

**From:** [Bair, Sheila C.](#)  
**To:** [Cave, Jason C.](#); [Krimminger, Michael H.](#)  
**Cc:** [Villarreal, Jesse O.](#)  
**Subject:** Re:  
**Date:** Saturday, November 22, 2008 8:43:59 AM

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Good

We did commit to consult with the pfr on tpgp so let occ and frb know that we are requesting the info.

I want them to use it. Just in a controlled way until we have a better handle on the situation

mike I think you should make a staff level contact to fsa to see if we can get info directly on what they are doing. Are they ringfencing deposits or is it just the b/d operations?

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**From:** Cave, Jason C.  
**To:** Bair, Sheila C.  
**Cc:** Villarreal, Jesse O.  
**Sent:** Sat Nov 22 08:31:37 2008  
**Subject:** Re:

Assembling the team for call at 845 to get moving here. I think we should call citi directly--helper--and put the question of tpgp debt to him--note they publicly noted they would use the program, but we need more specs.

Also checking with frb and treas on whether there is a principals call this am.

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**From:** Bair, Sheila C.  
**To:** Spoth, Christopher J.  
**Cc:** Bovenzi, John F.; Thompson, Sandra L.; Cave, Jason C.; Lane, John M.; Krimminger, Michael H.; Murton, Arthur J.  
**Sent:** Sat Nov 22 06:58:31 2008  
**Subject:** Re:

We will likely be asked to provide some assistance under systemic risk. I need to know how bad their underlying condition is and to what extent it is in the bank(s).

Mike is there anything in our mou with fsa that could be the basis for a discussion with them on ringfencing?

We should be developing our own views about what types of assistance we would and would not be willing to provide. Whatever it is I want to be sure it fixes the problem. Even under systemic risk we should be looking to minimize our costs and evaluating potential assistance on both the asset and liability side.

Near term do we have any views on the guaranteed debt issuance? We should at least be consulted in advance on how much they are going to issue and the maturity

Jason has the lead for me on this so please work with him

Thanks  
Sheila

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**From:** Spoth, Christopher J.  
**To:** Bair, Sheila C.  
**Cc:** Bovenzi, John F.; Thompson, Sandra L.; Cave, Jason C.; Lane, John M.  
**Sent:** Fri Nov 21 23:32:46 2008  
**Subject:**

Just got off the phone with D. Bailey. She called me. Understand that fed VC has called you as well.

In short, I will characterize the liquidity and confidence situation as negative and deteriorating such that viability may be threatened without outside support.

Foreign govts are beginning to grab cash/ring fence (e.g., UK for the broker dealer), and credit sensitive funds are leaving or demanding collateral.

My conversation might not have been exactly clear, but it sounds as if the bank is proposing to divest a large amount of assets (\$300B) without recourse (funding ??) with a concurrent capital raise (source ?).

The liquidity details in the email below from our examiner will help with conversations. Some of the details were already provided to you this evening by John Lane. Please read to the bottom past general economic info to see liquidity details.

Chris

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**From:** Richardson, Mark D.  
**To:** Eberley, Doreen R.; Frye, Daniel E.; Watkins, James C.; Wyka, Gregory P.; Hirsch, Pete D.; Burns, Robert L.; Cox, Richard L.; Corston, John H.; Lane, John M.; Gibson, Kathleen M.; Egan, Kenneth M.; Richardson, Mark D.; Achurch, James; Conneely, John P.; Martinez, Christopher A.; Fahey, Joseph F.; Shanahan, Christopher M.; Simpson, Millen L.; Spoth, Christopher J.; Owens, Serena L.; Fitzgerald, Tracy E.; Butler, Edward B.; Thompson, Sandra L.; Cave, Jason C.  
**Sent:** Fri Nov 21 23:04:55 2008  
**Subject:** 11-21-08 Citi Liquidity call notes

11-21-08 Citi Liquidity Notes

The notes include a summary from Friday's Liquidity Calls with Citi risk management.

Let me know if you have any questions.

Mark

Market commentary

- Citi's stock decreased 20% to \$3.77 today and 60% for the week. As of 8:00PM tonight, the stock had increased 6% to \$4.01 in after hours trading.

