressing in
13 form or substance to Secretary Paulson this
14 question of isn't there something you can do
15 to order us not to take all these risks?
16 A Yes.
17 **Q Can you elaborate on the context**
18 **of that question?**
19 A I am not sure I understand your
20 question.
21 **Q What was your conversation that**
22 **you recall with Mr. Paulson about can't**
23 **regulators do something to prevent us from**
24 **taking all those risks? What was the**
25 **context of Mr. Paulson's quote of you and**

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1 Interview - CHARLES PRINCE
2 this conversation you had, do you recall
3 having a conversation to that nature?

4 A We were -- Geithner had organized
5 this dinner. And again I am not sure of the
6 exact date, so I am not -- I don't know
7 whether that was the date or not. But there
8 was a dinner in the summer of that year at
9 which almost all of the heads of the various
10 banking and security houses were present. I
11 was present, and Paulson was up to visit to
12 talk to people. It was part of his normal
13 outreach of staying connected with the
14 industry and so forth.

15 And in the course of that, there
16 was a discussion about the lending to the
17 private equity firms and how some of those
18 terms had, through a process of competition,
19 had gotten to a point where they were really
20 quite unfavorable for the lenders. And I
21 remember expressing my view in this group
22 context that none of us could individually
23 back away from that business for a number of
24 reasons, which I thought were important.
25 And that as a result -- and that we couldn't

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1 Interview - CHARLES PRINCE
2 production. I will represent that it
3 appears that this letter was sent, identical
4 letter was sent to multiple people. There
5 are two cover letters with this particular
6 exhibit; one is to Mr. Rubin and one is to
7 Mr. Thomas. And the letter is, it appears
8 to be signed by you.

9 First of all, do you recall
10 sending this letter on August 15, 2007?

11 A Well, you have just handed me
12 something and I haven't read it, but it
13 appears to be the monthly letter that I
14 would send to the board. That is why you
15 have two cover letters, because it would
16 have been sent, an identical letter would
17 have sent to each person on the board. And
18 I would typically send this along either
19 with the materials for the next upcoming
20 board meeting. Or if we didn't have a board
21 meeting coming up, I would simply send a
22 stand alone letter. And this was a practice
23 to find a way to give a little more of a
24 narrative or my thoughts about how the
25 company was doing to our board members

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1 Interview - CHARLES PRINCE
2 agree among ourselves not to do it. And
3 that I thought it was an appropriate role
4 for the regulators, since they recognized
5 this unfavorable situation for the banks and
6 the lenders and that the Fed directly and
7 the Treasury Department perhaps indirectly
8 had some oversight responsibility for the
9 industry, that since we couldn't do it
10 individually, we were prohibited from doing
11 it as a group, that given their mandates,
12 that they ought to consider directing us to
13 tighten up. And that was the context.

14 Q So again it was in the context of
15 leveraged lending?

16 A Yes.

17 Q Mr. Prince, I am showing you
18 another document that was produced by
19 Citigroup, Bates Citi FCIC 4648.

20 (Thereupon, the document Bates
21 Citi FCIC 2648 was marked CR Exhibit 7
22 for Identification, as of this date.)

23 A Yes.

24 Q And I note for the record that
25 there are two identical cover pages in this

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1 Interview - CHARLES PRINCE
2 because we sent them so much information for
3 their meetings that there was no overview or
4 there was no context. There wasn't enough
5 of a context, I was concerned.

6 So, I got into the habit of
7 saying you are going to get a big a stack of
8 materials, but before you read that, here's
9 a, how I am viewing the company and how we
10 are doing right now. That is the context
11 for these letters and this appears to be the
12 one I sent in August of '07.

13 Q Directing your attention up --
14 first before we to that, Mr. Thomas was a
15 member of the board?

16 A Yes.

17 Q And Mr. Rubin was a member of the
18 board, obviously?

19 A Yes.

20 Q Page two of the letter which is
21 Bates 4651, draw your to the paragraph that
22 is next to the heading Credit Markets.

23 A Yes.

24 Q And you state, "You have read a
25 great deal about the credit markets.

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Pages 126 to 129

1 Interview - CHARLES PRINCE
 2 **Whatever you have read, the reality is**
 3 **probably worse."**
 4 **And then you go on at the end of**
 5 **that paragraph to say it is a very difficult**
 6 **and dangerous situation with few historical**
 7 **precedence.**
 8 **What was on your mind in terms of**
 9 **this paragraph? And please read the entire**
 10 **paragraph. I have only drawn two sentences**
 11 **out of the paragraph. But what was your**
 12 **thinking, what was on your mind when you**
 13 **wrote that paragraph?**
 14 A Well, I am not sure I can
 15 reconstruct it except to say that I was
 16 trying to give a context for what they were
 17 reading in the papers. And, again, I don't
 18 have in mind exactly what was in the papers
 19 then. But it is clear as I read this
 20 paragraph that I was trying to give them a
 21 sense that as directors of the company,
 22 these are quite difficult issues, quite
 23 complicated issues.
 24 And at the time -- this is early
 25 August. At the time, my guess is that what

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1 Interview - CHARLES PRINCE
 2 was in the papers was probably not as -- it
 3 was probably mixed, as is often the case in
 4 the papers where you have some people saying
 5 it is going to be really bad or this could
 6 be quite difficult. And you have other
 7 people saying oh, it is a great buying
 8 opportunity and so forth.
 9 And what I was trying to give
 10 them was a sense that there is really, there
 11 are really issues here that we are looking
 12 at very carefully.
 13 **Q In the next paragraph, you state,**
 14 **"There are two basic credit issues facing**
 15 **the market. The leveraged lending problem**
 16 **and the subprime problem."**
 17 **Were these the two basic areas**
 18 **that you were focused on at the time that**
 19 **this letter was written in August 2007, that**
 20 **the leveraged lending problem and then the**
 21 **subprime problem?**
 22 A Well, I guess the short answer is
 23 I hope so. If I told the board these were
 24 the two issues, I would hope those were the
 25 ones I was focused on.

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1 Interview - CHARLES PRINCE
 2 As you go through it -- I am just
 3 sort of skimming the balance of the next
 4 couple of pages -- you can see that the
 5 first thing I talk with is leveraged
 6 lending. And I have got a couple of
 7 paragraphs on that. And then at the bottom
 8 of page three, I say, "We have exposures in
 9 both leveraged lending and to a more limited
 10 degree in the subprime area. We consciously
 11 did not originate these aggressive products,
 12 but did purchase some as part of portfolio
 13 acquisitions" and so forth.
 14 And so I think this is very
 15 consistent with what I told you earlier
 16 about in the summer, our primary focus was
 17 on the leveraged lending or the private
 18 equity lending kind of area. And only in a
 19 subordinate sense with what was happening in
 20 the mortgage markets and there my belief was
 21 that we didn't have as much exposure.
 22 **Q And this was belief because you**
 23 **were not aware at the time of the super**
 24 **senior positions?**
 25 A And frankly, if I had been aware

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1 Interview - CHARLES PRINCE
 2 of the super senior -- the short is yes,
 3 that is correct. If I had been aware, there
 4 is nothing about the super seniors at that
 5 point in time which would have suggested to
 6 anyone including me that we would have had a
 7 big loss from this.
 8 **Q At the time you wrote this**
 9 **letter, you also weren't aware of the**
 10 **liquidity puts and the exposure from the**
 11 **liquidity puts?**
 12 A That is correct.
 13 **Q We talked about earlier this twin**
 14 **storms presentation that was sent to you on**
 15 **e-mail on July 30, 2007.**
 16 A Yes.
 17 **Q That seems to have been a couple**
 18 **weeks before this letter to the board of**
 19 **August 15, 2007. The twin storms**
 20 **presentation that had been sent to you two**
 21 **weeks earlier on e-mail refers to industry**
 22 **losses and CDOs of 50 to a hundred billion**
 23 **dollars.**
 24 **I didn't notice anywhere in the**
 25 **letter to the board that you mentioned CDOs**

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1 **Interview - CHARLES PRINCE**
2 **or exposure to CDOs. Why not?**

3 A Well, again, I doubt if I had in
4 mind that we had any CDOs at all or any CDO
5 exposure at all. I think the closest you
6 get to that is on the bottom of page three,
7 that last paragraph there. And again I
8 think this pretty accurately reflects my
9 thinking at the time. I was always very
10 candid with the board. The worse thing you
11 can do is try to not tell them things. And
12 I wanted them to have my thinking as they
13 got ready for our board meeting so that when
14 they showed up, they at least understood how
15 I viewed the issues. And I think this is a
16 pretty good, pretty accurate, pretty candid
17 summary of how I viewed the problem in
18 whatever date this was, mid August.

19 **Q You were chairman of the board at**
20 **the time you wrote this letter?**

21 A I was.

22 **Q Just to be complete for the**
23 **record, the paragraph that you referred to**
24 **on the bottom of page three, I will just**
25 **read it for the record so it is complete,**

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1 **Interview - CHARLES PRINCE**
2 **purchased some as part of the portfolio**
3 **acquisitions." What was your basis to say**
4 **that we, for that statement we did purchase**
5 **some as part of portfolio acquisitions?**

6 A I think it is important to -- in
7 answering your question I think it is very
8 important to understand the way this
9 parenthetical is constructed, please.

10 **Q Please.**

11 A I am going to paraphrase it, if I
12 may. We didn't originate these products in
13 our U.S. consumer business but did purchase
14 some as part of portfolio acquisitions.
15 That is all referring to the U.S. consumer
16 business. And then I turned to capital
17 markets and banking. And in our corporate
18 business, we did underwrite mortgage backed
19 securities, et cetera, et cetera, et cetera,
20 right?

21 So when you referred to purchase
22 some as part of the portfolio acquisitions,
23 that was still in our consumer business.
24 That had nothing to do with the fixed income
25 business.

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1 **Interview - CHARLES PRINCE**
2 **you said, you wrote, "We have exposures in**
3 **both leveraged lending and to a more limited**
4 **degree in the subprime area. (We**
5 **consciously did not originate these**
6 **aggressive products in our U.S. consumer**
7 **group, but did purchase some as part of**
8 **portfolio acquisitions and, in CMB, we did**
9 **underwrite mortgage backed securities**
10 **representing subprime products originated by**
11 **others.)"**

12 A Close paren, period. Sorry.

13 **Q Oh, yes, close paren period.**
14 **Yes, sir.**

15 A Old lawyers never die. I am
16 sorry.

17 **Q I just wanted to be complete that**
18 **we got that.**

19 A Yes.

20 **Q What was your basis, though,**
21 **because earlier -- I am just trying to**
22 **understand.**

23 **Earlier you had testified that**
24 **you weren't aware of the super senior**
25 **positions, but here you did write, "We**

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1 Interview - CHARLES PRINCE

2 **Q I see?**

3 A I am sorry to be very specific,
4 but you have to read the sentence very
5 carefully that way.

6 **Q I appreciate the clarification**
7 **and I am glad that you pointed that out.**

8 **So that part, the some as part of**
9 **our portfolio acquisitions had nothing to do**
10 **with CMB or fixed income?**

11 A Right. That was our retail
12 mortgage business which bought all kinds of
13 mortgages and almost always sold them to
14 Fannie and Freddie as part of that whole
15 flow of the mortgage business nationally.

16 **Q Appreciate that. Thank you.**

17 MR. BONDI: Let me mark this
18 eight.

19 (Thereupon, the e-mail chain
20 Bates marked Citi FCIC E 36374 was
21 marked CR Exhibit 8 for
22 Identification, as of this date.)

23 BY MR. BONDI:

24 **Q Mr. Prince, I am showing you what**
25 **was produced by Citigroup and marked Citi**

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1 Interview - CHARLES PRINCE
2 **FCIC E 36374. It is an e-mail chain between**
3 **yourself and Mr. Rubin. And I would like to**
4 **first direct your attention to the first**
5 **e-mail in this chain. At the bottom is one**
6 **from yourself to Mr. Rubin dated Sunday**
7 **September 9th where you begin with "Dear**
8 **Bob, welcome back from Korea."**
9 A Uh-huh.
10 **Q There is a section that says a**
11 **question regarding rescheduling.**
12 A Uh-huh.
13 **Q And the first star says, "Had**
14 **good first meeting with Tom Maheras," et**
15 **cetera, "re: CMB results."**
16 **What are you referring to about**
17 **"good first meeting" there?**
18 A The context of this e-mail chain
19 is that I had set up these meetings, which
20 started as a Tom, I want you and your folks
21 to come and explain to me exactly what the
22 situation is with these securities. I
23 understand your point of view on them, but I
24 want to understand the detail of them very
25 carefully.

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1 Interview - CHARLES PRINCE
2 That eventually migrated from a
3 one or two or three sets of meetings to
4 becoming almost a daily update on the
5 markets. But this was at the beginning of
6 the: I want to understand much more
7 carefully than your representation of what
8 is going on here.
9 And what I am doing here in this
10 bottom e-mail is telling Bob who was in
11 Korea for the first meeting apparently, that
12 we had a good first meeting and I would like
13 to schedule two more follow-ups before our
14 board meeting. And so Bob, what is your
15 schedule like? Druskin is in this place,
16 that place. I want to do it on Wednesday.
17 Can you make the second meeting we are
18 having with Tom and his people?
19 **Q Just so I'm clear, what prompted**
20 **your desire to have a greater understanding**
21 **about this business and schedule these**
22 **meetings? What was the precipitating event**
23 **or events?**
24 A I think I said earlier that in
25 the time frame of the September into

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1 Interview - CHARLES PRINCE
2 October, I began to be more uncomfortable
3 with Tom's representations on these issues
4 and began to press him more on these and to
5 inquire into more and to say I want
6 understand this better. I want to be much
7 more detailed about this and so forth.
8 This would have been in the
9 context of him mentioning at that Business
10 Heads meeting I mentioned to you. And so
11 that was the context in which I shifted
12 focus from the private equity lending and
13 said okay, I want to really look at this
14 much more carefully. That is how these came
15 about.
16 **Q Were these meetings held in the**
17 **library outside your office?**
18 A The first couple of them were.
19 Then we had one or two that were downtown
20 where that business is located so that we
21 didn't -- we wanted to have a broader group
22 of people. So if Maheras wanted to bring
23 six or seven of his people, instead of
24 having them all traipse uptown, the three or
25 four of would go downtown. I wanted to see

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1 Interview - CHARLES PRINCE
2 them in person, judge them in that way. And
3 then after a while we began to do them on
4 the telephone as we were more monitoring
5 market activities.
6 **Q Do you recall Mr. Maheras at this**
7 **first meeting quantifying the exposure to**
8 **Citigroup associated with CDOs?**
9 A You mean from a position?
10 **Q Yes, sir.**
11 A I don't remember. I don't know
12 whether he did or not is what I am saying.
13 **Q The next e-mail up is a response**
14 **from Mr. Rubin to you dated also**
15 **September 9th, 2007.**
16 **And he says, "According to Lou,**
17 **Tom never did provide on on clear and direct**
18 **answer on the super seniors. If that is so,**
19 **and the meeting did not bring that to on on**
20 **head, isn't that deeply troubling not as to**
21 **what happened -- that is a different**
22 **question that is also troubling, but as to**
23 **providing full and clear information and**
24 **analysis now?"**
25 **What do you understand Mr. Rubin**

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1 **Interview - CHARLES PRINCE**
2 **to have meant by those statements?**

3 A He was reflecting, apparently, on
4 comments from Lou Kaden who was in the
5 meeting and who had worked with Bob Rubin
6 for many, many, many years.

7 Apparently, Kaden had talked to
8 Rubin after the first meeting that Rubin was
9 not in and had said to Rubin that -- I am
10 just, based on what Bob says here, Kaden
11 must have said that Maheras wasn't a hundred
12 percent forthcoming or something like that.
13 And Bob was reflecting that comment, Kaden's
14 comment to Rubin, back to me.

15 **Q Did you share that belief that**
16 **Mr. Maheras was not forthcoming?**

17 A Well, the top of the e-mail chain
18 is my response to Rubin, so that really is
19 how I reflected that, how I reacted to that
20 comment.

21 **Q For the record you responded, "I**
22 **thought for first meeting it was good. We**
23 **weren't trying to get final answers, so I**
24 **didn't see Tom avoid any questions. Also,**
25 **want more back channel with Dave B and he**

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1 Interview - CHARLES PRINCE
2 that because he was obviously traveling.

