UNITED STATES OF AMERICA

FEDERAL DEPOSIT INSURANCE CORPORATION

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BOARD OF DIRECTORS

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MEETING

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CLOSED SESSION

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SUNDAY,

NOVEMBER 23, 2008

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The Board convened via telephone, SHEILA C. BAIR, Chairman, presiding.

PRESENT:

SHEILA C. BAIR, Chairman
MARTIN J. GRUENBERG, Vice Chairman
THOMAS J. CURRY, Director
JOHN C. DUGAN, Director (Comptroller of the Currency)
JOHN M. REICH, Director (Office of Thrift Supervision)

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COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
(202) 234-4433 WASHINGTON, D.C. 20005-3701 www.nealrgross.com

C-O-N-T-E-N-T-S

P R O C E E D I N G S

CHAIRMAN BAIR: Hello, who do we have?

MR. Feldman: Chairman Bair, this is Bob Feldman. We have Vice Chairman Gruenberg at the Board table, and on the line we have Director Curry, Director Dugan and Director Reich.

CHAIRMAN BAIR: Okay, great. Are we all set? All the staff there?

MR. Feldman: And we have staff here as well.

SUNSHINE MOTION

CHAIRMAN BAIR: Okay, great, let's call the meeting to order, then.

May I have a Sunshine motion, please?

VICE CHAIRMAN GRUENBERG: I move.

CHAIRMAN BAIR: May I have a second?

I'll second. All in favor say aye.

(Chorus of ayes)

CHAIRMAN BAIR: The motion is agreed

to, thank you.

No summary agenda and one item on the discussion agenda. It's a memorandum and resolution relating to Citibank, National Association, Las Vegas, Nevada, and its affiliated insured depository institution.

John Corston, Jim Wigand, and John Thomas will present the case.

MEMORANDUM AND RESOLUTION RELATING TO
CITIBANK NATIONAL ASSOCIATION

MR. WIGAND: Yes, good evening, Madam Chairman, and members of the board.

Staff recommends that the Board find that the failure of Citigroup, Inc., and its insured affiliate banks and thrifts would have serious adverse effects on domestic and international economic conditions and financial stability.

Citigroup's failure would seriously and negatively affect already disrupted credit markets including short term inter-bank lending, counterparty relationships and QFC markets, and bank and senior subordinated debt markets, and would further disrupt the related markets in derivative products and other markets.

In addition it would have serious consequences to the functioning of the global payment system.

It is recommended that the Board make a systemic risk determination and authorize staff to take steps necessary as outlined below, and I will describe these momentarily.

Based on preliminary information, staff estimates there will be no loss to the deposit insurance fund or a need for a special assessment.

In order to prevent the foregoing systemic risk, staff recommends that the Board authorize the FDIC to enter into a transaction to provide for shared loss coverage on a designated pool of assets up to $306 billion.

The FDIC and the U.S. Treasury's

Troubled Asset Relief Program will provide guarantees on certain residential assets for 10 years and certain other assets for a period of five years.

The FDIC will be exposed to loss only after Citigroup absorbs the first $37 billion in losses and the Treasury absorbs the next $5 billion in losses.

The FDIC's loss will be capped at about $10 billion, and will receive compensation in the form of $3 billion in preferred shares for providing this guarantee.

In addition, the Board of Governors of the Federal Reserve will provide certain financing secured in part by the assets in the portfolio of consumer and commercial and real estate loans designated by the agencies and Citigroup.

Citigroup will manage the assets with instructions provided by the FDIC, the U.S. Treasury, and the Federal Reserve. Instructions will include the required use of loan modification procedures comparable to those that are currently being employed at IndyMac Federal Bank, unless otherwise agreed to by the FDIC.

In addition, Citigroup will be subject to specific limitations on executive compensation and dividends during the loss share period.

The FDIC, OCC, and OTS have determined that the insured entities meet the requirements under section 13(c)(8) of the Federal Deposit Insurance Act for receiving direct financial assistance before the appointment of a receiver, specifically, that the institution's management has been competent, and has complied with applicable laws, rules, and supervisory directives and orders; and two, that the institutions and its management did not engage in any insider dealing, speculative practice or other abusive activity.

Additionally the assistance

provided will increase existing capital levels, and it is unlikely that the institution can make currently applicable capital standards going forward without this assistance.

In exchange for the guarantees I've just discussed, Citigroup has agreed to seek the prior approval of the agencies before paying dividends for two years; develop a long-term executive compensation program that rewards long-term performance and profitability that needs to be approved by the agencies; and that they seek the agencies' prior approval associated with the award of this program.

Additionally, as I indicated before, they have to agree to implementing a loan modification program.

CHAIRMAN BAIR: That we've approved. I think that the language got changed, actually, since the Board case was written. It would have to be an FDIC-approved loan modification protocol.