- CDS spreads widen by 75bps to 512.5bps.
- Citi experienced a more significant impact on liquidity today and customer/investor concerns intensified.
- Citi had buy back requests for its parent company commercial paper (\$200MM), wholesale certificate of deposits (\$1B), and the Palisades ABCP program (\$213MM).
- A composite index of Europe's manufacturing and service industries contracted to 39.7, the lowest since the survey began in 1998.
- ECB President Jean-Claude Trichet said the bank may cut interest rates again in December amid signs that Europe's recession is deepening.
- The U.S. Treasury announced it will help liquidate a money-market fund from Reserve Management Corp., acting as a buyer of last resort.
- Asian markets rallied on speculation governments will step up efforts to revive economies.
- European stocks fell after Goldman Sachs said the U.S. is in a deeper recession than it previously forecasted, and U.S. stocks surged Friday on reports that President-elect Barack Obama selected New York Federal Reserve chief Timothy Geithner to be Treasury Secretary.

#### Stock Price – Today's Changes

- C = down 20%
- JPM = down 3%
- BAC = up 2%
- WFC = down 3%
- GE = up 9%
- MS = up 9%
- GS = up 3%
- AXP = up 8%

#### CDS - Today's Closing Spreads:

- C = 500/525
- JPM = 190/205
- BAC = 200/215

- WFC = 152/167
- GE = 490/510
- GS = 370/390
- AXP = 450/475

#### New Issue Spreads – bps over Libor (daily change)

- 5 year = 702bps (+70bps)
- 10 year = 658bps (+48bps)

#### UK FSA Cash Lock-Up Requirement (summary from FRB notes)

- Imposed a \$6.4B cash lockup requirement, which was communicated as a measure to protect the interests of the UK broker dealer and consists of the following two components: 1) \$3B operational expense, 3 months coverage: Citi indicated that the UK FSA arrived at this by assuming a \$750mm per month operational expenses plus a cushion and 2) \$3.4B net free credits coverage.
- Citi indicated that they will be negotiating both components as: 1) they believe the operational expense estimate is overstated and 2) given the \$1.5B outflow from UK Prime Brokerage, Citi expects that the net free credits coverage should be reduced to \$1.9B (i.e. the remainder of the net free credits).
- Lastly, this cash lockup will be moving on Monday from Citibank, NA (where the deposit was made today) to either a central bank account in the UK or to Euroclear. Citi indicated that a move to Euroclear could provide an option of posting either cash and/or collateral for the lockup.
- In addition, the UK broker dealer is preparing to use two ECB facilities next week to extract liquidity from non USD collateral that is unencumbered: 1) European Investment Bank: approx \$2B of capacity and 2) Central Bank of Luxembourg: approx \$1.5B of capacity.
- As I noted in my earlier email, these lockups could become very damaging to Citi's liquidity, especially if other foreign regulators follow the FSA's lead. The FSA is going to look at Citi's UK banks on Monday and may require lockups for them. These UK banks are subsidiaries of Citibank, NA.

#### TLGP

- Citi management is still reviewing the final rule for the TLGP, but appears very happy with the modifications.
- As of late today, they did not yet have an issuance plan for guaranteed debt as they were still reviewing the final rule, but expect to have discussions about it over the weekend.

#### Fed Funds

- Long cash – approximately \$16B late in the afternoon.
- Citi had \$9.2B of Fed Funds purchased at rates, which were well below the Fed Funds effective rate and in line with other large financial institutions. \$6.1B of the \$9.2B of Fed Funds purchased were purchased in the wholesale market. Three counterparties (FHLMC, FHLB – Indianapolis, and Co-Bank) refused to sell Citi Fed Funds in the wholesale market today.
- Citi had \$20.1B of reverse repos and Fed Funds and Eurodollars sold, including funds left O/N at the Fed of \$5.3B. These amounts are down significantly from the prior day when Citi had \$47.3B of reverse repos and Fed Funds and Eurodollars sold, including funds left O/N at the Fed of \$22.6B.

#### Deposits

- Today's deposit outflows. Private bank deposits down \$1B today with \$353MM withdrawn due to Citi name concerns. LATAM deposits down \$100MM. US deposits down \$500MM. I will have a better estimate of deposit totals for today on Monday afternoon.
- Thursday's deposits - Total foreign and domestic deposits decreased by \$2.2B from Wednesday to Thursday; however, the entire decrease was attributable to changes in foreign exchange rates. Excluding the foreign exchange impact, deposit totals were actually higher by \$100MM. US consumer deposits were down \$500MM, international retail deposits were up \$600MM, global wealth management deposits were down \$1.9B, and institutional client group deposits were up \$2.0B.