3 **Q Did you ultimately have these as**
4 **you described it back channel conversations**
5 **with David Bushnell?**

6 A Yes.

7 **Q And can you tell me what those**
8 **conversations entailed? What did you ask**
9 **and what did he say?**

10 A Again, I testified briefly, but
11 I'll do it in more detail.

12 Throughout this period, it was a
13 continuum, it was an evolving process in
14 which the outside environment suggested that
15 the CDO market or the CDO securities, that
16 the water level would rise on these tranches
17 and that the lowest level would be hit and
18 then well maybe the next level might be hit.
19 And maybe then the next level might be hit.
20 And throughout that whole process, Tom in
21 mid September some time said well, we have
22 got some of these super seniors up here, but
23 they will be a hundred percent fine.

24 And as figuratively the water
25 level was rising, I began to be more

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1 **Interview - CHARLES PRINCE**
2 **was only on phone for Friday."**

3 **First of all I best, what do you**
4 **mean by we weren't trying to get final**
5 **answers, final answers for what?**

6 A Well, for, you know, we were
7 examining what was going on with these
8 positions and so forth. We were examining
9 Tom's view of the positions, his judgments
10 on the positions. And my view was that at
11 that first meeting to do that, we had had a
12 good first meeting. Apparently Kaden
13 thought we didn't have a good first meeting.
14 But I thought for -- it wasn't a once and
15 only meeting. It was the start of a
16 process. And I thought for that first
17 meeting it was a good meeting and my back
18 channel reference to Dave B, which is David
19 Bushnell, was I wanted to have private
20 conversations with David, not in front of
21 people. But I wanted to say now David
22 without anybody else in the room, tell me
23 how you feel about this. That is what I
24 meant by back channel conversations with
25 David. And I had not had a chance to do

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1 Interview - CHARLES PRINCE
2 concerned about that. And as I said earlier
3 in a figurative sense Tom Maheras and Randy
4 Barker were figuratively at one end of a
5 table and Gary Crittenden and Dave Bushnell
6 were figuratively at the other end of a
7 table with Maheras and Barker saying you are
8 never going to lose a penny. These are
9 structured in a way that no matter how high
10 the water level gets, it is not going touch
11 these super seniors.

12 And Gary and David were saying we
13 ought to be pretty cautious about this. I
14 don't know. I don't know about that. We
15 ought to think about that. That was the
16 context. And so my conversations with David
17 fit into that context. I would say well
18 David, Maheras says X; what do you think
19 about that? How do you think about this
20 index deteriorating from so forth to so
21 forth? And so but those are the context of
22 the discussions.

23 **Q And what was Mr. Bushnell saying**
24 **to you in response to those back channel**
25 **conversations?**

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1 **Interview - CHARLES PRINCE**
2 A What I can't do, unfortunately,
3 is I can't disaggregate what happened in day
4 by day sense. This was a period of time of
5 no more than 30 days. Maybe less, maybe it
6 was three weeks. It was very intensive. It
7 was not the only issue that we were dealing
8 with for the company. And so I can't, I
9 didn't keep a diary, I don't have any way of
10 saying well this on date David said this and
11 then the next day he said that. And on that
12 date Maheras said this versus that, I can't,
13 I can't disaggregate any of that.
14 (Thereupon, the Power Point
15 deck Bates marked FCIC 99654 was
16 marked CR Exhibit 9 for
17 Identification, as of this date.)
18 **Q Mr. Prince, I am showing you what**
19 **has been produced by Citigroup Bates Citi**
20 **FCIC 99654 and it appears to be a Power**
21 **Point deck CEO discussion on global credit**
22 **markets dated September 12, 2007. Do you**
23 **recall ever seeing this document?**
24 A I have clearly seen it in
25 preparation. And I remember being surprised

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1 Interview - CHARLES PRINCE
2 because of the cover which says CEO
3 discussion. Because I never made any kind
4 of presentation that even looked like this
5 and then I realized it was somebody
6 presenting to me.
7 I have a vague recollection of
8 the document, but I am very clear that
9 whether it was this document or something
10 like this document, this kind of information
11 would have been presented to me in about
12 that time frame.
13 **Q Do you recall having a meeting on**
14 **or about Wednesday, September 12, 2007, in**
15 **the library outside your office with Mr.**
16 **Maheras and Mr. Barker and Mr. Bushnell and**
17 **others?**
18 A I am sure that happened and I am
19 sure that was one of the meetings that I
20 referred to in my previous answer.
21 **Q I would like to draw your**
22 **attention, sir, to the page 99657.**
23 A Yes.
24 **Q And it is entitled Global Credit**
25 **Trading.**

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1 **Interview - CHARLES PRINCE**
2 **What is meant by global credit**
3 **trading?**
4 A That would have been the
5 reference to that part of the business that
6 was involved, what we would call fixed
7 income.
8 **Q Fixed income?**
9 A Yes.
10 **Q There is a heading called what**
11 **Happened in July and August?**
12 A Yes.
13 **Q And there is a bullet that says**
14 **"poor risk management and balance sheet**
15 **management."**
16 **What do you understand by that**
17 **statement, poor risk management and balance**
18 **sheet management?**
19 A What I think they meant by that
20 was -- because the subsequent sub bullet
21 says note that no limits were breached. So,
22 it is not -- it is a little bit of, in my
23 view, the senior people in the business
24 saying the junior people shouldn't have had
25 these positions.

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1 Interview - CHARLES PRINCE
2 **Q Who were the senior people you**
3 **are referring to and who were the junior**
4 **people?**
5 A Maheras and Barker were the
6 senior people and you can see a couple lines
7 below that, it says "invoked complete
8 overall of trading management" and it
9 mentions three names of people who are,
10 quote, gone.
11 **Q Those names Higgins, Pichler and**
12 **Choi, who are these people?**
13 A I have no idea.
14 MS. BUERGEL: Just understand,
15 Mr. Prince gave his understanding of
16 what global trading credit was. That
17 actually was a subset of the fixed
18 income business run by Mr. Higgins and
19 Mr. Pichler. It was a very specific
20 trading desk known as global credit
21 trading. So, this slide actually
22 refers to that business which was not
23 the CDO business and not the leveraged
24 lending business, but a separate
25 trading operation.

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1 Interview - CHARLES PRINCE
2 THE WITNESS: Uh-huh, okay,
3 thank you.
4 MS. BUERGEL: It also, if you
5 look at the third quarter Q, took
6 significant losses in the third
7 quarter.
8 BY MR. BONDI:
9 **Q If you will flip the page to the**
10 **next page, sir.**
11 A Yes.
12 **Q Titled This Page is Global**
13 **Structured Credit.**
14 A Uh-huh.
15 **Q Global structured credit is the**
16 **CDO business within global structured**
17 **credit?**
18 A Well subject to my counsel's
19 better thinking, I think so.
20 **Q The first bullet talks about the**
21 **CDO market experienced extremely high growth**
22 **rate over the last three years, about the**
23 **volumes increased 95 percent from 2005 to**
24 **2006. And then the next bullet I want to**
25 **draw your attention to, "Citi consistently**

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1 **Interview - CHARLES PRINCE**
2 **ranked number one or two in the overall CDO**
3 **business."**
4 **Were you aware of Citi's**
5 **approximate rating as compared to its**
6 **competitors in the CDO business through your**
7 **tenure as CEO? Is that something that would**
8 **have been on your radar, that Citi was**
9 **ranked number one or number two?**
10 A No. The CDO business was a
11 product deep inside our fixed income
12 business, and we would have measured our
13 fixed income business three or four ways
14 competitively. But we wouldn't have gone
15 down to that lower level in terms of product
16 activity in terms of what came to me or
17 senior management.
18 **Q From 2003 up until September 2007,**
19 **would people in the business meeting have**
20 **said to you along the lines of: Our CDO**
21 **business is getting a lot bigger or we are**
22 **getting a lot better? Is that something**
23 **that would have come up at Business Heads**
24 **meeting with you?**
25 A Too small.

151

1 Interview - CHARLES PRINCE
2 **Q And the next, the next bullet**
3 **says: "Deal volume grew 50 percent from**
4 **2005 to 2006 with a 30 percent increase in**
5 **revenues."**
6 **Is that something you of that**
7 **known prior to September 12, 2007, that the**
8 **deal volume grew 50 percent from '05 to '06**
9 **with a 30 percent increase in revenues?**
10 A Too small.
11 **Q You indicate that that business**
12 **was too small.**
13 A To be reported on it at that
14 senior level.
15 **Q To be reported to you at a senior**
16 **level.**
17 **But it ultimately caused some**
18 **significant losses to Citigroup.**
19 A Correct.
20 **Q In retrospect, should the CDO**
21 **business and its operations have been**
22 **elevated up to your level prior to**
23 **September 2007?**
24 A Well, that is obviously a
25 fundamental question.

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1 Interview - CHARLES PRINCE
2 I think that you would have to
3 ask it in a slightly broader way.
4 If someone had elevated to my
5 level that we were putting on a \$2 trillion
6 balance sheet, \$40 billion of triple A
7 rated, zero risk paper, that would not in
8 any way have excited my attention.
9 So, the simple question of should
10 I have been told about that business, if I
11 may, that question by itself doesn't lead
12 anywhere. What has to happen is that there
13 has to be a way for risk professionals going
14 forward to think about the possibility of
15 risk in ways which are useful. In other
16 words, it is not useful for -- it wouldn't
17 have been useful for someone to come to me
18 and say now, we have got \$2 trillion on the
19 balance sheet of assets. I want to point
20 out to you there is a one in a billion
21 chance that this \$40 billion could go south.
22 That would not have been useful information.
23 There is nothing I can do with that because
24 there is that level of chance on everything.
25 It turned out that the

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1 Interview - CHARLES PRINCE
 2 possibility of risk for these assets was not
 3 understood. So, people would have had to
 4 give me information not only about the
 5 position, but about the risk characteristics
 6 which information would have been useful to
 7 me.
 8 So I am sorry to give you a long
 9 answer, but simply telling me that our
 10 volume grew from X to Y wouldn't have really
 11 told me anything. And in fact, the proof of
 12 that is that as late as middle October, Tom
 13 Maheras -- best fixed income guy on Wall
 14 Street -- was telling me you are never going
 15 to lose a penny on these instruments.
 16 So, if somebody had come to me in
 17 September and said now don't forget you
 18 got... it wouldn't have made any difference.
 19 **Q There is a section on that same**
 20 **page, it says Lessons Learned. The second**
 21 **bullet says, in quotes, "Market standard"**
 22 **end quote, "Warehouse agreements were not**
 23 **robust. Practical limitations in our**
 24 **ability to enforce them." What does that**
 25 **mean?**

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1 Interview - CHARLES PRINCE
 2 A What I think that means -- and I
 3 am not a hundred percent sure, so I am going
 4 to give you my best thought on it.
 5 What I think that means is that
 6 the warehouse means that we -- as I have
 7 understood subsequently, we get mortgages
 8 and put them in sort of a holding pen, a
 9 warehouse as it were. And then from that
 10 warehouse of mortgages, create structured
 11 products. And that the market standard
 12 warehouse agreements in hindsight were not
 13 as creditor lender bank friendly as they
 14 should have been.
 15 So the ability to say to an
 16 originator, we are going to give you back
 17 the mortgages; we are not going to keep them
 18 in our warehouse; we are not going to sell
 19 them out to the market; we are going to put
 20 them back to you, those agreements were not
 21 as, quote, robust, didn't have lender
 22 friendly enough standards.
 23 And practical limitations on our
 24 ability to enforce them, which I think
 25 refers to the fact that if the originator

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1 Interview - CHARLES PRINCE
 2 goes bankrupt, then you don't have anybody
 3 to put them back even if your agreements say
 4 if they don't meet these standards, I can
 5 give them back. I think that is what that
 6 sentence means.
 7 **Q The next bullet says,**
 8 **"Implemented significant changes to risk**
 9 **management in January; i.e., Donald Quinton**
 10 **in CDO business and Mickey Batia in ABS**
 11 **correlation," end of paren. Dash, "However,**
 12 **not completely built out by time of market**
 13 **disruption."**
 14 **What do you understand to be**
 15 **meant by that bullet?**
 16 A I don't know who the people are.
 17 I think this falls under the heading of the
 18 more senior people, Maheras and Barker,
 19 saying we have changed the people. But them
 20 saying -- as they did on the previous page.
 21 But them saying here: We were caught in
 22 between making the change, I didn't and
 23 still don't put much stock in that sentence
 24 having much relationship to anything.
 25 **Q Next bullet, "Business model not**

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1 Interview - CHARLES PRINCE
 2 **well diversified," dash "too much reliance**
 3 **on one asset class. One of the primary**
 4 **initiatives for 2007 was to increase mix of**
 5 **asset classes-consummated in time."**
 6 **What do you understand, sir, to**
 7 **be meant by that bullet point?**
 8 A I don't know what that means. I
 9 mean I can read the words, but I don't
 10 understand it in this context.
 11 **Q And two pages later, Bates**
 12 **numbered 99660, titled Lessons Learned/**
 13 **Opportunities Under Global Structured**
 14 **Credit, talks about, there is a bullet that**
 15 **says, "Redeployment of resources. Time**
 16 **frame within six weeks."**
 17 **What was being done there or what**
 18 **was being contemplated there?**
 19 A I don't remember. I remember
 20 actually in this meeting them saying we are
 21 going to do something in the next weeks. I
 22 frankly can't remember what it was and of
 23 course in hindsight whatever it was it
 24 didn't make much difference. But I don't
 25 remember what it was. I am sure the people

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1 Interview - CHARLES PRINCE
 2 who put it together can tell you, but I
 3 don't.
 4 **Q And last question on this one, it**
 5 **says, "Redefine constraints and structures**
 6 **with risk management."**
 7 **What do you understand by that**
 8 **bullet?**
 9 A I think it relates to the first
 10 bullet, which says, "Focused on resizing
 11 given revenue opportunities."
 12 What they were saying here was
 13 that the structured business is going to be
 14 significantly smaller. They thought it was
 15 going to be still meaningful but much
 16 smaller than it had been. Turned out, of
 17 course, there isn't any structured business.
 18 And I think what they said was that given
 19 this smaller size, we are going to resize
 20 this, meaning we are going to get rid of
 21 people and make it a smaller business and so
 22 forth. And I think that in that context
 23 they were saying: And risk limits will
 24 shrink correspondingly with a smaller size
 25 of the business.

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1 Interview - CHARLES PRINCE
 2 **Q Okay. If I may do one more**
 3 **document before we take a break for lunch.**
 4 **(Thereupon, the e-mail chain**
 5 **Bates Citi FCIC E 31582 was marked CR**
 6 **Exhibit 10 for Identification, as of**
 7 **this date.)**
 8 BY MR. BONDI:
 9 **Q Mr. Prince, I showing you what**
 10 **has been produced by Citigroup and it is**
 11 **Bates Citi FCIC E 31582.**
 12 A Uh-huh.
 13 **Q It is an e-mail chain. The**
 14 **bottom e-mail says "from CEO's office corp."**
 15 A Uh-huh.
 16 **Q To, it appears to be Mr.**
 17 **Crittenden and cc yourself dated**
 18 **September 26, 2007.**
 19 A Right.
 20 **Q First, what does this CEO's**
 21 **office corp. mean? Is that an e-mail that**
 22 **you would have sent out?**
 23 A Took me a while to figure this
 24 out myself. Here are the, here's the
 25 Rosetta Stone to figure this out.