MR. WIGAND: With that I'm going to turn it over to John Corston, who will provide a supervisory history for the institution.

MR. Corston: Thank you.

Citibank, N.A., is a nationally chartered bank founded in 1812. It's the lead bank within Citigroup, a financial holding company regulated by the Federal Reserve.

Citibank is the third largest bank in the nation and is the predominant legal entity, representing 63 percent of the consolidated holding company assets.

The insured legal entities of Citigroup consist of three national banks, one Federal savings bank, and one state nonmember bank. With the exception of the composite "3"-rated lead bank, the others are rated composite "2".

Citigroup is the largest consumer finance lender in the world, third largest mortgage servicer, and fourth largest student lender. It is the world's largest credit card lender, and the third largest in the United States.

It is also one of the world's largest private banking and private wealth management businesses.

The risk profile of Citibank is increasing rapidly due to the market's lack of confidence in the company and the substantially weakened liquidity position.

On Friday, November 21st, the United Kingdom's Financial Services Agency imposed a $6.4 billion cash lockup requirement to protect the interests of the UK broker-dealer. That day, market acceptance of Citibank's liabilities diminished as the company's stock plunged to a 16-year low. Credit default swap spreads widened 75 basis points to 512, and counterparties advise that they would require greater collateralization on any transactions with Citibank.

Without substantial government

intervention that results in a positive market perception on Monday morning, the OCC and Citigroup project that Citibank will be unable to pay obligations or meet expected deposit outflows next week.

Citigroup's contractual cash flow projections show that a total of 7.2 percent deposit runoff will result in no cash surplus.

Current requests by Citigroup to the Federal Reserve to expand the Commercial Paper Funding Facility and to expand collateral and entities eligible for posting to the Primary Dealer Credit Facility and the Term Securities Lending Facility would provide short-term funding relief.

However, the additional funding provided by these programs would not be sufficient to withstand the extensive deposit runoff.

Regarding systemic risk, it appears likely that any transaction implemented by the FDIC under a least-cost framework would have significant adverse effects on economic conditions and the financial markets, based on Citigroup's size and the markets in which it operates.

Given Citigroup's significant international presence, effects on money market liquidity could be expected on a global basis. Term funding markets remained under considerable stress.

These pressures have increased over the past week with a loss of investor confidence in financial institutions' performance, as evidenced by a significant drop in bank equity values, and another round of increase in banks' credit default swap spreads.

Citigroup has been particularly vulnerable with its exposure to credit and market losses, coupled with its dependence on international operations for funding.

The imposition of a least-cost resolution on Citigroup would likely have major systemic effects. Both financial stability and overall economic conditions would adversely be affected for the reasons that I just discussed.

In view of the current intense financial strains, as well as the likely consequences to the general economy and financial system of a least-cost resolution of the third largest commercial bank in the United States, staff believes that circumstances are such that invocation of a systemic risk exception is justified.

With that we can turn it over to -

MR. WIGAND: Now, with that, if there are any questions, we'll be happy to answer them.

CHAIRMAN BAIR: Okay, thank you.

MR. THOMAS: If I may, one further note. There was discussion of least cost. The actual problem is not that this is a least-cost resolution. The expected cost is zero. The problem is it's open bank assistance.

CHAIRMAN BAIR: Right, that we're supporting shareholders, that's right. Thank you, John, that's a good clarification.

Vice Chairman Gruenberg.

VICE CHAIRMAN GRUENBERG: Thank you, Madam Chairman. I'm prepared to support this case. I think the finding of systemic risk is clear and justified.

I think it also suggests the exceptional cooperative effort among the Federal bank regulatory agencies - the Treasury, the Federal Reserve, as well as the FDIC, and their commitment to do what is necessary to maintain financial stability in what are clearly an extraordinary set of market conditions.

And I would add that the conditionality imposed on the institution in this case relating to dividends and executive compensation and loan modifications, I view as essential, an essential part of this case.

Thank you very much.

CHAIRMAN BAIR: Okay, thank you.

Director Curry.

DIRECTOR CURRY: I echo the comments of the Vice Chairman. I think that the case is amply made that the systemic risk determination standard has been met, and I hope that this particular open bank assistance is sufficient for this institution, and that's - that I'm prepared to vote in favor of this application or transaction.

CHAIRMAN BAIR: Okay, thank you.

Director Dugan.

DIRECTOR DUGAN: Thank you, Madam Chairman. I strongly support this case. I think it's, as others have said, amply justified by the facts. It is about confidence, not just in this institution, but in other banks as well. And I think it's absolutely critical that we act decisively to take measures to address the situation.

I hope this is adequate to do the

job, and I think, with the combination of resources from all the agencies and the Treasury Department, I'm hopeful that it will be, and I think we need to go forward with it.

So again, I strongly support it.

