

CONFIDENTIAL



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

**AUG 20 2007**

Carl Howard, Esq.  
General Counsel  
Bank Regulatory  
Citigroup Inc.  
425 Park Avenue, 2<sup>nd</sup> Floor/Zone 2  
New York, New York 10022

Dear Mr. Howard:

This is in response to the request by Citigroup Inc. ("Citigroup"), New York, New York, for a temporary exemption from section 23A of the Federal Reserve Act and the Board's Regulation W.<sup>1</sup> The exemption would allow Citigroup's subsidiary bank, Citibank, N.A. ("Bank"), Las Vegas, Nevada, to engage in certain securities financing transactions with its affiliate, Citigroup Global Markets Inc. ("Affiliated Broker-Dealer"), New York, New York, as described below.

Bank proposes to extend credit to market participants in need of short-term liquidity to finance their holdings of certain mortgage loans and related assets ("Assets"). For operational reasons, Bank proposes to channel these transactions through the Affiliated Broker-Dealer. The transactions between Bank and the Affiliated Broker-Dealer and the mirror transactions between the Affiliated Broker-Dealer and the unaffiliated market participants would take the form of either reverse repurchase agreements or securities borrowing transactions (collectively, "securities financing transactions" or "SFTs"). The transactions between the Affiliated Broker-Dealer and Bank will be on the same terms as the transaction between the Affiliated Broker-Dealer and the unaffiliated market participant. For each of the proposed SFTs, Bank will be overcollateralized; the

---

<sup>1</sup> 12 U.S.C. § 371c; 12 CFR part 223.

A handwritten signature in cursive script, appearing to read "Jule".

extent of this overcollateralization will vary depending on the type of assets offered by the unaffiliated market participants as collateral for the SFTs.

Section 23A and Regulation W limit the amount of “covered transactions” between a bank and any single affiliate to 10 percent of the bank’s capital stock and surplus, and limit the amount of covered transactions between a bank and all its affiliates to 20 percent of the bank’s capital stock and surplus.<sup>2</sup> “Covered transactions” include a purchase of assets by a bank from an affiliate, a loan or extension of credit by a bank to an affiliate, an issuance of a guarantee by a bank on behalf of an affiliate, and certain other transactions.<sup>3</sup> In addition, the statute and regulation require a bank to secure its extensions of credit to, and guarantees on behalf of, affiliates with prescribed amounts of collateral.<sup>4</sup>

Moreover, section 23A and Regulation W specifically authorize the Board to exempt transactions or relationships from the requirements of the statute and rule if the Board finds such an exemption to be in the public interest and consistent with the purposes of section 23A.<sup>5</sup> The Board previously has indicated that the twin purposes of section 23A are (i) to protect against a depository institution suffering losses in transactions with affiliates; and (ii) to limit the ability of a depository institution to transfer to its affiliates the subsidy arising from the institution’s access to the federal safety net.<sup>6</sup>

The SFTs between Bank and the Affiliated Broker-Dealer would be covered transactions under section 23A and Regulation W. Because Bank proposes to engage in SFTs with the Affiliated Broker-Dealer in amounts that exceed Bank’s quantitative limits under the statute and rule, Bank must receive an exemption from the Board to engage in the proposed transactions.

---

<sup>2</sup> 12 U.S.C. § 371c(a)(1); 12 CFR 223.11 and 223.12.

<sup>3</sup> 12 U.S.C. § 371c(b)(7); 12 CFR 223.3(h).

<sup>4</sup> 12 U.S.C. § 371c(c); 12 CFR 223.14.

<sup>5</sup> 12 U.S.C. § 371c(f)(2); 12 CFR 223.43.

<sup>6</sup> 67 Federal Register 76560 (Dec. 12, 2002).

- 3 -

The Board believes that a temporary, conditional exemption from section 23A and Regulation W for the proposed SFTs would be consistent with the purposes of section 23A and in the public interest.

Bank has agreed to several conditions that will help ensure that it engages in the proposed SFTs in a safe and sound manner. Bank is well capitalized and has represented that it will limit its lending under this exemption to \$25 billion, which constitutes less than 30 percent of Bank's total regulatory capital. Citigroup will, as a condition of the exemption, also agree to guarantee the obligations of the Affiliated Broker-Dealer to Bank in connection with the proposed SFTs. This parent guarantee provides additional protection to Bank in the event of the insolvency of the Affiliated-Broker Dealer.