#### FHLB

- Citi rolled some FHLB borrowings today at quote "pretty good prices" (rate details not available). FHLB borrowings remain at \$84.1B. FHLB borrowing capacity remains at \$11.4B.

#### Broker/Dealer Funding

- Broker dealer cash box was estimated at \$15.3B at 5pm today, but ultimately finished at \$11.4B due to additional prime brokerage outflows, higher Class A Box, and cash outflows to cover shorts.
- Broker dealer cash box decreased to \$11.4B on Friday from \$20.2B on Thursday due to a decrease in UK Funding (\$7.6B, which consisted of the FSA cash lock-up requirement of \$6.4B, lower equity secured finance of \$900MM from a HSBC dividend lock-up transaction that will reverse next week, IPB outflows of \$600MM, and debt payment of \$500mm, offset partially by an increase in unsecured funding \$700MM ), US Equity prime brokerage outflows (\$2.7B), Smith Barney outflows (\$900MM), UK prime brokerage outflows (\$1.4B), and higher class A box (\$500MM). These outflows were partially offset by an increase in PDCF (\$4.0B), mark-to-market on equities (\$1.2B), inflows from money funds (\$700MM), and an increase in NY equity secured finance (\$800MM).
- PDCF borrowings increased to \$15.9B from \$11.9B. This is the first time that the PDCF borrowings have exceeded the cash box.

- Trading desks at some counterparties decided to move away from Citi today, but their decisions were reversed by their senior management after Citi's senior management spoke with them. UBS initially cut equity finance lines in half to Citi from \$1.8B to \$900MM. The decision was reversed and UBS fully rolled its secured financing of \$1.8B in UK and \$1.1B in NY; Citi is concerned about its rolls with UBS on Monday. Citi had a similar experience with Deutsche Bank and Rabobank today.
- RZB (Raiffeisen Zentralbank Österreich AG) pulled its UK equity finance repo line today (\$350MM), which was partially offset by an increase in ING's repo line (\$150MM).
- On Monday, UBS will require Citi to post 5% additional collateral and will no longer accept convertible collateral (\$500 million), which is all PDCF eligible. Northern Trust will increase its haircuts on Citi collateral by 3%. State Street will discontinue its \$1.6 billion non-traditional collateral repos. The collateral for this repo line is PDCF eligible.

#### Dakota and Palisades (Citi's Credit Card Issuance Trust CP Programs)

- Dakota had \$1.3B maturing today. Today's trades include \$677MM rolled O/N @ 1%, \$20MM rolled to Dec 11 @ L-19bps, \$100MM rolled to Jan 12 @ L-42bps, and \$500MM rolled to Feb 19 @ L-40bps. Dakota has \$827MM rolling on Monday and \$877MM next week.
- Palisades had \$3.6B maturing today. Today's trades include \$3.3B rolled O/N @ 1.25% (Citibank (South Dakota), NA purchased \$1.9B and another \$200MM was put to a dealer balance sheet), \$250MM rolled to Dec 1 @ L+ 66bps, \$100MM rolled to Dec 3 @ L+66bps, and \$25MM rolled to Dec 8 @L+66bps. Palisades has \$3.8B rolling on Monday and \$3.9B for next week. Management registered the Palisades Program with the FRB's commercial paper funding facility (CPFF) today. Palisades will be able to sell up to \$8.5B into the CPFF starting next Tuesday.

#### ABCP Multi-Seller Conduits

- Citi multi-seller conduits had nothing to roll today and virtually none to roll the rest of the month. There were no investor communications or activity in the market suggesting any significant concern about Citi conduit CP.

#### Parent Company Commercial Paper

- Maturities = \$2.4B
- Issued \$1.9B today at a WAM of 6 days and WAC of 0.73%.
- The portfolio now stands at \$19.8B with a WAM of 29 days and a WAC of 2.57%.
- Management registered the parent company commercial paper program with the CPFF on Thursday. The parent company will be able to sell up to \$39B into the CPFF starting next Monday.

#### Parent Company Liquidity Portfolio

- Parent Company Liquidity Portfolio declined to \$31.4B today from \$33.1B on Thursday.