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1 Interview - CHARLES PRINCE
 2 In the line you just referred to,
 3 in the bracket, at the end of it it says
 4 "Corporate HQ UTC dot-com." See that?
 5 **Q Yes?**
 6 A The very long bottom of it says
 7 "see you then, George." Do you see that.
 8 **Q Yes.**
 9 A This is George David, a board
 10 member, who was the CEO or chairman of the
 11 UTC Corporation at the time. So he had sent
 12 something to Gary Crittenden and copying me
 13 either in anticipation of a board meeting or
 14 after a board hearing. But it took me a
 15 little while to figure this out.
 16 **Q Do you understand this e-mail**
 17 **seems to be focused on CDOs?**
 18 A Let me read it again. I am
 19 sorry.
 20 Well, as I read it, it seems to
 21 me he is talking about most of the things
 22 that are in the corporate investment bank.
 23 So he talks about the warehouse, he talks
 24 about CDOs, he talks about leveraged lending
 25 commitments, and he talks about trading

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1 Interview - CHARLES PRINCE
 2 inventories of fixed income securities. So
 3 CDO is part of what he is talking about, but
 4 not all of what he is talking about.
 5 **Q I want to direct your attention**
 6 **to a statement that he makes in the bottom**
 7 **of the first paragraph there. It says, "The**
 8 **rate spikes of the last three to four months**
 9 **(and associated liquidity), were the three**
 10 **or four Six Sigma event. So the question is**
 11 **whether-how our models missed this.**
 12 **Alternatively, are our models too specific**
 13 **to individual businesses and/or exposures**
 14 **such that they don't encompass the big/rare**
 15 **event affecting the big/combined warehouse**
 16 **as outlined here."**
 17 A Uh-huh.
 18 **Q What do you understand to be Mr.**
 19 **David meaning by these three sentences?**
 20 A George ran UTC, and United
 21 Technologies Corporation is a business, as
 22 are many manufacturing businesses, built on
 23 the concept of Six Sigma. While I don't
 24 understand it completely, my understanding
 25 is that Six Sigma relates to a manufacturing

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1 Interview - CHARLES PRINCE
2 process in which you try to minimize defects
3 in the manufacturing process to a very, very
4 small degree.
5 George always thought that it was
6 a useful thing to try to apply the notion of
7 how you manage screwing cars together to the
8 banking business. And so he would say:
9 Your lending doesn't meet a Six Sigma level
10 of activity. I never could quite figure
11 that out, honestly. And so as I read these
12 two sentences, he seemed to be saying that
13 there was a three or four Six Sigma event,
14 whatever that is, and the question is how
15 our models missed this, et cetera, et
16 cetera.
17 And I think he was expressing in
18 language that would be consistent with a
19 manufacturing business the same, in some
20 ways the same concept I mentioned just a
21 moment ago that risk has to think about how
22 to provide risk judgments on what he would
23 call a three or four Sigma event; in other
24 words, a very unusual kind of event. So
25 that is what I understand him to be saying.

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1 Interview - CHARLES PRINCE
2 **Q As you sit here today, you don't**
3 **know what that three or four Six Sigma event**
4 **means?**
5 A Six Sigma refers to frequency.
6 Six Sigma is supposed to be the ultimate,
7 you know, one in a million or one in a
8 billion or something. And three or four
9 must be getting close to that level.
10 It is a bad analogy. I analogize
11 it to the Richter scale. A ten on the
12 Richter scale was the biggest earthquake
13 ever. This may be a three or four, meaning
14 it is a larger rather than a smaller one.
15 But I don't really understand Six Sigma. I
16 am sorry.
17 **Q In the sentence he says,**
18 **"Alternatively, are our models too specific**
19 **to individual businesses and/or exposures**
20 **such that they don't encompass the big/rare**
21 **event affecting the big/combined warehouse**
22 **as outlined here. What did you understand**
23 **by that sentence?**
24 A What I think he meant by that --
25 and again I'm guessing a little bit. But

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1 Interview - CHARLES PRINCE
2 what I think he meant by that was do our
3 risk models measure businesses at a small
4 individual level without aggregating.
5 So you could have a situation,
6 for example, where we had real estate
7 exposure in four or five parts of our
8 business and because we measured each of
9 those risks individually, each of the risks
10 would seem smaller. But if you step back a
11 little bit and you say well, wait a minute,
12 you actually got real estate risk in four or
13 five pockets, when you put the four or five
14 pockets together in an aggregate base, it is
15 a much bigger number.
16 That is not what happened here.
17 We didn't have significant damage from four
18 or five parts of the business individually
19 which were small but when you aggregated
20 them they were big, that didn't happen here.
21 What happened was a very small
22 part of the business that had enormous
23 consequences. So his question, which is a
24 perfectly appropriate question, was are
25 your, are your risk models, do they

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1 Interview - CHARLES PRINCE
2 aggregate disparate risks across the
3 company -- perfectly appropriate question --
4 was not pertinent to what actually turned
5 out to be the case here.
6 **Q The e-mail above that from a**
7 **woman named Karen Lowely (phonetic) to you.**
8 **And she says, "I gave this to GC would said**
9 **it was a DB issue. Dave called to say he is**
10 **available to fill you in on this once you**
11 **return." I assume DB is David Bushnell.**
12 A Yes.
13 **Q And the Dave referred to here is**
14 **David Bushnell?**
15 A Yes.
16 **Q GC is that Michael Helfer?**
17 A Gary Crittenden. Karen Lowely
18 was my assistant, so she saw this come in,
19 saw my e-mail. I was tied up obviously,
20 apparently. And she said to me by e-mail:
21 I gave this to Gary Crittenden, and Gary
22 said it was Bushnell's issue and Bushnell
23 called to say he can talk to me when I went
24 I want. And my e-mail back was tell him to
25 be prepared to join the 4:30 meeting. We

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1 Interview - CHARLES PRINCE
2 must have had a meeting with George David.
3 **Q You indicate for your assistant**
4 **to tell him to be prepared, he meaning David**
5 **Bushnell, to be prepared to respond.**
6 A Right.
7 **Q Did Mr. Bushnell respond to**
8 **George David's concerns about the three or**
9 **Six Sigma event not being caught by the**
10 **models?**
11 A I can only assume so in the 4:30
12 meeting orally. I don't remember being -- I
13 don't remember this. I mean you showed it
14 to me, but don't have an independent
15 recollection of it. I don't remember any
16 back and forth.
17 **Q Do you recall anything about what**
18 **Mr. Bushnell might have said at this 4:30**
19 **meeting concerning the models?**
20 A No.
21 **Q Before we go off record, I**
22 **understand there might be a scheduling**
23 **issue. Do you have a hard stop today, sir?**
24 A Well, I guess I would just like
25 to understand how long we are going to go or
166

1 Interview - CHARLES PRINCE
2 what your thoughts are about that. I have
3 some things scheduled in sort of the late
4 afternoon time frame.
5 MR. BONDI: I think hopefully
6 we will be finished by four, if that
7 is sufficient by your schedule.
8 THE WITNESS: That would be a
9 little late, but I will certainly
10 accommodate that. I will make some
11 changes during the break.
12 MR. BONDI: I will try my best
13 to finish earlier.
14 THE WITNESS: Of course. And I
15 will try to give you yes or no
16 answers. How is that?
17 MR. BONDI: No, I want you to
18 give full and complete answers. We
19 are a fact finding commission here, so
20 full and complete answers, please.
21 Why don't we take a brief lunch break?
22 (Lunch recess.)
23 BY MR. BONDI:
24 **Q Mr. Prince, you described how Mr.**
25 **Maheras and Mr. Barker expressed that they**
167

1 **Interview - CHARLES PRINCE**
2 **didn't believe that there was any prospect**
3 **of loss in the CDOs in September of 2007.**
4 A The super senior.
5 **Q Super senior CDOs, excuse me.**
6 **What was Mr. Crittenden's view of**
7 **that in September 2007?**
8 A I already said, I think he was
9 cautious about that. I described a couple
10 times the figurative notion that Randy and
11 Tom were at one end of a figurative table.
12 It was actually a round table. But
13 figuratively, and that David and Gary were
14 figuratively at the other end of the table
15 expressing caution about them.
16 **Q You described in detail earlier**
17 **about when you first learned and had an**
18 **understanding of the CDOs and the positions**
19 **associated with those CDOs.**
20 **But my question is: Who should**
21 **have in your mind prior to the events that**
22 **we have been discussing in the fall of 2007,**
23 **who prior to those events do you believe**
24 **should have had an understanding of the**
25 **positions that were being taken with respect**
168

1 **Interview - CHARLES PRINCE**
2 **to super senior tranches on CDOs?**
3 A I believe that people at various
4 levels of the management chain were aware of
5 this, that is to say I don't believe that
6 there was at certain levels of the
7 organization any surprise that we had these
8 positions. Whether it was the person on the
9 desk itself or his or her manager, and those
10 people led up in a management chain
11 eventually to Randy Barker.
12 I don't know whether this product
13 was a significant enough product before the
14 September, October time frame, was seen to
15 be significant a product that it would have
16 gotten to Randy's attention. I don't know
17 the answer to that.
18 My guess is it would not having
19 been significant enough to be on Maheras's
20 radar screen. I am not sure whether it
21 would have been for Barker. But below that
22 one, two, three layers below that, I am sure
23 that it was at the right level.
24 The question that you are asking
25 I think really is in hindsight, given what
169

1 Interview - CHARLES PRINCE
2 has happened to this, even though it was a
3 very small position in an absolute sense, in
4 a relative sense, what should have been
5 known about this, who should have known
6 about this, and I think that if there had
7 been any inkling, any suggestion that \$40
8 billion of assets could go to zero, that we
9 wouldn't have had those positions.
10 And so the risk infrastructure,
11 even though in hindsight we had these
12 horrible problems, the risk infrastructure
13 was quite robust. Hundreds and hundreds and
14 hundreds of risk officers, very detailed
15 risk limits. We had a number of regulators
16 embedded into the organization. It was a
17 pretty transparent place as it related to
18 taking on risk.
19 In hindsight, the problem was
20 that no one thought that these were risky.
21 So, if I may, your question of who should
22 have known about these, as I said earlier in
23 my case, simply knowing about them wouldn't
24 have done anything. One would have had to
25 know about them and to have thought about

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1 Interview - CHARLES PRINCE
2 them in a way that no one was thinking about
3 them.
4 On a going forward basis, how
5 that is accomplished, not only the knowledge
6 but the character of the knowledge, I don't
7 know the answer to that. The risk people,
8 the risk professionals, have to look at the
9 likelihood in different ways.
10 Risk is composed of the
11 likelihood of something happening and the
12 consequences of something happening. Here
13 the likelihood was quite small, but the
14 consequences were devastating. So the
15 question is how do you put that together?
16 And it is really not just who should have
17 known, but who should have known what about
18 it, not just factually, but in a judgmental
19 way. Who should have had a different risk
20 judgment about these assets. That is I
21 think if I may, that is a more complex way
22 of asking the same question.
23 **Q We talked earlier about some**
24 **e-mails between you and Mr. Rubin talking**
25 **about setting up meetings, one that occurred**

171

1 **Interview - CHARLES PRINCE**
2 **before it he got back from Korea and then**
3 **several as you describe after he returned**
4 **from Korea.**
5 **Do you recall what the focus of**
6 **these meetings that you testified to**
7 **earlier? Were they solely on CDOs, or were**
8 **they CDOs and leveraged lending and other**
9 **matters?**
10 A My best recollection is that they
11 were primarily CDOs and at some point we
12 hooked in the folks from the U.S. consumer
13 mortgage business to give their point of
14 view on the market situation as it related
15 to real estate. And this was in the context
16 -- when we had the meetings, we didn't talk
17 about, quote, CDOs. We talked about the
18 real estate market. And the impact on the
19 real estate market would than translate into
20 the CDOs. So I want to make sure I am clear
21 about this.
22 We didn't get in a meeting and
23 say okay, what about the CDOs? We didn't do
24 that. We would get in the meetings and we
25 would say we have got these securities

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1 Interview - CHARLES PRINCE
2 positions, they are supposed to be gold
3 plated, but the real estate market is
4 deteriorating. What are you seeing in the
5 market about this? Who is buying this?
6 Somebody is willing to pay X cents on the
7 dollar for that. There was a trade. How do
8 see that? Is that going to be a getting
9 better situation or getting worse situation?
10 I was trying to judge where the market was
11 moving in that sense.
12 And so we would get input from
13 the trading desks, we would get input in,
14 towards the end I remember we would get
15 input from our real estate people in the
16 consumer business, certainly from the risk
17 people. And I think that as part of that,
18 as part of market color, we would also some
19 times get trading activity on the leveraged
20 lending book. So, somebody might say well,
21 somebody just bought a piece of this private
22 equity deal for 90 cents on the dollar. So
23 that would be part of our mix of market
24 color. But a primary focus would have been
25 on the real estate market which would then

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1 Interview - CHARLES PRINCE
 2 have translated into the CDO valuations.
 3 **Q Mr. Prince, I am showing you what**
 4 **was produced by Citigroup and has been**
 5 **marked Citi 1611657. It appears to be a**
 6 **Power Point deck entitled Global Structured**
 7 **Credit Products, The Way Forward, September**
 8 **2007, Michael Raynes.**
 9 (Thereupon, the document marked
 10 Citi 1611657 entitled Global
 11 Structured Credit Products, The Way
 12 Forward, September 2007, Michael
 13 Raynes was marked CR Exhibit 11 for
 14 Identification, as of this date.)
 15 BY MR. BONDI:
 16 **Q Do you recognize this document?**
 17 A I do.
 18 **Q How do you recognize this**
 19 **document?**
 20 A I remember at one point we were
 21 having these meetings that described. I
 22 said I want to meet the fellow that is doing
 23 this. I want to meet as it turned out
 24 Michael Raynes. And I remember Maheras and
 25 Barker said: What do you need to meet him

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1 Interview - CHARLES PRINCE
 2 for? I said with all that is going on, I
 3 actually want to be able to see the guy. I
 4 don't want to get it indirectly, I don't
 5 want to get it filtered. I want to look at
 6 this person, I wanted him to talk to me
 7 directly about what is going on. So, they
 8 got Raynes to come over and people put this
 9 thing together and he came up and sat in the
 10 library with our group and made this little
 11 presentation.
 12 **Q Was this the first time you had**
 13 **met Michael Raynes?**
 14 A Yes, first and only time. First
 15 and only time.
 16 **Q Who was Michael Raynes?**
 17 A He was this guy. I am sorry to
 18 put it this way. He was the guy who ran
 19 this. I didn't know who he was other than
 20 that. I learned since we hired him from
 21 Deutsche Bank. All I knew was he was this
 22 guy.
 23 **Q What was your impression after**
 24 **the meeting that they had with Mr. Raynes of**
 25 **Mr. Raynes?**

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1 **Interview - CHARLES PRINCE**
 2 A I think that Raynes was scared to
 3 death in the meeting. And I have a dim
 4 recollection that Barker told me afterwards,
 5 after the meeting, that Raynes expected me
 6 to fire him in the meeting. And so I think
 7 that my judgment of him in the meeting was
 8 probably not an objective or an accurate
 9 one. That is to say he was under a lot of
 10 pressure, he was under a lot of stress
 11 because of the context of the meeting.
 12 He seemed to know the business.
 13 He seemed to have a much more optimistic
 14 view of the long term nature of the
 15 business, much more reflective of we are
 16 going through a dip, quite a large dip.
 17 But, but you know, don't give up
 18 precipitously kind of approach to it. That
 19 is about all I remember.
 20 **Q Did you ultimately fire Michael**
 21 **Raynes?**
 22 A No. The only person I acted on
 23 was Randy Barker.
 24 **Q Did you ask anyone else to fire**
 25 **anyone associated with the CDO business?**

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1 **Interview - CHARLES PRINCE**
 2 A No, I think I have answered that
 3 question. The only person I ever acted on
 4 in this context was Randy Barker.
 5 **Q Just wanted to make clear that**
 6 **you hadn't asked someone else to fire**
 7 **someone else.**
 8 A No.
 9 **Q Mr. Prince, I would ask you to**
 10 **turn to the page that is four, five pages**
 11 **into the deck, Citi 1611661, the topic says**
 12 **Development and Structured Credit at Citi.**
 13 A Yes. Okay.
 14 **Q The first bullet says, "Prior to**
 15 **June 2006, structured credit products was**
 16 **managed in silos." What does that mean?**
 17 A What that means -- and there are
 18 three sub bullets below that -- is that like
 19 any business, the capital markets and
 20 banking business is organized into operating
 21 units. And apparently structured credit
 22 products activities happened in several of
 23 these business units. That is what those
 24 words mean to me. By the way, all of these
 25 units that he mentions are within fixed

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1 Interview - CHARLES PRINCE
 2 income.
 3 **Q Do you know if the various silos**
 4 **under structured credit products, cash**
 5 **versus synthetic, New York versus London,**
 6 **capital markets versus trading, do you know**
 7 **if they utilized the same valuation**
 8 **methodologies for super senior tranches of**
 9 **CDOs?**
 10 A I don't. But I would be amazed
 11 if they didn't because we had a risk
 12 function which was separate from the
 13 businesses.
 14 **Q If you would flip two pages later**
 15 **to 665?**
 16 A "Analysis of what went wrong."
 17 **Q Yes. The analysis of what went**
 18 **wrong and proposed strategic changes."**
 19 **First point. Significant**
 20 **dependence on distribution as proxy hedge to**
 21 **warehoused assets."**
 22 **What do you understand that to**
 23 **mean?**
 24 A What that means is that the
 25 belief that Citi would be able to distribute