Each of the proposed SFTs will at all times be overcollateralized, Bank will mark to market the SFTs on a daily basis, and the SFTs will be subject to daily margin-maintenance requirements. In addition, the Affiliated Broker-Dealer must execute an SFT with an unaffiliated market participant that is contemporaneous with and on the same terms as Bank's SFT with its Affiliated Broker-Dealer. This requirement should help ensure that each transaction with Bank is on market terms, that Bank does not use SFTs to finance the securities inventory of the Affiliated Broker-Dealer, and that the affiliate serves only as a conduit through which Bank engages in SFTs with unaffiliated counterparties. To enhance the ability of Bank to promptly close out and liquidate SFTs with its Affiliated Broker-Dealer in the event of the affiliate's insolvency, the SFTs between Bank and its Affiliated Broker-Dealer must be promptly collectable even in the case of the bankruptcy of the Affiliated Broker-Dealer.<sup>7</sup>

Finally, as noted above, this would be a temporary exemption. The exemption would be available only for SFTs initiated during the period that the Federal Reserve System's special discount window lending facility is available.

---

<sup>7</sup> This protection applies to "securities contracts" under section 555 of the Bankruptcy Code. If an SFT between Bank and the Affiliated Broker-Dealer qualifies as a securities contract under the Bankruptcy Code, Bank's ability to liquidate the transaction in the event of the bankruptcy of the Affiliated Broker-Dealer generally cannot be stayed, avoided, or otherwise limited by operation of any provision of the Bankruptcy Code. See, e.g., 11 U.S.C. § 555.

For SFTs with a term that exceeds the life of the Federal Reserve System's special discount window lending facility, Bank would be permitted under the exemption to hold these existing transactions to maturity.

Granting the exemption described above would have significant public benefits. First, the exemption would enable Bank to provide a substantial amount of liquidity to the markets for the Assets. Because of the operational advantages to Bank of using the Affiliated Broker-Dealer as its conduit to convey funds to market participants, the exemption would allow Bank to provide the needed liquidity in the most rapid and cost-effective manner possible for Bank and the market participants.

Bank would continue to be subject to the market-terms requirement of section 23B of the Federal Reserve Act.<sup>8</sup> Section 23B requires that the SFTs between Bank and its Affiliated Broker-Dealer be on terms that are substantially the same, or at least as favorable to Bank, as those prevailing at the time for comparable transactions with unaffiliated companies.<sup>9</sup>

For the reasons stated above, and in light of all the facts you have presented, the securities financing transactions appear to be consistent with the purposes of section 23A and in the public interest. Accordingly, the Board hereby grants the requested exemption, subject to the indicated conditions and limits.

This determination is specifically conditioned on compliance by Citigroup and Bank with all the commitments and representations they made to the Board in connection with the exemption request. These commitments and representations are deemed to be conditions imposed in writing by the Board in connection with granting the request and, as such, may be enforced in proceedings under applicable law. This determination is based on the specific facts and circumstances of the transactions described in your correspondence and this letter. Any material change in those facts and circumstances or any failure by Citigroup

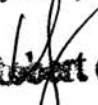
---

<sup>8</sup> 12 U.S.C. § 371c-1; 12 CFR part 223.

<sup>9</sup> See 12 U.S.C. § 371c-1(a)(1).

or Bank to observe any of its commitments or representations may result in a different view or in a revocation of the exemption.

Sincerely yours,

  
(signed) **Robert deV. Frierson**

Robert deV. Frierson  
Deputy Secretary of the Board

cc: Federal Reserve Bank of New York  
Federal Deposit Insurance Corporation  
Office of the Comptroller of the Currency

MEV:AHB:sl

U:\Breault\Van Der Weide Projects\23A\JPMC.CITI.BOA\Citi.letter.08-17-07.doc

bcc: Mr. R. Frierson  
Mr. S. Alvarez  
Ms. K. O'Day  
Ms. D. Bailey  
Mr. D. Reilly  
Ms. L. DeFerrari  
Mr. J. Gordon  
Ms. K. Cox  
Ms. N. Barger  
Ms. P. Nardolilli  
Mr. M. Van Der Weide  
Ms. A. Breault  
Ms. A. Tokheim  
Ms. S. Logan  
Ms. S. Ellis  
BS&R Clearing Unit (w/ memo)  
Board Records (w/ memo)  
Legal Records (w/ memo)