CHAIRMAN BAIR: I assume - does OCC have a supervisory strategy for helping get the situation under control again?

DIRECTOR DUGAN: Well, this is all about confidence right now, not about the capital in the company or its reserve level, and we'll be closely monitoring the situation and dealing with issues related to supervision.

But the issue now is the potential of a large world-wide bank run, and that's what's got to be brought under control.

CHAIRMAN BAIR: Well, I certainly agree, and that's why we're doing this. But I think we'll look forward to working with you in terms of your supervisory strategy, and I know we are all committed to making sure Citi pursues all strategic options including selling itself or selling pieces of itself. This is not the first time this institution has become challenged.

I understand that there is a significant off-balance-sheet exposure that could be having to come on book at the end of next year which could further complicate the situation. So we're obviously deeply in here with the 77 billion in unsecured senior debt guarantees, maybe more if they came in to apply for an increase over the 125 percent gap. And the government's obviously very deeply on the hook now. And we are providing additional reinsurance on the losses on this loan portfolio. So it certainly is something that we need to do. But I think it's not going to be enough. I think this institution has some significant problems and it's going to require a very aggressive supervisory strategy or we are going to be back in writing some more checks.

Director Reich, do you have any comments or questions?

DIRECTOR REICH: Well, actually I do. I have a number of questions. I probably had the least involvement with this, so bear with me while I do ask a few questions.

I am going to be supportive of this. It's obviously a systemic risk situation. I don't have any question about that.

But because of my lack of involvement with the discussion over the last few days, I do have some questions. And the first one is . . . pertains to liquidity. I think, in our principals' conference call Friday morning, it was reported that Citi's liquidity was somewhere in the neighborhood of - I don't recall the exact number - but $150 billion or $160 billion, or somewhere in that vicinity. Is there a current - a more current number on what we think their liquidity is, or access to liquidity?

CHAIRMAN BAIR: John, go ahead.

DIRECTOR DUGAN: Last I heard, it had declined about 130, but I don't have the most recent information.

DIRECTOR REICH: Had declined to 130?

DIRECTOR DUGAN: Yeah, that was the most - that's the last I heard.

DIRECTOR REICH: Okay. How about the asset quality rating? I think that the case indicates that at the last most recent examination the asset quality was a "2". Do we still think it's a "2" and the composite a "3"?

DIRECTOR DUGAN: Doug Roeder, are you on?

MR. ROEDER: Yeah, John.

DIRECTOR DUGAN: Maybe you could address that question.

MR. ROEDER: Yeah, in terms of the asset quality we've been looking at that in terms of a downgrade. Obviously, the portfolios are not getting better; they are getting worse. So I would say that was subject to a potential downgrade, maybe downgradeable very shortly.

Second, in terms of the composite we had it as a "3". Obviously their liquidity situation rapidly changed, so - but with the fix - I'm not in a position to necessarily say that that is anything less than a "3", given the other conditions and the support from this transaction.

CHAIRMAN BAIR: How can you say that? I mean we were on the verge of having to close this institution because it can't meet its liquidity Monday morning. How can you keep liquidity at a "3". They've got 500 billion in foreign deposits that nobody can guarantee. How can you keep it at a "3"? I don't understand that.

DIRECTOR DUGAN: I think it has to do with the situation once this thing gets put in place, that's all.

MR. ROEDER: Exactly right.

CHAIRMAN BAIR: In other words, once a lot of government assistance is injected into this institution, then it stays at a "3". That is not the criteria we use. That is certainly not the criteria we use for other banks. You can't stabilize liquidity without significant government support.

So how do you rate a "3"? Is that the standard now that people get a "3" if with government assistance they can have adequate liquidity? That doesn't make any sense to me.

DIRECTOR DUGAN: Well, I think it has been the actual standard. If at all in question about what is their liquidity situation at a particular point in time given all the things, they already have a certain amount of government assistance already, and now they have more. And the question is, it's an all-in - if you add in all the factors where are they? And we will adjust and take a look at that situation after we see what happens with this deal by the government.

CHAIRMAN BAIR: Well, John, I just think this gets back to my question earlier is, what is your supervisory strategy? And I got to tell you, I don't think this is going to fix Citi. And unless you figure out a way to stabilize that situation, we are going to be back in here writing more checks. So I just want to be on the record saying that, and we want to work with you constructively on it. But I think we all need to be realistic about some of the underlying problems at this institution. It's not just because the market is having problems; this institution has some problems very specific to itself. And so I think we all need to work together on how we're going to fix that.

DIRECTOR DUGAN: We will continue to work hard to address the problems of Citigroup. We are not committing to a particular strategy now. We don't know what the situation will be once this gets addressed, and when it is, we are looking at all kinds of alternatives. And we will keep you posted.