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1 Interview - CHARLES PRINCE
 2 the products out of the warehouse was the
 3 significant dependence on part of this and
 4 was used in his view as a proxy hedge,
 5 meaning that the assets in the warehouse
 6 weren't otherwise hedged. And that I think
 7 in one of the Barker presentations that we
 8 looked at earlier, there was some reference
 9 to Citi's historical strength in
 10 distribution wasn't sufficient for something
 11 or other, and I think that is the same
 12 point.
 13 **Q What was your reaction to hearing**
 14 **that point about the significant dependence**
 15 **on distribution as a proxy hedge to**
 16 **warehoused assets?**
 17 A I don't remember any particular
 18 reaction to this single point on this single
 19 page of the presentation.
 20 **Q Did you agree with looking at**
 21 **this page 665 of what went wrong on these**
 22 **bullets? Did you agree with any of the**
 23 **analysis as to what went wrong when it was**
 24 **presented to you?**
 25 A Well, I don't have any way of

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1 Interview - CHARLES PRINCE
 2 really answering that and the reason for
 3 that is this: In this presentation for this
 4 discussion by Raynes, he wasn't saying
 5 anything different than Maheras or Barker
 6 had been saying. And my, my view of this
 7 meeting was I simply wanted to hear it from
 8 the horse's mouth, if you understand what I
 9 mean. I wanted to make sure that he was
 10 saying this and that he actually believed
 11 it. But I don't think and I haven't
 12 reviewed this carefully obviously; you just
 13 handed it to me, but I don't think there is
 14 anything in here which is different than
 15 what Maheras and Barker was saying.
 16 So, it is not as if I was getting
 17 new information. The only new information I
 18 was getting was that the guy running the
 19 desk believed this to be the case.
 20 **Q The bullet that says, "Unprepared**
 21 **for draconian meltdown scenario with respect**
 22 **to largest collateral asset. Risk limits**
 23 **too high."**
 24 **What do you understand by the**
 25 **largest collateral asset? Is that the**

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1 **Interview - CHARLES PRINCE**
 2 **subprime mortgages?**
 3 A Yes, I think he said that on an
 4 earlier page actually. As I was turning to
 5 get to this page, he said, I think he said
 6 something to that effect on page 658, the
 7 first page in the deck. "CDO market has
 8 come under significant assault this year
 9 prompted by an unprecedented fall in value
 10 of its largest asset class subprime
 11 mortgages."
 12 **Q Is reference to risk limits too**
 13 **high, was that the risk limits on the**
 14 **positions that could be accumulated on the**
 15 **books of Citi?**
 16 A I think that what it is referring
 17 to is if you look across to the right side
 18 of the page opposite that bullet, the
 19 change, the left side is what went wrong.
 20 The right side is what they would propose to
 21 do about it.
 22 The change opposite that first
 23 bullet that you referred to is change in
 24 traditional CDO business model with respect
 25 to warehousing and counter party risk. I

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1 Interview - CHARLES PRINCE
2 think this is the same point that we looked
3 at a few minutes ago on this different
4 document or a different document that talked
5 about our market standard warehouse
6 agreements weren't robust enough and our
7 ability to put the loans -- I think that is
8 what this is really referring to, that on a
9 going forward basis, we would propose that
10 our warehouse be much more not at our risk
11 through the way that the agreements were
12 structured and through monitoring the
13 counter parties so that we would have the
14 ability to put the loans back to somebody
15 else. We wouldn't be stuck holding the bag
16 as it were. And that the people we would
17 put them back to would have to be of
18 substance. I think that is what that means.
19 So, on the left risk limits too
20 high, I think what he is referring to is
21 that the way the warehouse agreements were
22 structured and the nature of the counter
23 parties didn't have us, give us the ability
24 to put things back to people.
25 **Q The next bullet, "Utilized**

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1 **Interview - CHARLES PRINCE**
2 **balance sheet specifically on super senior**
3 **without a defined hedging strategy but**
4 **within risk limits." Is that consistent**
5 **with what Mr. Maheras was telling you**
6 **earlier?**
7 A I am not sure that Tom ever used
8 those words. But I think it relates to the
9 first bullet on the page, meaning that our
10 hedge or our protection against the exposure
11 wasn't a financial hedge with a counter
12 party and so forth. But our hedge
13 effectively was our ability, our historical
14 demonstrated strong, et cetera, et cetera,
15 ability to distribute.
16 And that I think what he is
17 saying here is that because we had such a
18 long history of being able to distribute the
19 products out of the warehouse, that we
20 didn't need, we thought we didn't need, to
21 put a financial hedge on them while they
22 were in the warehouse and that that was a
23 problem. I think that is what he is saying
24 here.
25 **Q Did you have a view whether or**

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1 **Interview - CHARLES PRINCE**
2 **not a financial hedge would have been**
3 **appropriate prior to this time period?**
4 A Do I have that view thousand or
5 did I have a view then? I don't understand
6 the question.
7 **Q I will clarify that.**
8 **When Mr. Raynes was presenting**
9 **this to you --**
10 A Right.
11 **Q -- did you have a view that**
12 **there should have been a hedging strategy in**
13 **place in the past prior to this point where**
14 **he is recommending a hedging strategy?**
15 A I understand the question now,
16 thank you.
17 At the time of this presentation,
18 which as I recall was in either late
19 September or early October, he was basically
20 talking about what went wrong and how we are
21 going to do it better going forward.
22 At that point in time, it was
23 already -- I will put it -- becoming clear
24 that we were going to have at what we
25 thought at the time were modest losses in

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1 Interview - CHARLES PRINCE
2 this book. I think at the time -- well, I
3 think even in mid September we were talking
4 in the hundreds of millions of dollars. So
5 at this time it was somewhere between
6 Maheras' zero and a little bit more than
7 that. But we thought we were going to have
8 some modest losses in that area or worried
9 about it.
10 And so at that point in time, of
11 course I would have preferred to have had
12 somebody else with that risk. And of course
13 I would have preferred to have had somebody
14 else have hedging exposure to us on what was
15 in our warehouse.
16 But, the context here wasn't:
17 Why didn't you have it before, what did you
18 think about, why didn't you do it before?
19 The context here was: I know we didn't have
20 it. The reason we didn't have it was
21 because we thought we could distribute
22 everything. Historically we have been able
23 to distribute everything. But going
24 forward, we are definitely going to have
25 hedges in place. That was the context of

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1 Interview - CHARLES PRINCE
2 the presentation.
3 **Q How successful, do you know how**
4 **successful Citigroup was in selling super**
5 **senior positions?**
6 A I don't know the answer. I don't
7 whether our folks tried to sell a lot,
8 didn't sell a lot, held them because they
9 were thought to be so safe, I don't know the
10 answer to that.
11 **Q Flip to two pages later, 667,**
12 **title of that page: Where Will The Alpha**
13 **Opportunities Be In The Next Six to**
14 **Twelve Months? The last bullet,**
15 **"Reemergence of better structured CDO**
16 **opportunities-finding higher fee potential**
17 **given dislocation and potential competitor**
18 **shifts."**
19 A Uh-huh.
20 **Q What do you understand Mr. Raynes**
21 **to have meant by that?**
22 A Well, this was his: We are in a
23 dip in the road. And the business will
24 immerge in a better way, there will still be
25 structured CD opportunities, we will be able

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1 Interview - CHARLES PRINCE
2 to charge for more it because a number of
3 our competitors won't be still in the
4 business.
5 **Q And did you form an opinion about**
6 **whether this was a potential in the future**
7 **for Citigroup based on what Mr. Raynes was**
8 **telling you?**
9 A I guess I thought at the time
10 that it was a very optimistic view, that he
11 was selling his view.
12 If we were in the mode of saying
13 we don't think this business is coming back
14 we are going to shut this business down, he
15 would have been out of a job. So, just in a
16 practical sense people don't usually kick
17 themselves out of a job. So I took this to
18 be his selling point that look, I know we
19 are going through a rough patch now, but it
20 is not going to be that bad and on the back
21 end of this, it is going to be a much better
22 business for us.
23 **Q Did you feel as a whole, Mr.**
24 **Prince, that the business persons such as**
25 **Mr. Maheras and Mr. Barker and Mr. Raynes**

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1 **Interview - CHARLES PRINCE**
2 **were painting an overly rosy picture for you**
3 **of the CDO business?**
4 A Well, it turned out to be overly
5 rosy. At the time, I didn't think of it
6 using those words. I obviously didn't
7 accept what they were saying or I wouldn't
8 have gone through the process I went
9 through. But I didn't think of it as being
10 overly rosy. I thought of it as being much
11 more of defensive role. People, when they
12 do something, they are usually pretty
13 defensive about it. It is very hard for
14 somebody to say I did X and then to turn
15 around and say that wasn't a very good thing
16 to do. It is a very hard thing for people
17 to do. And it is why I mentioned earlier,
18 if you have a loan that goes bad you always
19 put somebody else in charge of the work out.
20 And I really thought at the time that they
21 were underestimating the complications or
22 the difficulties. But I didn't think it was
23 in an overly rosy sense that they were, you
24 know, consciously painting it to be better.
25 I think that they were just sort of dragging

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1 Interview - CHARLES PRINCE
2 their feet if you understand the distinction
3 I am drawing, and that is how I thought they
4 were thinking about it.
5 Raynes I thought was selling.
6 The other guys I think were thinking, you
7 know, we have been through a lot of market
8 dislocations, I don't want our bosses who
9 are not in the business, haven't been in the
10 fixed income business for 25 years, I don't
11 want them to lose confidence or to lose
12 resolve over a market dislocation. We have
13 been through lot of these. It is not -- I
14 know it looks bad now. We always come out
15 of it. It is always going to be -- it was
16 that kind of a context.
17 **Q And what was your view in**
18 **September and October's time frame of Mr.**
19 **Bushnell's performance as a chief risk**
20 **officer?**
21 A I think -- I told you earlier
22 that I was told many times that David was
23 the best risk officer on the street. I
24 believed that then. And I still think very
25 highly of David's skills. I think that

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1 Interview - CHARLES PRINCE
2 David has to, has to reflect on what could
3 have been done differently, what must have
4 been done differently because I don't think
5 it is satisfactory to simply say well, these
6 things happen. But at the time I wouldn't
7 have traded David for anybody else. So that
8 is the only way I can answer the question.
9 **Q And, Mr. Prince, as a former CEO,**
10 **do you reflect on how things could have been**
11 **done differently to have avoided or**
12 **minimized the losses that Citi experienced?**
13 A As CEO?
14 **Q Yes, sir.**
15 A Well, I have obviously thought
16 about that a lot. The context I bring to
17 that analysis is this: We had a \$2 trillion
18 balance sheet for the company as a whole.
19 We were involved in lot of different
20 businesses in lot of different geographies
21 around the world. We ended up in a
22 situation where a very, very small relative
23 dollar value of assets caused great harm to
24 the company. What could I have done
25 realistically to have changed that? And I

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1 Interview - CHARLES PRINCE
2 have turned that over in my mind over and
3 over and over again, as you might expect.
4 I have said earlier that simply
5 having the information that was known at the
6 time, I am not sure would have made much
7 difference. If David Bushnell would come to
8 me in June or July or a year earlier, the
9 end of '06, and said I want you to
10 understand that we are increasing our
11 activity in this particular area or had said
12 we are retaining these super seniors and had
13 described to me what that meant and what the
14 quality of the assets were and so forth as
15 believed by the rating agencies, as believed
16 by him as a risk professional, I think he
17 would have pointed to the reported comment
18 of Alan Greenspan that super seniors were as
19 safe as U.S. treasuries. I think he would
20 have pointed to Bernanke's comment that he
21 did not see a large real estate crisis
22 coming. I saw something from our chief
23 economist, Lou Alexander, contemporaneous
24 which said he not think we were going to
25 have a serious recession. So I am not sure

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1 Interview - CHARLES PRINCE
2 what I would have done with that
3 information.
4 If I had gone to Tom Maheras'
5 office in the spring of 2007, the spring,
6 after HSBC had their problems in the early
7 part of the year with associates, and I had
8 said Tom, I am nervous about these super
9 seniors. Let's say I had that information.
10 And I said I want you to sell these triple A
11 rated securities. And he would have said
12 well, why? And I would say because I am
13 nervous that in the long run, we are going
14 to see a real estate crisis like we have
15 never seen since the depression. And I
16 think that despite all the smart people who
17 have done all the structuring, that the
18 flood waters will actually get all the way
19 up to that super senior level, I think I
20 would have sounded like a lunatic. No one
21 thought that would be the case in the
22 industry.
23 Now, there are some hedge funds
24 and so forth who bet against the real estate
25 business, and I have seen that. But our

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1 Interview - CHARLES PRINCE
2 regulators from multiple regulatory agencies
3 were fully embedded in our business. The
4 rating agencies had this stuff rated higher
5 than triple A. For someone not with a fixed
6 income background to have gone and made that
7 kind of direction to the largest fixed
8 income business on the street, I think I
9 don't excuse myself by saying that really
10 wasn't a realistic situation.
11 So then I think well maybe, maybe
12 it is because you weren't schooled in the
13 business, maybe because you didn't come up
14 through fixed income or maybe because we had
15 a big business and you were worried about
16 the consumer business or the acquisition in
17 Latin America that you were working on or
18 something like that. But I see whether it
19 is Merrill Lynch or Bear Stearns, Lehman
20 Brothers, firms that were much smaller, much
21 more focused, led by people who were long
22 time traders, market participants, missed
23 the same issue.
24 So, I think to myself well, if I
25 were Tom Maheras, would I have made a

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1 Interview - CHARLES PRINCE
 2 different call, if I had that kind of a
 3 background? I don't think he would have.
 4 So that leads me to, well, what could you
 5 have done? I know what I did do, which is
 6 that when the losses went from the hundred
 7 or 200 or 300 that people with talking about
 8 to 8 billion on a day, that I immediately
 9 resigned. I don't know what else I could
 10 have done. I am not satisfied with that
 11 answer. But I don't know sitting here today
 12 what I could have done differently.
 13 If I had had information of a
 14 different character about the assets, I
 15 clearly would have acted on that. I turned
 16 down the Ameritrust deal, I turned down a
 17 number of deals where our consumer people
 18 wanted to buy lower quality assets. I
 19 directed our consumer finance people not to
 20 originate these loans. I think if I had
 21 had, if I had had the right information I
 22 would have acted.
 23 **Q Why did you resign?**
 24 A Well, this was quite a
 25 significant event, quite a negative event,

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1 Interview - CHARLES PRINCE
 2 and it happened on my watch. How could you
 3 not resign?
 4 **Q Did someone ask you to resign?**
 5 A Just the opposite. When I told --
 6 it was in the paper, I am sure you read the
 7 story. When I drove home and Gary called me
 8 and told me it wasn't going to be two or 300
 9 million but it was going to be 8 billion --
 10 I will never forget that call -- I
 11 continued driving, and I got home, I walked
 12 in the door, I told my wife, I said here's
 13 what I just heard and if this turns out to
 14 be true, I am resigning.
 15 And I called Rubin that afternoon
 16 or the next morning, I can't remember, and I
 17 told him, and he said you can't do that.
 18 You can't, et cetera, et cetera. And it
 19 turned out to be true on Monday.
 20 And so I called our senior, our
 21 lead director Alain Belda, and I handed him
 22 my resignation letter. I would say for that
 23 Monday, Tuesday into Wednesday of that week,
 24 they, several board members argued with me
 25 not to resign. And I told them, I said

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1 Interview - CHARLES PRINCE
 2 look, this is going to be a big problem.
 3 Now, at the time we didn't realize that
 4 other people had very similar problems. I
 5 said this is going to be a big problem. And
 6 I am willing to continue to fight this
 7 fight. But my advice to you, if I were your
 8 lawyer, my advice to you is to accept my
 9 resignation. I said you are going to need a
 10 new person to lead us out of this difficult
 11 situation. You are going to need a new
 12 person who will start with a reservoir of
 13 credibility which where mine will be
 14 exhausted by this and so I will continue to
 15 serve if that is your decision, but my
 16 advise to you is to accept my resignation.
 17 And by about Wednesday afternoon, Thursday,
 18 they had decided to accept my resignation.
 19 **Q When do you recall first**
 20 **discussing super senior positions on CDOs**
 21 **with the board of directors?**
 22 A I am going to refer back to the
 23 30 days or so that started with the middle
 24 of September and ended with the very end of
 25 October.

