From:	Krimminger, Michael H.
To:	Murton, Arthur J.; Thomas, John V.; Thompson, Sandra L.; Spoth, Christopher J.; Lane, John M.; Wigand, James; Glassman, Mitchell; Osterman, Richard; Aboussie, Richard T.; Anderson, Marilyn E.; Cave, Jason C.
Subject:	RE: Proposed Conduit
Date:	Saturday, November 22, 2008 10:52:34 AM

At this stage, it is probably appropriate to be clear and direct that the US government will not allow Citi to fail to meet its obligations. The issue is how that support is provided, and John and Rick make good points on this.
Mike

From: Murton, Arthur J.
Sent: Saturday, November 22, 2008 10:19 AM
To: Thomas, John V.; Krimminger, Michael H.; Thompson, Sandra L.; Spoth, Christopher J.; Lane, John M.; Wigand, James; Glassman, Mitchell; Osterman, Richard; Aboussie, Richard T.; Anderson, Marilyn E.; Cave, Jason C.
Subject: RE: Proposed Conduit

John makes very good points

Given that the immediate risk is liquidity, the way to address that is by letting counterparties know that they will be protected both at bank and holding company level. The question is how explicit to make this. It could range from calls to central banks and other key parties or to a public statement from Treasury, Fed, FDIC to that effect.

Putting capital in may help confirm/strengthen that signal; but to be clear – the main point is to let the world know that we will not pull a Lehman.

From: Thomas, John V.
Sent: Saturday, November 22, 2008 9:57 AM
To: Krimminger, Michael H.; Thompson, Sandra L.; Spoth, Christopher J.; Lane, John M.; Wigand, James; Glassman, Mitchell; Murton, Arthur J.; Osterman, Richard; Aboussie, Richard T.; Anderson, Marilyn E.; Cave, Jason C.
Subject: RE: Proposed Conduit

My thoughts below head in an alternative direction. Reactions please.

<u>Underlying Premise/Concern</u>:
The Bank Insurance Fund and the capital of the banks that would be subject to a systemic risk assessment cannot take the hit that would come from a first loss position on $300 billion of bad assets--that are bad enough to threatenCiti's viability.
Because: a probably $60-120 billion hit (order of magnitude guess based on the marks we are seeing on bad assets generally) would exhaust the $34 billion or so in the DIF and badly deplete the capital of the remaining banks. All that without accounting for the losses we are likely to get with other bank failures that we can expect to come to us regardless of Citi.

Likely follow on effects if we did take a first loss position in that order of magnitude:

- The DIF guarantees, both as a deposit insurer and as a guarantor under TLGP, would be called into question by the markets; and

- The creditworthiness of all other banks that do not have a lot of excess capital would be undermined.

Possible Approach(if we need to do more than see what happens on Monday with TLGP and the FRB lending facilities in place):

1. TARP puts in capital now (between $25-60 billion)--with whatever direct oversight or management changes is considered appropriate;
2. SEC bans short selling of (financial) stocks through the end of 2009 (yes; I know I am the only person in the world who thinks the shorts are creating self fulfilling prophesies; but I think the economics behind some of the short selling is no more sound than the economics behind $140 a barrel oil were 2 months ago.)
3. FRB provides liquidity in every conceivable way--including non-recourse if there is not enough TARP money put in to make clear that Citi can cover all of its losses.
4. If those things are done (or at least 1 and 3, if I remain the lone wolf on 2), then the FDIC guarantees all (bank) creditors. [I am really reluctant to guarantee creditors of the holding company, broker-dealer, or foreign banks. That said, if enough TARP capital comes in we might have to guarantee it all.] This would require a systemic risk determination by FDIC, FRB, and Treasury (after consultation with the President).

Rick/Rick/Marilyn: there is to be an 11:30 conference call. Feel free to join.

1-877-998-1124

Code 8785001#

From: Krimminger, Michael H.
Sent: Sat 11/22/2008 9:22 AM
To: Thompson, Sandra L.; Spoth, Christopher J.; Lane, John M.; Wigand, James; Thomas, John V.; Glassman, Mitchell; Murton, Arthur J.
Subject: FW: Proposed Conduit

Here is the Conduit structure.

Please add thoughts, details, and counter-arguments. Thanks.

From: Krimminger, Michael H.
Sent: Friday, November 21, 2008 12:08 PM
To: Bair, Sheila C.
Cc: Villarreal, Jesse O.; Cave, Jason C.
Subject: Proposed Conduit

Here is the proposed Conduit structure as discussed.

Please let me know if you need anything else.

Thanks,
Mike

<<FDIC Asset Conduit-1.doc>>

FDIC Asset Conduit

The Issue: One of the difficulties in the current market is market illiquidity and the volume of impaired and opaque assets on financial institution's balance sheets. The absence of on and off-balance funding for assets has constricted market liquidity and credit availability.

Asset Conduit Approach: One approach is creation of a FDIC Asset Conduit to purchase assets from financial institutions and re-liquify them over time through sale and/or structured finance.

Conduit Capital and Funding: The Asset Conduit would be capitalized through funding from the Troubled Asset Relief Program and would have access to collateralized liquidity facilities from the Federal Reserve. By using TARP funds as a capital base the Asset Conduit will allow TARP funds to be leveraged to make a significant impact in the market. Conduit funding would be replenished through the sale of conduit-acquired assets.

Asset Purchases: The Asset Conduit would use these funds to purchase assets from financial institutions. The purchase prices could be determined using a number of options:

- purchases at set prices,
- purchases at discounted cash value prices,
- pricing contingent on structured finance proceeds, or
- purchases at par value combined with preferred debt from the financial institution. The redemption price for the debt would be defined by ultimate losses on the purchased assets and redemption could be required by a specific time period.

Asset Transfers: The value of troubled assets could be improved by appropriate loss mitigation, including streamlined loan modifications that would yield a positive net present value. The Asset Conduit could then resell the assets with loss sharing or financing support or issue term funding, covered bonds, or securities based on the assets with appropriate credit support.

The conduit sale and resale of assets or asset interests would provide liquidity to these asset classes and foster new lending.