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1 Interview - CHARLES PRINCE
 2 And if you were to fast forward
 3 that loop, if you were to have sort of a
 4 time frame fast forward, you would see that
 5 the issue first came up as a problem on my
 6 radar screen and then moved to a discussion
 7 among our group that I described in the
 8 library group, and then got on to the
 9 board's radar screen and then became an
 10 examination in a very detailed sense with
 11 Gary about valuations and valuation models
 12 and so forth and so on. And then was the
 13 end of the table. So without knowing
 14 specifically, I would have to have people
 15 recreate the paper trail.
 16 My sense is that it was probably
 17 in sort of two-thirds of the way through
 18 that process which would have put us about
 19 the second week in October. I could be off.
 20 It wasn't before that 30-day started and I
 21 was gone after that. So it was sometime in
 22 that 30 days or so, and my best guess is it
 23 is about two-thirds of the way through that
 24 process.
 25 **Q Did any board member ask why**

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1 Interview - CHARLES PRINCE
2 didn't you tell us about this sooner? Did
3 anyone express frustration or concern with
4 not learning about the super senior tranches
5 sooner?

6 A Well, the answer is sure. As the
7 thing unfolded, there was much: How did we
8 get into this position? Why didn't we know
9 this? How could we not know -- I am talking
10 about me as well as them. I mean everybody.
11 How could we have such a small part of the
12 company with such apparent safety turn out
13 to be so toxic? How could that be? How
14 could it possibly be the case that something
15 that the markets saw as triple A, the rating
16 agencies saw as triple A, it was way off on
17 the edges over here, a tiny little thing
18 really, how could that blow up in this kind
19 of way? Everybody was saying that.

20 Q Now you alluded to valuations and
21 valuation models.

22 What were the challenges with
23 valuing the super senior tranches of CDOs?

24 A These had to be mark-to-market,
25 and when you have to mark-to-market things

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1 Interview - CHARLES PRINCE
2 and there is no market, that becomes
3 complicated.

4 So, the way the accounting works,
5 although I am not an accountant, the way the
6 accounting works is that you use various
7 models. And as I recall it, we used three
8 or four models: Discounted cash flow model,
9 a model that was based on the Case-Shiller
10 index going from here to here. Three or
11 four different models like that. At some
12 point, one of our competitors made a big
13 write-down, I don't remember who that was,
14 and so that was -- well, they must have used
15 a model of X backing into what their
16 valuations were. So we looked at that as a
17 model. Gary really led that process. But I
18 remember there were at least three or four
19 different models, and I think during the
20 time I was there we finally settled on one
21 that sort of averaged all of them across, is
22 my recollection.

23 Q Were the models that you
24 described, were they models that already
25 existed or were these models that were being

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1 Interview - CHARLES PRINCE
2 developed by Citigroup and others at the
3 time?

4 A I don't know the answer to that,
5 I am sorry. My sense was that they already
6 existed, but I don't know the answer.

7 Q I would like to turn your
8 attention to the same document, page
9 1611679. It is entitled Current Risk
10 Exposure and Mitigation.

11 A Yes.

12 Q It lists liquidity puts, 24.5
13 billion, ABS CDO cash inventory 2.3 billion.
14 And the ABS CDO warehouse of 0.9 billion.

15 Was that your understanding in
16 September 2007 of the current exposure to
17 those three items?

18 A I can't really tell you. Again,
19 during that time frame from mid September to
20 late October, at some point the numbers were
21 mentioned to me. My recollection is that
22 the liquidity puts were a little bit after
23 the super seniors that were held on the
24 books. But whether that was new information
25 the day it was presented, I can't remember.

200

1 Interview - CHARLES PRINCE
2 Q What is meant by exposure?

3 A Well, it has lots of different
4 meaning in lots of different contexts.

5 In context in which we are
6 talking about, it would typically refer to
7 something that is either where we have a
8 liability I -- I started to say where we
9 have exposure. Where we have a liability.

10 So, if you have an asset on your
11 book, you have exposure to that asset. If
12 you have someone who has a put to you or you
13 have a backup line to that person, then you
14 have exposure to that person and that
15 amount. It is, it is a liability that is on
16 your books or could be on your books.

17 MR. BONDI: Mark that, please.

18 (Thereupon, the e-mail Bates
19 marked Citi FCIC E 16495 was marked CR
20 Exhibit 12 for Identification, as of
21 this date.)

22 BY MR. BONDI:

23 Q Mr. Prince, I am showing you what
24 has been produced by Citi and Bates marked
25 Citi FCIC E 16495. It appears to be an

201

1 Interview - CHARLES PRINCE
2 e-mail from Andrew Liveris to you.

3 Who is Andrew Liveris?

4 A Andrew Liveris was on our --
5 well, still is on their board, is the CEO of
6 Dow Chemical.

7 Q And below talks, below his e-mail
8 to you it appears to be another e-mail that
9 you are on Leah Johnson?

10 A Leah Johnson was the head of
11 public relations for Citi.

12 Q And it says, subject is Q3
13 earnings announcement. And it has attached
14 is a copy of the press release that we plan
15 to release and a transcript of the
16 prerecorded call.

17 A Uh-huh.

18 Q I would like to draw your
19 attention to page three of the recorded call
20 transcript?

21 A What is the Bates number.

22 Q Bates number is 16498.

23 A Got it, thank you.

24 Q Draw your attention to the
25 penultimate bullet down there.

202

1 Interview - CHARLES PRINCE
2 exposure that was in Mr. Rayne's
3 presentation of the global structured credit
4 products, A Way Forward, and what Mr.
5 Crittenden was saying in this recorded
6 earnings call on October 1st, 2007?

7 A I can only try to put these
8 together based on looking at the two
9 documents. That is to say, I don't have,
10 remember having any discussion with Gary
11 about the number was X, Y or Z. My guess is
12 that --

13 MR. BIRENBOIM: I don't think
14 you should be guessing.

15 THE WITNESS: Okay.

16 MS. BUERGEL: If you don't have
17 any understanding of how this is put
18 together, Mr. Prince, the recorded
19 call transcript and how it relates to
20 the deck, then you shouldn't
21 speculate.

22 THE WITNESS: As I said, I
23 don't have a recollection of that.

24 BY MR. BONDI:

25 Q Did you agree as of October 1st,

204

1 Interview - CHARLES PRINCE

2 A Uh-huh.

3 Q It says, "Starting in January of
4 this year, we began to lower our exposure to
5 the subprime assets as we saw the market
6 changing. At the beginning of this year, we
7 had 24 billion of secured subprime exposure
8 in our lending and structuring business.
9 That number was 13 billion at the end of
10 June and declined slightly this quarter."

11 Do you recall Mr. Crittenden
12 saying that in a recorded transcript call on
13 October 1st, 2007?

14 A I don't have an independent
15 recollection of it. I know we did do a
16 recorded call, and I assume this is
17 accurate, but I don't have an independent
18 recollection of it.

19 Q A few minutes ago on the
20 Exhibit 11, we saw a list of other exposure.
21 Here Mr. Crittenden said the number was 13
22 billion at the end of June and declined
23 slightly this quarter.

24 A Uh-huh.

25 Q Why the discrepancy between the

203

1 Interview - CHARLES PRINCE
2 2007 that Citigroup's exposure was 13
3 billion at the end of June and then declined
4 slightly this quarter?

5 A Again I can't, I don't have an
6 independent recollection of how Gary came to
7 these numbers. You have shown me the other
8 exhibit with a long list of numbers. And
9 you have asked me why these numbers are
10 different than those numbers. I don't know
11 the answer to that.

12 Gary was responsible for putting
13 all the numbers together. It is not as if
14 we sat with that exhibit on one side of the
15 table and this on the other side of the
16 table. You are very appropriately I guess
17 putting these together, but I don't recall
18 how we got to those numbers so I can't
19 really other than guessing which I have been
20 asked not to guess, I can't really help you
21 with that.

22 Q The Raynes presentation from
23 September 2007 lists substantially more
24 exposure.

25 MR. BIRENBOIM: What page are

205

1 Interview - CHARLES PRINCE
 2 you referring to?
 3 MR. BONDI: I am referring to
 4 page Citi 1611679.
 5 MR. BIRENBOIM: Those numbers
 6 are in September?
 7 MR. BONDI: In September.
 8 MR. BIRENBOIM: This is in
 9 October.
 10 MR. BONDI: Correct.
 11 BY MR. BONDI:
 12 **Q Mr. Crittenden this October talks**
 13 **about exposure being 13 billion at the end**
 14 **of June and declined slightly this quarter.**
 15 **Did you ever ask Mr. Crittenden**
 16 **how are you coming up with something less**
 17 **than 13 billion when internally we are**
 18 **hearing something a lot more than 13**
 19 **billion?**
 20 MS. BUERGEL: Mr. Bondi, there
 21 is a lot whole lot of language about
 22 what exposure means here. You are
 23 plucking that out of a multi-paragraph
 24 transcript. And Mr. Prince, I will
 25 remind you if you don't have actual

206

1 Interview - CHARLES PRINCE
 2 facts to offer, you shouldn't
 3 speculate.
 4 MR. LERNER: You can answer yes
 5 or no.
 6 THE WITNESS: I don't remember
 7 the question that far yes or no. But
 8 I don't have any independent
 9 recollection of how he got to those
 10 numbers, so all I could do would be to
 11 guess.
 12 **Q I don't think that was my**
 13 **question. I will let the court reporter**
 14 **read it back just to get it right.**
 15 **(Thereupon, the record was read**
 16 **back by the reporter as recorded**
 17 **above.)**
 18 **THE WITNESS: No.**
 19 BY MR. BONDI:
 20 **Q On November 4th, 2007, Citigroup**
 21 **announced that it had 55 billion in subprime**
 22 **exposure mentioning in disclosing the super**
 23 **senior tranches and the liquidity puts.**
 24 **Do you have any understanding of**
 25 **how the announced exposure went from 13**

207

1 **Interview - CHARLES PRINCE**
 2 **billion in October to 55 billion on November**
 3 **4, 2007?**
 4 A Well, I feel like I am edging
 5 into the same territory we just covered on
 6 the earlier question, so I am hesitating to
 7 see if my lawyers want to say anything.
 8 MR. BIRENBOIM: You should
 9 testify to what you have personal
 10 knowledge to, not just to what you
 11 read in the papers afterwards or
 12 speculation.
 13 THE WITNESS: What I have
 14 personal knowledge of is the
 15 following: On the Saturday, eight
 16 days before that Monday, Gary
 17 Crittenden called me and told me we
 18 weren't looking at a couple hundred
 19 million bucks, but we were looking at
 20 eight billion dollars.
 21 On Monday of that week, so a
 22 Monday before November 4th, I sat with
 23 Gary and as I recall it one or two
 24 people from our securities business
 25 and worked through their analysis of

208

1 Interview - CHARLES PRINCE
 2 how, when I went home on Friday it was
 3 a couple hundred we were possibly
 4 going to have to deal with, and
 5 72 hours later it was 8 billion. And
 6 over the course of that day on Monday,
 7 I became convinced that their
 8 calculation at the end of that day was
 9 correct. And that is when I handed in
 10 my resignation. And really didn't
 11 have any substantive involvement after
 12 that.
 13 **Q Let's move on to 13.**
 14 **(Thereupon, the document Bates**
 15 **marked Citi FCIC E 41087 was marked CR**
 16 **Exhibit 13 for Identification, as of**
 17 **this date.)**
 18 BY MR. BONDI:
 19 **Q Mr. Prince, I am showing you what**
 20 **was produced by Citi and it is Bates marked**
 21 **Citi FCIC E 41087.**
 22 A Correct.
 23 **Q And it is a cover e-mail**
 24 **attaching a, appears to be Power Point**
 25 **presentation. The cover e-mail is from**

209

1 Interview - CHARLES PRINCE
2 Sheffali Welch e-mail on behalf of Gary
3 Crittenden to you and it is dated
4 October 14, 2007.

5 "All attached, please find the
6 audit committee deck for tonight's call at
7 9 p.m."

8 Do you recall attending the audit
9 committee call at 9 p.m. on October 14,
10 2007?

11 A I don't think there was an audit
12 committee call on the, at 9 o'clock. My
13 belief is that the 9 o'clock call was a prep
14 call because it says sent Sunday,
15 October 14th. The presentation says October
16 15th. And the list of people it was sent to
17 would have been the kind of group we would
18 get together with to prepare for tomorrow's
19 meeting. And so my guess is that the Sunday
20 night call assuming there was one, I don't
21 recall a specific call, but assuming there
22 was one was a prep call among these various
23 people.

24 Q Do you recall attending the audit
25 committee meeting or call on October 15th?

210

1 Interview - CHARLES PRINCE

2 Q I know we talked about many of
3 these same lessons, and I just wanted to ask
4 you on these six lessons learned that were
5 presented to the board did you agree that
6 these were lessons learned to Citigroup?

7 A Oh, I don't know. This -- these
8 quote lessons learned were presented at a
9 time when the fullness of the issues weren't
10 completely understood, I think.

11 So if I were sitting here today,
12 I wouldn't from a policy standpoint try to
13 determine whether someone's suggestions of
14 lessons learned put up in October of 2007
15 were the appropriate ones, whether they were
16 implemented fully or not.

17 Since the time of this
18 presentation, there has been almost a
19 complete change in personnel at the company
20 in the areas that we are talking about, and
21 I think I would much more importantly look
22 at what those new people thought the lessons
23 learned were as opposed to what people
24 thought at this point in time.

25 Q Mr. Prince, I am showing you what

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1 Interview - CHARLES PRINCE

2 A Well, I certainly would have gone
3 to the board meeting. I don't think this
4 was just an audit committee presentation. I
5 think this was, I think this was actually
6 presented to the whole board. It may be
7 that Gary's assistant misspoke, it may be
8 that it was presented first to the audit
9 committee and then to the full board. I
10 think this was the big presentation to the
11 board and I don't think it was just an audit
12 committee. So -- and I am sorry to be
13 particular. The answer to your question
14 about the audit committee is no, but I think
15 it was presented to the full board and I was
16 there for that.

17 Q On page 37 of the deck, Citi FCIC
18 E 41124, there is a "lessons learned" page?

19 A Lots of lessons learned pages,
20 aren't there?

21 Q Yes, sir. And if you wouldn't
22 mind just reading these six just to yourself
23 in the interest of time and let me know when
24 you are finished.

25 A I have read them.

211

1 Interview - CHARLES PRINCE
2 was produced by Citi Bates marked FCIC 2970.
3 (Thereupon, the document Bates
4 marked FCIC 2970 was marked CR
5 Exhibit 14 for Identification, as of
6 this date.)

7 A Yes.

8 Q It is a discussion of October CMB
9 performance, presentation to the board of
10 directors October 31, 2007.

11 A Yes.

12 Q Do you recognize this document?

13 A Oh, I don't have an independent
14 recollection of it, but it certainly looks
15 like something that was presented.

16 Q Sure. If you wouldn't mind
17 taking a moment just to flip through it.

18 A Uh-huh.

19 Q To familiarize yourself with it.

20 A Yes, okay.

21 Q If you flip to page eight of the
22 deck, Citi FCIC 2978, there is a list of
23 subprime marketing methodology continued and
24 it lists the ABCP. Did you understand ABCP
25 to mean the asset backed commercial paper

213

1 Interview - CHARLES PRINCE
2 associated with the liquidity puts?
3 A Uh-huh, I think so, yes.
4 Q And the high grade ABS CDOs,
5 mezzanine ABS CDOs and ABS CDO squared
6 transactions, when this was presented to the
7 board of directors on October 13, 2007, do
8 you recall any reaction --
9 MR. BIRENBOIM: October 31st.
10 MR. BONDI: Sorry?
11 MR. BIRENBOIM: I think you
12 said 13 or maybe I misheard.
13 BY MR. BONDI:
14 Q The presentation to the board of
15 directors on October 31, 2007?
16 A Yes.
17 Q On page eight when it lists the
18 various positions that Citigroup had and the
19 net exposure associated with those positions
20 as of September 30, 2007, do you recall any
21 reaction by any of the board members when
22 they heard this?
23 A The exposures?
24 Q Yes, sir.
25 A You know what I can't do? I

214

1 Interview - CHARLES PRINCE
2 can't separate the different meetings, as
3 obviously as the, as the situation
4 deteriorated, there was more and more
5 concern. But I can't in my mind remember
6 whether this meeting had this conversation
7 or that meeting had that conversation.
8 To the extent of exposures, if,
9 if the question was more narrowly did
10 someone say something extraordinary about
11 the total number on the page or any of the
12 components that led up to the total, I don't
13 remember that. But you have to put it in
14 context, I think. The exposure that we were
15 looking at here in terms of the impact on
16 the company was a couple hundred million
17 bucks and in a company that earned five
18 billion dollars quarterly, you don't want to
19 lose \$200 million obviously, but there was
20 nothing on this page that would have caused
21 one of the directors to say my gosh, what is
22 going on here, because that is not the
23 information that was being presented. And I
24 know you are on a fact finding mission. Can
25 I direct you to something?

215

1 Interview - CHARLES PRINCE
2 Q Please.
3 A If you look at pages four and
4 five, this is actually a key chart, you can
5 see the three lines. They were in color on
6 the original chart, but for here I will
7 refer to them as the top line, middle line
8 and the bottom line. The bottom line, it
9 was the sort of the lowest quality. You can
10 see in the very bottom, it is the right hand
11 reference which ends with triple B minus.
12 And the middle line and the middle reference
13 is to single A. Do you see that at the
14 bottom of the page? And the left side of
15 the page you see the triple A, that is the
16 top line.
17 And so if you look across, this
18 is an historical chart on page four, and you
19 can see that the bottom line, the worst
20 quality over the course of the first part of
21 the year going to March '07, you can see
22 that first vertical line there, March '07,
23 the bottom line deteriorated and then picked
24 back up to a kind of a 75 percent level.
25 And then in June began to deteriorate. And

216

1 Interview - CHARLES PRINCE
2 in June, but only in June, the single A, the
3 middle one, started to deteriorate. So up
4 until, up until June, even the single A
5 product hadn't really been affected.
6 The top line, the triple A, which
7 is the super senior kind of quality stuff,
8 straight as a line across, no impact at all.
9 It began to waiver a little bit in that
10 July, August time frame. You can see as we
11 go into September, you see the line that
12 says 8/29 and into September, it is trended
13 back up and it is almost at a hundred
14 percent again. And then you flip the page
15 and you see that after the ratings
16 downgrade, the top line began to deteriorate
17 in that far right side of the page.
18 Q I am sorry, you are looking at
19 page five?
20 A Now I am over to page five.
21 Bates number 975.
22 Q And it is the last box, I
23 apologize, the copy looks a little bad, it,
24 looks like 10/11?
25 A 10/11 Moody's something

217

1 Interview - CHARLES PRINCE
2 downgrade.
3 **Q I think it is et al, Moody's et**
4 **al downgrade?**
5 A Yeah. That was really the only
6 time -- you can see a little wavering on the
7 top line in the middle but it actually
8 recovers into the September time frame and
9 then when the downgrade happens, that is
10 when it falls off a cliff.
11 And so I point this out because
12 this is a very good visual reminder of when
13 Tom Maheras or somebody says look, the super
14 seniors are not going to be touched. They
15 would point at this chart, and they would
16 say look, you can see that even though this
17 has gone down, this one is straight as an
18 arrow. And then in the summer we would say
19 but it is still going down. And he would
20 say yeah, it is, but you can see the top one
21 is coming back up. It will be okay. Don't
22 panic here. Don't go crazy here. This is
23 going to be fine.
24 That was the context of the
25 discussions as we came into the late summer.

218

1 Interview - CHARLES PRINCE
2 I am sorry to divert you from your question,
3 but this is a very good pictorial, these two
4 pages, of what happened over the course of
5 that summer and into the fall.
6 **Q I appreciate that. I thank you.**
7 **We definitely are trying to get at the**
8 **facts. I appreciate the clarification.**
9 **Does the, on page eight of the**
10 **Power Point where it lists the high grade**
11 **ABS, the mezzanine ABS, CDOs, and the ABS**
12 **CDO squared, did any of those three**
13 **translate to any of these three lines on the**
14 **graph on page five?**
15 A It would -- the lines on page
16 five deal with the credit rating. So
17 anything on page eight that related to
18 triple A these would relate to. So, if the
19 high grade ABS CDOs were super seniors, then
20 they would definitely be in the top line.
21 If the ABS CDO2 transactions
22 related to super seniors, they would be in
23 the top line as well. On page eight are
24 formats that relate to quality of assets.
25 They are not directly related. It could be

219

1 Interview - CHARLES PRINCE
2 anything in ABS CDO2 , it could be low or
3 high grade, but I think all of this related
4 to the super seniors which may be why the
5 marks that are shown on page eight, the
6 projected marks, are so low.
7 **Q Mezzanine ABS CDOs, that wouldn't**
8 **have been super senior, though, would it?**
9 A I don't know the answer to that.
10 I don't though the answer to that. And the
11 reason I don't know the answer is mezzanine
12 could refer to a place on the hierarchy of
13 the structure, or it could refer to a loan
14 that is in the middle of credit, a loan
15 portfolio. In other words -- I am sorry it
16 is so confusing. You could have a subprime
17 loan that is structured so that the highest
18 tranche was thought to be triple A. And
19 mezzanine could refer to something that is
20 midway up that tranche. Okay?
21 But it is all based on a subprime
22 loan at the bottom. You can also have a
23 situation where a mezzanine loan to a
24 corporation, to anybody, not real estate, a
25 mezzanine loan could be structured. And

220

1 Interview - CHARLES PRINCE
2 then you can have a low quality mezzanine
3 loan, a middle quality mezzanine loan, and a
4 high quality mezzanine loan. And I don't
5 know whether this is referring to real
6 estate in the middle of the structure or to
7 a type of loan, like an auto loan would be a
8 loan which would be structured or a credit
9 card loan could be structured.
10 A mezzanine loan is a kind of a
11 loan, and I don't know whether it is
12 referring to that kind of a loan or a
13 structure in the subprime structuring. I am
14 sorry. Maybe it can be determined, but that
15 is why I don't know which one it is.
16 **Q This October 11th line pertaining**
17 **on page five of the graph pertaining to**
18 **Moody's et al downgrades. Seems very**
19 **significant.**
20 A I will say.
21 **Q And I am interested to know, was**
22 **your view that Moody's and others got it**
23 **right on October 11, 2007, or that they got**
24 **this downgrade wrong? Or what is your view**
25 **of these downgrades that occurred on**

221

1 Interview - CHARLES PRINCE
2 **October 11, 2007?**
3 MR. BIRENBOIM: What his view
4 was at the time or what his view was
5 looking back now?
6 MR. BONDI: That is a fair
7 characterization. Let's take those,
8 both of those questions so we make
9 sure the record is clear.
10 BY MR. BONDI:
11 **Q At the time what was your view of**
12 **the downgrades?**
13 A At the time what Maheras and
14 Barker and our folks said was that these
15 will be accounting marks, not economic
16 marks. What they meant by that was that
17 because the ratings are cut, there will be
18 an accounting loss instead of being marked
19 on your books at -- I am making up a
20 number -- a hundred, they will be marked on
21 your books at 50. But they would say in the
22 long run, if you hold the instrument, not if
23 you are trading it, but if you hold on to it
24 and wait for it to pay out because it is a
25 bond, that you will be paid all of your

222

1 Interview - CHARLES PRINCE
2 money plus interest. So, in an economic
3 sense, there won't be an ultimate loss.
4 There will be an accounting loss, not an
5 economic loss. That is what they would say.
6 I would say at this point I don't know
7 whether that is true or not. In other
8 words, I don't know whether or not sitting
9 here today the super senior tranches are in
10 default. Maybe you know. I don't know.
11 I read something in the paper the
12 other day about something with Goldman and
13 AIG where they said that the Goldman -- the
14 worst Goldman originated tranche had lost
15 90 percent of its value or something like
16 that but was not in default. So I don't
17 know whether in the long run these ratings
18 reflect economic losses. It may be the
19 case. I think if Maheras were sitting here
20 he would say we structured these so that as
21 the flood waters of default rose, there were
22 no circumstances under which the waters
23 would breach into the super seniors.
24 Without knowing, I would bet that
25 if Maheras were sitting here today he would

223

1 Interview - CHARLES PRINCE
2 say they haven't and they won't. But that
3 because no one's willing to take the risk
4 that they won't, no one is willing to buy
5 them. And because it is a mark-to-market
6 paper, you have to value it not on the
7 ultimate, although insurance companies hold
8 it that way, right, but securities firms
9 have to mark-to-market. And so in that
10 sense I don't know whether or not in the
11 long run the marks are correct or not
12 correct. I know that it caused a
13 precipitous drop in value, it caused havoc.
14 I mean this was the precipitating event that
15 broke the financial system. And there were
16 a lot of things that happened since that
17 could have been done better or worse. But
18 this is the thing that broke the financial
19 system.
20 MR. LERNER: I think you ought
21 to give Mr. Prince a two-minute break
22 if this is a convenient time.
23 MR. BONDI: Sure.
24 (Brief break.)
25 BY MR. BONDI:

224

1 Interview - CHARLES PRINCE
2 **Q We mentioned before the break or**
3 **we were talking before the break**
4 **mark-to-market accounting.**
5 A Yes.
6 **Q What role did mark-to-market**
7 **accounting play in the difficulties at**
8 **Citigroup?**
9 A Well, I think for every one on
10 the street, if you have to mark-to-market
11 and there is no market, as I said earlier,
12 it makes it very complicated. And if you
13 have a temporary liquidity problem and today
14 the liquidity problem has abated at least if
15 not solved, but it is abated, if you have a
16 temporary liquidity problem, then that has a
17 negative circle or loop that makes things
18 worse and worse and worse. So, if you can't
19 sell something at a price, then you have to
20 mark it lower. If you have to mark it
21 lower, it makes it harder to sell which
22 makes it down and down and down and down.
23 So, there is a negative
24 reinforcing loop from mark-to-market
25 accounting. You don't have that with loans,

225

1 Interview - CHARLES PRINCE
2 you don't have that in the insurance
3 business. It is an unusual feature of the
4 securities business.
5 **Q Speaking more generally about the**
6 **financial crisis and the markets as a whole,**
7 **in your view, what was mark-to-market**
8 **accounting's role in the financial crisis as**
9 **a whole? Do you view it as a significant**
10 **factor in the crisis, a contributing factor,**
11 **a minor point? I am just trying to get a**
12 **sense of your views in terms of the overall**
13 **crisis and mark-to-market accounting's**
14 **impact.**
15 A I recognize that is a very
16 controversial subject and you have lots of
17 views on it. I think that mark-to-market
18 account was somewhere between a contributing
19 factor and a significant factor, somewhere
20 between. And I think it has the effect of
21 being pro-cyclical, meaning it worsens
22 things rather than helping to make things
23 less worse. And that is a negative.
24 **Q Are there any lessons learned in**
25 **the space of mark-to-market accounting that**
226

1 Interview - CHARLES PRINCE
2 you have thought of in terms of what we can
3 do differently in the future with respect to
4 mark-to-market accounting or accounting in
5 general?
6 A I actually have a point of view
7 on that. The debate is between people who
8 think that there ought to be mark-to-market
9 accounting because there is a purity of
10 that. There is -- you don't want people
11 hiding things on their books, you don't want
12 them to be zombie banks and so forth.
13 And people at the other end that
14 say mark-to-market accounting really causes
15 the fall in value to be accelerated and to
16 be so forth, so on.
17 I think that mark-to-market
18 accounting ought to be treated in much the
19 same way, a bad analogy, but an analogy,
20 that pension accounting has created.
21 So, if I have a company and my
22 pension plan is underfunded, I am not
23 required to make it all up today. I can
24 make it up over couple of years. And I
25 think if you had a situation where
227

1 Interview - CHARLES PRINCE
2 mark-to-market accounting involved stating a
3 mark, but only having to recognize on making
4 this up, a third of it, assuming you have
5 stated an intention to hold the instrument,
6 and you have to recognize a third of it this
7 year and a third of it next year and a third
8 of it -- now the mark market will change as
9 you go along. So it is a third of whatever
10 the mark is at that point in time and so
11 forth. I don't think anybody would do this,
12 but that is my point of view. You are
13 asking me my point of view.
14 My point of view is that it is
15 not an either/or. It is a how do you
16 recognize the mark. But if you have a
17 situation where you have a precipitous
18 event, there is no ability to deal with that
19 and the damage is accelerated by that
20 precipitous event.
21 **Q Mr. Prince, Citigroup was during**
22 **your tenure supervised by the OCC, Federal**
23 **Reserve, Federal Reserve Board of Bank of**
24 **New York, among other regulators.**
25 A The FDIC.
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1 Interview - CHARLES PRINCE
2 **Q The FDIC.**
3 **Were your regulators in your**
4 **opinion asking the right questions of**
5 **Citigroup and Citicorp personnel?**
6 A That is a very general question.
7 Our regulators were for the most
8 part embedded in the organization. They had
9 offices at the company. They were there
10 full-time. I met with the regulators on a
11 very frequent basis. They met with our
12 directors, with the audit committee. They
13 met with our auditors. They met with Dave
14 Bushnell frequently. There was nothing that
15 we were doing that wasn't fully transparent
16 to the regulators.
17 In the context of what we are
18 taking about, the question is were they
19 asking the right questions, they clearly
20 didn't ask the questions that related to the
21 ultimate losses on the super seniors.
22 Neither did Tom Maheras. Neither did the
23 rating agencies.
24 So, I think that the
25 regulators -- and I would say this with
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1 Interview - CHARLES PRINCE
2 great respect. I think the regulators were
3 in the same category of believing based on
4 the information they had that these
5 positions would not turn out to be very
6 dramatic loss positions for the company.
7 So I don't think it was a matter
8 them asking the right questions or wrong
9 questions. It is much like the discussion
10 we had earlier about information flow. I
11 think they had the information, but it
12 turned out to be completely wrong for
13 everybody.
14 **Q A lot of debate, Congress and on
15 Main Street and Wall Street and elsewhere
16 about regulations and whether the crisis
17 that we experienced was a failure of
18 regulation or regulations. And I wanted to
19 know, Mr. Prince, do you have a view of
20 that? Were there regulations that failed
21 during the crisis or leading up to the
22 crisis? Were there regulations that were
23 missing that you believe should have been in
24 place?**
25 A I think clearly -- we talked

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1 Interview - CHARLES PRINCE
2 earlier about the regulatory structure of
3 the origination of mortgages. This is done
4 on a state by state basis. It is very
5 spotty. In some states it is more robust
6 than in others. In some states it doesn't
7 exist at all. And I really think that among
8 the many causes of what happened, the
9 increasingly unhealthy nature of the raw
10 material that went into the securitization
11 factory was a big contributor. And if we
12 had had better regulation of the creation of
13 that raw material, we would have -- I don't
14 think we would have had the crisis honestly.
15 That is more the absence of regulation or
16 the unevenness of regulation, that is an
17 area that I would focus on. I frankly don't
18 see much of that talked about.
19 **Q How were you compensated at
20 Citigroup? Was it a metrics? How did your
21 compensation get developed.**
22 A Well, there is very extensive
23 disclosures in our proxy statements about
24 the compensation, so I would be reluctant to
25 summarize all that. I think the best

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1 Interview - CHARLES PRINCE
2 approach would be to try to read the
3 disclosures in the proxy statement which had
4 year by year by year very extensive and
5 detailed discussions about that.
6 **Q There have been much debate over
7 compensation in general and about the
8 incentives that go along with compensation.
9 In retrospect, do you believe
10 that the compensation structure at Citigroup
11 vis-à-vis the employees in the investment
12 bank, structured credit, caused or
13 contributed to some of the decisions that
14 were being made that ultimately led to
15 losses to Citigroup?**
16 A Let me talk to, let me talk a
17 little bit about how compensation worked at
18 our company and make it personal, talk about
19 me.
20 I had a career with the company
21 which company and its predecessors was
22 almost 30 years and was fortunate enough to
23 be CEO for four years.
24 In that time frame, certainly for
25 all the periods that were pertinent to my

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1 Interview - CHARLES PRINCE
2 having a leadership position the last 15,
3 20 years, our compensation was split between
4 cash and stock. And for most of that time
5 frame, we were required to retain so long as
6 we were employed a hundred percent of the
7 stock. We had no ability to sell and cash
8 out.
9 When we merged with Citicorp in
10 1998, we lowered that requirement from a
11 hundred percent to 75 percent, meaning you
12 could sell 25 percent of your stock. In my
13 case, I didn't do that. I kept a hundred
14 percent. And over the course of 30 years,
15 built up because of the percentage of your
16 compensation that went into stock and the
17 requirement to hold it, I built up 30 years,
18 a career's worth of compensation in stock
19 which I watched go from \$52, \$53 a share to
20 \$0.97. And virtually every share of stock I
21 ever got I still own.
22 I think that that compensation
23 program aligned me pretty well with
24 stockholders. So I think from the
25 standpoint of the leadership of the company,

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1 Interview - CHARLES PRINCE
2 if you have that kind of a program, you are
3 pretty well aligned. Now, I can't speak to
4 people who might have sold some of their
5 stock, might have sold their stock after
6 they left the company, I didn't do that.
7 At lower levels of the company,
8 at the level of someone running a particular
9 desk, there I think that it is possible that
10 the compensation structure could incent
11 people to act aggressively.
12 You may remember I talked about
13 the five-point plan in trying to emphasize
14 to everyone long term versus short term. In
15 Japan, don't go for the short term and risk
16 the reputation of the company.
17 In the MTS trade, don't do that
18 quick trade at the risk of putting off all
19 of our clients. And despite all that, I can
20 see situations where someone might have, do
21 something because they were incented in the
22 short run.
23 But I think that is not really
24 the issue. I think the issue for Wall
25 Street is there structure of compensation

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1 Interview - CHARLES PRINCE
2 which incents organizations to go in
3 directions, not individuals to go in
4 directions. And all I can speak to is what
5 happened in my case, and in my case I don't
6 think it had that effect.
7 **Q We have been looking at the**
8 **accounting and the losses at Citigroup and**
9 **one thing that struck me was the amount of**
10 **off balance sheet activity at Citigroup.**
11 **Do you have any views in terms of**
12 **whether the off balance sheet accounting**
13 **caused or contributed to any of the**
14 **financial problems at Citigroup in terms of**
15 **when items came on balance sheet?**
16 A That is a very broad and
17 complicated subject, and I am sorry to
18 respond that way.
19 The notion of having items off
20 balance sheet is not in itself an unusual or
21 complicated item. Almost all financial
22 institutions have some activities or some
23 assets that are off balance sheet. It is
24 not appropriate to do off balance sheet
25 activities to manage your quarter end. And

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1 Interview - CHARLES PRINCE
2 I have read in the papers about the Lehman
3 stuff and so forth. And if it is true that
4 they did that just for quarter end, that's
5 not appropriate.
6 But most institutions don't do it
7 that way. They don't, they don't do it at
8 the end of a quarter and then back on and
9 off, on and off. But the notion that having
10 off balance sheet activities is normal
11 doesn't answer the question.
12 In Citi's case, as it turned out,
13 there were certain asset classes that came
14 back on the balance sheet. Most all of that
15 happened after I left the company. So, I
16 can only speak to it in the context of an
17 outsider. But in that context, I think that
18 again it is the precipitous nature of
19 actions more than the actions themselves, I
20 think. The suddenness of it, the inability
21 to react, and so in much the same way that
22 the rating agencies, the collapse of their
23 thinking about structured products
24 precipitated the decline of the triple A
25 tranches, the liquidity crisis apparently

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1 Interview - CHARLES PRINCE
2 forced these vehicles to be reconsolidated.
3 And on a going-forward basis, I don't think
4 that the right answer is to say you can't
5 have things off balance sheet, but I do
6 think there has to be a way to think about
7 dealing with a precipitous reversal of those
8 activities.
9 **Q In December of 2007, after you**
10 **had left the company, Citigroup made the**
11 **announcement that it would bring on assets**
12 **and liabilities associated with the seven**
13 **structured investment vehicles out of**
14 **London.**
15 A Uh-huh.
16 **Q The SIVs.**
17 **I know that occurred after your**
18 **departure, but what role did you have in**
19 **discussions concerning those SIVs prior to**
20 **your departure?**
21 A John Havens on our calls --
22 remember I said we had these calls
23 periodically. John Havens was charged with
24 managing the SIVs and the liquidity of the
25 SIVs. He had taken that on as part of new

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1 Interview - CHARLES PRINCE
 2 responsibilities. And he would report on
 3 being able to sell an asset here or to roll
 4 over some commercial paper there and when I
 5 left was still reporting that he believed
 6 that we would get through the funding
 7 situation on the SIVs. That is that they
 8 would be self funded. That is the last I
 9 heard of it.
 10 MR. BONDI: For this next
 11 exhibit, I think we might not want Mr.
 12 Learner to leave with it given the
 13 nature --
 14 MR. KARP: This is the Federal
 15 Reserve April 15th --
 16 MR. BONDI: Yes.
 17 MR. LERNER: I won't steal it,
 18 I promise. I will give it back.
 19 MR. BONDI: Do we have an
 20 understanding you will give it back
 21 after the questioning?
 22 MR. LERNER: I will give it
 23 back.
 24 (Thereupon, the document Bates
 25 marked FCIC Citi 198 was marked CR

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1 Interview - CHARLES PRINCE
 2 Under the summary of risk
 3 management conclusions, "The assessment of
 4 Citigroup's overall risk management has been
 5 downgraded from a satisfactory to fair. It
 6 primarily reflects weaknesses in the firm's
 7 is setting and monitoring of its risk
 8 appetite and exposures that led to severe
 9 and unexpected losses and in its marking and
 10 bank business CMB."
 11 What is your reaction, sir, to
 12 that statement?
 13 A Well, this is, I have not seen
 14 this before. It is a document that appears
 15 to be about 26, 27 pages long. And I don't
 16 know the basis by which this first sentence
 17 of the summary paragraph, on what it is
 18 based, and I don't know what the company's
 19 reaction to this was. So with all those
 20 caveats, you know, I think it is -- I don't
 21 really have a comment on it. I think it is
 22 an unusual thing given the fact that the Fed
 23 was embedded in our organization. But since
 24 I didn't see it and don't know what the
 25 company's position is, I don't really have a

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1 Interview - CHARLES PRINCE
 2 Exhibit 15 for Identification, as of
 3 this date.)
 4 BY MR. BONDI:
 5 Q Mr. Prince, I am showing you what
 6 is, was produced to us by the Federal
 7 Reserve and it is marked FCIC Citi 198. It
 8 is dated April 15, 2008. It was to the
 9 board of directors, care of Mr. Pandit, your
 10 successor.
 11 I take it, sir, you haven't ever
 12 seen this document?
 13 A I have not received or reviewed a
 14 copy of this.
 15 Q I would like to draw your
 16 attention, sir, to the second page and it
 17 refers to a downgrade to Citi with respect
 18 to its risk management under the summary of
 19 risk management conclusions, Bates number
 20 202?
 21 A Got it.
 22 Q I am going off of the page
 23 numbers at the top.
 24 A I see that now. I apologize.
 25 Q It is Bates number 202.

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1 Interview - CHARLES PRINCE
 2 reaction to it.
 3 Q Please flip to the third page of
 4 this document, Bates FCIC Citi 203. The
 5 last sentence of the carryover paragraph
 6 reads: "Further, senior management at the
 7 firm allowed its drive for additional
 8 revenue growth to eclipse proper management
 9 of risk while risk management failed to
 10 serve as an effective check against these
 11 decisions.
 12 Do you have any reaction to that
 13 statement by the Fed?
 14 A I would just give you the same
 15 answer I gave before.
 16 Q Next paragraph. "Management did
 17 not correctly identify and assess its
 18 concentration to subprime risk exposures and
 19 its CDO trading book which produced
 20 significant losses that severely eroded the
 21 firm's capital and its reputation."
 22 Do you have any reaction to that
 23 statement?
 24 A Well, the "did not correctly
 25 identify its concentration," I think is

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1 Interview - CHARLES PRINCE
 2 incorrect. I assume that people knew what
 3 we had there.
 4 We did not correctly assess, I
 5 guess that might be closer to it. No one
 6 correctly understood what it meant to have
 7 those exposures in the CDO trading book.
 8 And I would say with respect, the Fed didn't
 9 either.
 10 **Q The next paragraph, the**
 11 **penultimate sentence I would draw your**
 12 **attention to, it begins with "it also did**
 13 **not properly," the "it" I will submit, if**
 14 **you carry over from the two prior, three**
 15 **prior sentences, it appears to refer to the**
 16 **firm, Citigroup.**
 17 **"It also did not properly**
 18 **highlight the funding and liquidity**
 19 **implications of on-boarding assets and in**
 20 **the case of certain counter-party credit**
 21 **exposures such as liquidity puts that had**
 22 **been written to CDO conduits, under measured**
 23 **their potential impact."**
 24 **What is your reaction to that**
 25 **statement by the Fed?**

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1 Interview - CHARLES PRINCE
 2 A Again, without having read the
 3 whole document and without having read the
 4 company's response to it, all I can say is
 5 that the Fed was embedded in our
 6 organization, understood what we were doing.
 7 And beyond that I don't really have a
 8 comment on this.
 9 **Q And if you would bear with me,**
 10 **sir, I have a few more to ask you here.**
 11 A Sure.
 12 **Q The next paragraph, "Senior**
 13 **management, as well as the risk management**
 14 **function charged with independent monitoring**
 15 **responsibilities, did not properly identify**
 16 **and analyze these risks," carrying over I**
 17 **think from the prior paragraph, "in a timely**
 18 **fashion and were slow in presenting them to**
 19 **the board of directors and the audit and**
 20 **risk management committee."**
 21 **What is your reaction to that**
 22 **statement?**
 23 A The first part of the statement I
 24 would have the same reaction I had before.
 25 The second part, slow in presenting them to

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1 Interview - CHARLES PRINCE
 2 the board and so forth, I would disagree
 3 with that. I think that we presented
 4 information to the board in a very timely
 5 fashion.
 6 **Q The next sentence pertains to the**
 7 **board itself. It says, "The board of**
 8 **directors in turn does not appear to have**
 9 **posed the proper questions to senior**
 10 **management in the early stages of the**
 11 **subprime mortgage crisis which otherwise**
 12 **might have caused senior management to**
 13 **report more meaningfully and completely on**
 14 **the potential impact on the firm's risk**
 15 **exposures and future earnings."**
 16 **Again, do you have any reaction**
 17 **to that statement?**
 18 A I simply disagree with it. I
 19 don't think that the board could fairly be
 20 criticized in light of what market
 21 professionals, the rating agencies and the
 22 regulators, in light of the conduct of those
 23 parties over the course of 2007, I don't
 24 think that our board can be criticized for
 25 what they did over the course of 2007.

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1 Interview - CHARLES PRINCE
 2 **Q The next paragraph, bear with me.**
 3 A I understand.
 4 **Q I want to go through the next**
 5 **paragraph at the least, please.**
 6 **"Exasperating this situation was**
 7 **the fact that communication among the**
 8 **independent risk management function**
 9 **business line management and senior**
 10 **management on aggregated inherent subprime**
 11 **risk across portfolios and products proved**
 12 **to be inadequate when credit and market**
 13 **conditions deteriorated in 2007."**
 14 **Do you have a reaction to that**
 15 **sentence?**
 16 A I don't think that the issues
 17 that we had in 2007 related to risk across
 18 portfolios and products. I think it was
 19 pretty well encapsulated in the fixed income
 20 business.
 21 I think that in 2008, in a broad
 22 consumer slow down, there were products in
 23 different areas, very similar to the rest of
 24 the industry. But I think that in 2007 it
 25 was actually a very narrow product, not a

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1 Interview - CHARLES PRINCE
2 broad based set of products.
3 **Q Do you know if the CDO desks at**
4 **Citigroup were communicating with other**
5 **entities within the Citigroup umbrella that**
6 **had some dealings with mortgages or the real**
7 **estate market such as the RMBS**
8 **securitization desk or such as the**
9 **origination teams at Citi financial? Do you**
10 **know if there was communication from the CDO**
11 **desk to other areas of the entities?**
12 A I don't.
13 **Q If there was not, would that have**
14 **surprised you?**
15 A Communication about what?
16 **Q Conditions in the real estate**
17 **market and the decline?**
18 A I would have expected that anyone
19 in trading business would have reached out
20 to as many sources of market information as
21 one could get. And that you would have a
22 more welcome reception from members of the
23 family. So it seems to me logical that all
24 of the parts of our business that dealt with
25 mortgages would have had a natural

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1 Interview - CHARLES PRINCE
2 inclination to call and get market color.
3 That is all I can add.
4 **Q Looking back at the document, the**
5 **next sentence in that paragraph says: This,**
6 **meaning the communication -- strike that.**
7 **We have already covered I think that**
8 **sentence or at that least that concept.**
9 **The next sentence though, it**
10 **starts with, "Senior management incorrectly**
11 **discounted the probability that the**
12 **deterioration that was becoming evident in**
13 **the CDO market and in the subprime credit**
14 **conditions during the spring and summer of**
15 **2007 would have such a significant**
16 **deleterious affect on the firm's valuation**
17 **of its assets and its ability to syndicate**
18 **problematic assets."**
19 **What is your reaction to that**
20 **statement?**
21 A Well, senior management
22 presumably includes more than just the CEO
23 and the CFO and so forth. If you include in
24 that Tom Maheras and Randy Barker, the
25 people who were running the fixed income

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1 Interview - CHARLES PRINCE
2 business and had the background and the
3 responsibility for running that business, I
4 think it's probably correct to say that they
5 incorrectly discounted the probabilities
6 that the deterioration, et cetera, et
7 cetera.
8 What I would object to or what I
9 would not agree with is the use of the word
10 probability instead of possibility.
11 **Q What do you mean by that?**
12 A The sentence says, "Senior
13 management incorrectly discounted the
14 probability that something would happen."
15 It clearly wasn't probable that something
16 would happen. It was -- in the spring and
17 summer of 2007, it was at best remotely
18 possible. It was at the far end of unlikely
19 at that point in time, looking at every
20 external indicator, the documents you have
21 shown me today proved that.
22 So, it was not a probability that
23 was discounted in that time period. It was
24 a remote possibility. I think they did
25 discount, if I can change the words, they

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1 Interview - CHARLES PRINCE
2 incorrectly discounted the remote
3 possibility that the deterioration, et
4 cetera, et cetera.
5 Without agreeing with every
6 single word, I think if you were to say that
7 Maheras and Barker in the summer, not the
8 spring, but in the summer made a mistake
9 about this possibility, this fairly remote
10 possibility, one of the documents said
11 0.01 percent, I think, if their view of that
12 turned out to be as wrong as it was, then
13 yes, they were incorrect about that. But I
14 think it was later in the year and I think
15 it was a remote possibility, not a
16 probability.
17 **Q The next sentence reads: "While**
18 **the firm ultimately released those managers**
19 **whose businesses incurred the losses, some**
20 **other remedial actions were slow in coming**
21 **after the subprime CDO exposure was**
22 **identified and its ramifications on earnings**
23 **were announced."**
24 **Do you have any idea what the,**
25 **whether there were other remedial actions**

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1 Interview - CHARLES PRINCE
 2 that were slow in coming after the subprime
 3 CDO exposure was identified and its
 4 ramifications on earnings were announced?
 5 A I don't know the answer to that.
 6 Q That may have occurred after your --
 7 A Presumably the ramifications on
 8 earnings refers to our announcement in mid
 9 October and I was gone, yes, late October,
 10 early November, and I was gone after that.
 11 Q When was your official last day?
 12 A I think I was on the payroll
 13 until the end of December, but my last day
 14 as CEO was November 4th.
 15 Q The last sentence of that
 16 paragraph is, "Two rounds of CEO write-downs
 17 were announced before a unit was formed to
 18 concentrate on loss mitigation and enhancing
 19 the CDO valuation process."
 20 What is your reaction to that
 21 statement?
 22 A I don't have any reaction. I
 23 mean I know what the words mean but I think
 24 it happened after I left.
 25 MR. LERNER: If you are done

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1 Interview - CHARLES PRINCE
 2 with this, I'm returning my copy.
 3 MR. BONDI: Thank you.
 4 BY MR. BONDI:
 5 Q Do you know someone named Richard
 6 Bowen?
 7 A Richard Bowen. Doesn't ring a
 8 bell. Sorry.
 9 Q Did you offer any advice to Mr.
 10 Pandit in his role as CEO when he took over
 11 as CEO? Did you give him any advice?
 12 A Well, you have to remember that
 13 Vikram didn't take over until some number of
 14 weeks after I left.
 15 So it is not as if there was a
 16 hand off of the football on a Monday
 17 afternoon.
 18 The only thing that is responsive
 19 to your question, I did meet with Vikram for
 20 breakfast at some point. This would have
 21 been sometime in 2008, first half of the
 22 year, but I don't remember exactly when.
 23 And he asked me my thoughts about different
 24 parts of the company and so forth. And the
 25 only thing I remember telling him was that

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1 Interview - CHARLES PRINCE
 2 our consumer group had significantly under-
 3 performed for a number of years and that he
 4 should be very watchful of the performance
 5 of U.S. consumer business. And please don't
 6 take that out of context. It is not that I
 7 didn't talk to him about the securities
 8 business. But he had a background in the
 9 security business. And so I am sure we
 10 talked about the securities business, but it
 11 is not as if I felt that there was anything
 12 special that I was going to add to his
 13 thinking on the subject, but he did not have
 14 a background in the consumer business.
 15 Q Take you back in time, Mr.
 16 Prince, to some testimony that you gave on
 17 April 29, 1998?
 18 A That is a different lifetime,
 19 isn't it? Testimony where, if I may ask?
 20 Q I will get to that. It was a
 21 hearing before the House Financial Services
 22 Committee on bank mergers on April 29, 1998.
 23 This was about a year before the Financial
 24 Services Modernization Act, the
 25 Gramm-Leach-Bliley Act which repealed

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1 Interview - CHARLES PRINCE
 2 Glass-Steagall. And you said something
 3 there, and I just will read it for the
 4 record to get your reactions.
 5 "The size, resources and
 6 diversity of operations of the new company
 7 will provide the financial strengths and
 8 stability necessary to survive and grow in
 9 today's rapidly changing world.
 10 "Whether it is a country crisis,
 11 a real estate crisis or any other crisis, it
 12 is clear that the financial services company
 13 of tomorrow and its customers must have the
 14 ability to withstand shocks.
 15 "As companies become larger and
 16 more diverse, they are better able to serve
 17 as a source of strength and stability, not
 18 only for their affiliates but most
 19 importantly for their customers. This is
 20 what we will do for the 100 million
 21 customers of Citigroup."
 22 What is your reaction to hearing
 23 that statement now that you had made on
 24 April 29, 1998?
 25 A I am not sure how to answer the

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1 Interview - CHARLES PRINCE
2 question.
3 **Q Fair enough. That was general,**
4 **and I should be more specific.**
5 **Do you feel that your description**
6 **in terms of the size, resources and**
7 **diversities of operations of Citigroup that**
8 **had developed as a result of the merger with**
9 **Travelers, the Citicorp/Travelers merger,**
10 **and the growth through the years, put it in**
11 **a better position to withstand financial**
12 **shocks?**
13 A Yes.
14 **Q The model that you were**
15 **describing in terms of the companies**
16 **becoming larger and larger, more diverse and**
17 **better able to withstand shocks, is that**
18 **still your view to this day in terms of**
19 **companies being larger and better able to**
20 **absorb shocks as opposed to more focused and**
21 **streamlined, or are we talking about two**
22 **different things?**
23 A Well, I think we are talking
24 about a couple of different things.
25 In the case of the financial

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1 Interview - CHARLES PRINCE
2 crisis, what we saw was that a variety of
3 firms, some small, some medium, some large,
4 encountered significant problems. Bear
5 Stearns was a fraction of the size of
6 Citigroup, Merrill Lynch was somewhere in
7 the middle. AIG was probably bigger in some
8 ways. And some were brokerage houses, some
9 were banks, some were insurance companies.
10 We see a whole variety of institutions that
11 were hit very hard by the super senior
12 issue, basically.
13 So, I don't think that from the
14 financial crisis one could reasonably take a
15 view that size, type of business, or any of
16 those characteristics were determining
17 characteristics. I don't think you could,
18 in light of Bear Stearns I don't think you
19 could come away and say well, gosh, the
20 bigger the company, the more complex, the
21 more difficult it is. I don't think in
22 light of AIG you can come away and say well,
23 it is the banks. I think, I think it is not
24 something that fits into one of those types
25 of businesses or big versus small

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1 Interview - CHARLES PRINCE
2 businesses. I don't think that is the right
3 conclusion to take from that.
4 **Q Do you feel like Gramm-Leach-Bliley**
5 **and the repeal of Glass-Steagall contributed**
6 **in any way to the financial crisis?**
7 A Well, it is very interesting.
8 You understand of course that by the time of
9 Gramm-Leach-Bliley, the Glass-Steagall Act
10 in a legislative sense only applied to the
11 insurance business, that the Fed had long
12 had authority to have banks and be in the
13 securities business. And in fact when
14 Travelers and Citi merged, the only issue
15 that had to be dealt with was the
16 combination of the insurance business with
17 the bank, not the combination of the
18 securities business.
19 But I take your question to be
20 the combination of securities businesses
21 with banks, whether or not that is a good
22 thing or a bad thing, whether this ought to
23 cause us to revisit, whether that is
24 permissible or not.
25 The variety of firms that had

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1 Interview - CHARLES PRINCE
2 problems, I am talking the 2007, 2008 time
3 frame, not the consumer slow down after
4 that, were mostly securities firms. Bears
5 Stearns, Merrill Lynch -- Goldman and Morgan
6 both bank holding companies because of this.
7 Lehman Brothers of course. In our case, the
8 Salomon Brothers business part of Citi. It
9 was mostly the securities firms. And what
10 happened was that the Fed had to take over
11 responsibility for those in a funding and
12 regulatory sense.
13 So, if we were to say we are
14 going to enforce a separation of these
15 businesses, I am not sure what we would get
16 from that. The Fed had to take on the
17 securities businesses. As I understand it,
18 there is not much prospect for the Fed to
19 let go of the securities business going
20 forward, so they got it both ways.
21 My sense is that combining a
22 volatile business with a more stable
23 business is actually good, not bad. So,
24 again, if you wanted to roll the clock back
25 to the time when the securities businesses

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1 Interview - CHARLES PRINCE
2 weren't as important as they were -- in the
3 Great Depression, the banks were the main
4 conduit to the capital markets; they are not
5 any more, then I could see that.
6 But I don't think that question,
7 and I don't mean it in a disrespectful way,
8 I don't think that question deals with the
9 reality of the modern world. The reality of
10 the modern world is that securities firms
11 and banks and insurance companies are all
12 participants in the capital markets and
13 there is no way to artificially segregate
14 them.
15 **Q Your testimony more recently on**
16 **March 7, 2008, before the house committee on**
17 **oversight and government reform, you**
18 **testified that the risk models eventually**
19 **proved to be inadequate.**
20 A When was this?
21 **Q March 7, 2008.**
22 A What was that in the context of?
23 2008, I am sorry, yes, I have got it, right.
24 **Q House oversight committee?**
25 A I got it, sorry.

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1 Interview - CHARLES PRINCE
2 **Q I think the title of the hearing**
3 **was "CEO pay and the mortgage crisis."**
4 **You testified, and I am**
5 **paraphrasing, that the risk models**
6 **ultimately proved to be inadequate.**
7 **Do you still agree with that view**
8 **that the risk models at Citigroup ultimately**
9 **turned out to be inadequate?**
10 A I think the risk models in the
11 industry, I think the risk models of the
12 rating agencies, I think the risk models of
13 the regulators, I think everybody's risk
14 models turned out to be inadequate.
15 **Q During that hearing Congressman**
16 **Kanjorski asked you the following. He said,**
17 **"Mr. Prince, your bank was in trouble.**
18 **Didn't you get any reports that there were**
19 **such horrible failures in the system?"**
20 **You responded, "I think**
21 **Congressman, that in all on honesty, by the**
22 **time some of those reports surfaced in the**
23 **spring of 2007, most of the damage had**
24 **already been done. That is --" and**
25 **Congressman Kanjorski interrupts and says,**

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1 **Interview - CHARLES PRINCE**
2 **"When do you think the damage occurred?"**
3 **And you responded, "Well, I think**
4 **honestly that the lending patterns began to**
5 **deteriorate pretty significantly in 2006."**
6 **In 2006, when the lending**
7 **patterns began to deteriorate, did that**
8 **sound off any alarms in your mind that there**
9 **could be trouble ahead?**
10 A Let me make sure that we are
11 working with all the comments in the right
12 area.
13 When I talked about lending
14 standards deteriorating, I was talking about
15 the lending standards in the origination of
16 mortgages. And if you look at the subprime
17 mortgage originations, as you know they are
18 done by semi annual tranches. And it is
19 really in the 2006 tranches and the first
20 tranche in 2007 that the quality really
21 began to deteriorate. So that is what I was
22 talking about in the raw material.
23 That judgment, that conclusion
24 can only be seen in hindsight, that is as
25 those tranches of originations for the

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1 Interview - CHARLES PRINCE
2 industry had earlier and earlier and higher
3 and higher default rates, it became clear in
4 hindsight that in 2006 and 2007 the
5 underwriting criteria had fallen off
6 significantly.
7 When I talked about by the spring
8 of 2007, the damage had been done, I was
9 referring to the comments of Tom Maheras and
10 Randy Barker that when they saw the bottom
11 line in that chart on page five that I
12 talked about, when they saw the triple B
13 line start to deteriorate, which really
14 happened when the HSBC had their problem
15 with associates in March, they said to me
16 and the board and others after the fact, in
17 September, October, that they tried to go
18 out and hedge the positions. And there
19 wasn't enough liquidity in the market, there
20 wasn't enough volume to hedge it.
21 And so my point was that whatever
22 we owned in the spring, that top line that
23 was still flat, there was no ability to get
24 off of that by the time the spring came.
25 And I was referring to them having said that

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1 Interview - CHARLES PRINCE
2 they tried to increase the hedging and
3 wasn't able to. So, I am sorry, I am not
4 sure I have answered your question. Is
5 there more to the question that I didn't
6 answer?
7 **Q Let me ask it a little bit**
8 **differently, and that is lending practices**
9 **in the subprime origination space --**
10 A Right.
11 **Q -- as of, as an industry began to**
12 **deteriorate if 2006.**
13 **Do you agree with that, not --**
14 **outside of Citigroup?**
15 A The industry.
16 **Q And Citigroup had a CDO business**
17 **that relied on RMBS, residential mortgage**
18 **backed securities, where the underlying**
19 **asset of those residential mortgage backed**
20 **securities were subprime mortgages**
21 **originated by other originators other than**
22 **Citi.**
23 **My question I guess is the**
24 **following is: If you had known in 2006 that**
25 **Citigroup had substantial positions on its**

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1 Interview - CHARLES PRINCE
2 **books of CDOs and underlying those CDOs were**
3 **mortgages of originators that had**
4 **deteriorating lending standards, if you had**
5 **known that in 2006, could you have asked Mr.**
6 **Maheras or Mr. Barker, take hedge positions**
7 **on that? Could you have asked people to**
8 **take defensive mechanisms that would have**
9 **prevented Citigroup from having substantial**
10 **losses in the future?**
11 A Look, the answer that helps me is
12 to say yes. But that is too simplistic an
13 answer even though it serves my personal
14 interest. The reality is that it would have
15 depended upon both an appreciation of the
16 underlying quality of the asset and the
17 belief in the strength of the securitization
18 model.
19 In '06, everybody, the rating
20 agencies, everybody knew that lending
21 standards were lax. They didn't know they
22 were deteriorating, but they knew they were
23 lax. It is not as if no doc and low doc
24 loans or the fact of negative amortization
25 products was unknown in 2006 or early 2007.

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1 Interview - CHARLES PRINCE
2 The rating agencies knew about that. The
3 press had stories about those kinds of
4 issues. But everybody believed and
5 everybody believed up until October of 2007
6 that the strength of the structuring process
7 would keep the rising flood waters away from
8 the super seniors. It is just as simple as
9 that.
10 And so it is not just the
11 characterization of the underlying asset.
12 It is also the characterization of the
13 result of the securitization process. And
14 as I said, for all I know, the super seniors
15 are still paying out. That was the
16 question. Now, in hindsight, if I knew a
17 fraction of what I knew today, would I go
18 and can them to get this stuff off books, of
19 course I would. What is the difference
20 between Citi and another bank? Our guys
21 didn't sell the super seniors. It is just
22 as simple as that. If our folks had sold
23 the super seniors, you would be asking me
24 why we were so much smarter than Merrill
25 Lynch. How did we get it right, you would

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1 Interview - CHARLES PRINCE
2 be asking me. And that decision was made 17
3 levels below my office by people who had, I
4 believe, a good faith belief in what they
5 were doing. But it's overly generous to me
6 to say if I had known X would I have gone
7 and changed the world. I would like to say
8 yes, but I think it is more complicated than
9 that.
10 **Q If I heard correctly today,**
11 **though, in 2006 and early 2007, you didn't**
12 **know the positions --**
13 A Correct.
14 **Q -- that were being taken on CDOs?**
15 A Correct.
16 **Q I have learned to always ask one**
17 **question at the end that and that is, is**
18 **there anything, Mr. Prince, that you**
19 **expected me to ask or expected to talk about**
20 **today that we haven't?**
21 A Gosh, you have covered so much
22 ground, so quickly. We talked about the
23 rating agencies, we talked about the
24 regulators, we talked about risk. We talked
25 about the board. I can't think of anything

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<p>1 Interview - CHARLES PRINCE 2 else, no. 3 Q And, Mr. Prince, in fairness 4 obviously to you and to the process here, is 5 there anything that you would like to add? 6 Is there anything that you feel that either 7 the Financial Crisis Inquiry Commission or 8 its staff ought to know, anything that you 9 would like to share? 10 A Well, I really wish that it 11 hadn't happened. I don't wish that for me, 12 but I wish it for the institution and I wish 13 it for the people of the institution. But 14 maybe that came through already. 15 Q Mr. Prince, we are obviously in a 16 confidential interview. I just ask that you 17 obviously don't discuss what we talked about 18 today with anyone outside of your counsel. 19 A You get to the senior enough 20 level in life, you forget things very 21 easily. 22 Q And, Mr. Prince, on behalf of the 23 Financial Crisis Inquiry Commission and its 24 staff I would like to thank you for your 25 time today and your candor. Thank you.</p> <p style="text-align: right;">266</p>	<p>1 Interview - CHARLES PRINCE 2 3 Page 4 5 EXAMINATION BY MR. BONDI 3 6 7 E X H I B I T S 8 9 E-mail Bates numbered Citi FCIC E 40 10 31616 was marked CR Exhibit 1 11 12 Printout of remarks of April 19, 45 13 2007 to the Greenlining 14 institute's 14 Annual Economic 15 Summit in Los Angeles, California 16 was marked CR Exhibit 2 17 18 Document Bates marked Citi FCIC 56 19 91764 and 91765 continuing on to 20 765, which purports to be the 21 warehouse lines of credit with 22 mortgage originators from 2000 to 23 2010 was marked CR Exhibit 3 24 25 Presentation Bates Citi 7657 was 70</p> <p style="text-align: right;">268</p>
<p>1 Interview - CHARLES PRINCE 2 A Thank you for such a professional 3 engagement. 4 (Time noted: 4 p.m.) 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p> <p style="text-align: right;">267</p>	<p>1 Interview - CHARLES PRINCE 2 marked CR Exhibit 4 3 4 Documents Bates Citi FCIC 24594 96 5 were marked CR Exhibit 5 6 7 E-mail chain Bates Citi FCIC E 110 8 24768 was marked CR Exhibit 6 9 10 Document Bates Citi FCIC 2648 was 127 11 marked CR Exhibit 7 12 13 E-mail chain Bates marked Citi 137 14 FCIC E 36374 was marked CR 15 Exhibit 8 16 17 Power Point deck Bates marked 146 18 FCIC 99654 was marked CR 19 Exhibit 9 20 21 E-mail chain Bates Citi FCIC E 159 22 31582 was marked CR Exhibit 10 23 24 The document marked Citi 1611657 174 25 entitled Global Structured Credit</p> <p style="text-align: right;">269</p>

1 Interview - CHARLES PRINCE
2 Products, The Way Forward,
3 September 2007, Michael Raynes
4 was marked CR Exhibit 11
5
6 E-mail Bates marked Citi FCIC E 201
7 16495 was marked CR Exhibit 12
8
9 Document Bates marked Citi FCIC E 209
10 41087 was marked CR Exhibit 13
11
12 Document Bates marked FCIC 2970 213
13 was marked CR Exhibit 14
14
15 Document Bates marked FCIC Citi 238
16 198 was marked CR Exhibit 15
17
18
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20
21
22
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24
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1 Interview - CHARLES PRINCE
2 CERTIFICATION
3
4
5 I, JESSICA R. BERMAN, a Notary Public
6 for and within the State of New York, do
7 hereby certify:
8 That the witness whose testimony as
9 herein set forth, was duly sworn by me; and
10 that the within transcript is a true record
11 of the testimony given by said witness.
12 I further certify that I am not related
13 to any of the parties to this action by
14 blood or marriage, and that I am in no way
15 interested in the outcome of this matter.
16 IN WITNESS WHEREOF, I have hereunto set
17 my hand this 18th day of March, 2010.
18
19
20 _____
21 JESSICA R. BERMAN
22 * * *
23
24
25

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