DIRECTOR REICH: Well, let me move on to another question. I had a briefing earlier this afternoon, and we talked about ring-fencing 300-plus billion in assets, and I'd like to have a better understanding of what ring-fencing means.

MR. THOMAS: I think that shorthand, really - what it means in practice here is that $306 billion of assets will be very specifically identified. It's not that they can move things in and out after we start this.

DIRECTOR REICH: Will they be moved off balance sheet?

MR. THOMAS: No, they'll stay on the balance sheet - and Citi will continue to work the assets. But there will be a complete record of what they are from the beginning; no substitution.

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DIRECTOR REICH: Okay. The terms of guarantee on the draft term sheet, or at least one of the terms - there have been so many – I don't think I printed out the last one which came about three minutes before this meeting - refer to the FDIC's standard loss sharing protocol. What is the FDIC's standard loss-sharing protocol? I've been on the Board for eight years, and I don't know what that is.

MR. WIGAND: Well, fortunately, we haven't had to use them very much until recently. Basically what we do is that we have a set of requirements in our loss share agreements with respect to charges for various expenses. For example in our standard loss-sharing protocols, as we indicate here, Citi is going to have to manage a pool of assets. Its internal expenses are not passable back and charged against the loss coverage, unless they are third-party expenses for certain types of charges. For example, certain types of legal fees are chargeable and can be passed through.

But most of the expenses of managing and servicing the pool have to be absorbed by the covered entity.

Additionally, in this particular agreement, I don't think I was clear about this in the presentation, the losses beyond the $37 billion are split 90-10 to the appropriate counterparty. So, for the next 5-1/2 billion dollars roughly of losses, the Treasury will take 5 billion of that, and then, for the next approximately $11 billion of losses, the FDIC will take $10 billion of that loss bucket. And, beyond that, to the extent there are any losses, then the Federal Reserve Board is going to have to absorb 90 percent of those.

So that's -

DIRECTOR REICH: Ninety percent or 100 percent?

MR. WIGAND: Ninety percent. The loss share - the 10-90 split continues for the covered pool.

DIRECTOR REICH: Okay. And is the first loss for Citi, is it 37 or 42?

MR. WIGAND: It's 37 billion for Citi, with the Treasury taking the next five.

DIRECTOR REICH: Okay. Dividend policy: the case says the institution is prohibited from paying common stock dividends in excess of a penny a share for three years without Treasury, FDIC, Fed consent. Does the OCC have a voice in that? I didn't see any reference to the OCC.

Mr. THOMAS: The OCC has a separate basis on which it can act. This basically is a contractual provision because these are the agencies putting up the money.

DIRECTOR REICH: Okay. Are there any changes in management expected or required?

CHAIRMAN BAIR: Good question. John, can you address that, John Dugan?

DIRECTOR DUGAN: There is no changes

in management required by this agreement.

CHAIRMAN BAIR: What about your supervisory strategy? Are we looking at the quality of management?

DIRECTOR DUGAN: We are always looking at the quality of management. We will see how this goes. You can't just go in and kick people out unless you have other people that are willing and able to step up to do it. But that is something we are evaluating.

DIRECTOR REICH: I think that I've asked the questions that I wanted to ask. Obviously, this is a very serious situation; I'm very sympathetic to the situation that Comptroller Dugan is in. There isn't any doubt in my mind that this is a systemic situation.

In hindsight, I think there have been some systemic situations prior to this one that were not classified as such. The failure of IndyMac pointed the focus to the next weakest institution, which was WaMu, and its failure pointed to Wachovia, and now we're looking at Citi, and I wonder who's next.

I hope that the regulators, all of us, including Treasury and the Fed, are looking at these situations in a balanced manner, and I fear there has been some selective creativity exercised in the determination of what's systemic and what's not and what's possible for the government to do, and what's not.

There has been a high degree of pressure exerted in certain situations, and not in others, and I'm concerned about parity.

Having said that, I do support this case, and I'm prepared to vote.

CHAIRMAN BAIR: Okay, great. May I have a motion with respect to Citibank, N.A., Las Vegas, Nevada and its related insured depository institutions?

VICE CHAIRMAN GRUENBERG: I move, Madam Chairman. Before we vote, I'm sitting here in the board room with a room full of staff that have been here the whole weekend, and I'd be remiss in not thanking them as well as the staff for the other agencies, for their extraordinary efforts.

CHAIRMAN BAIR: I think you are absolutely right, and many of them still have a long night ahead of them in terms of getting this executed and dealing with the press and the overseas operations. So thanks to you, Vice Chairman Gruenberg, for braving and being in the office. Good for you.

So, yes, as always, thanks to all our wonderful staff, and again, above and beyond the call of duty in getting this put together in a very tight timeframe.

So I had a motion?

VICE CHAIRMAN GRUENBERG: I move.

CHAIRMAN BAIR: May I have a second please?

DIRECTOR CURRY: Second.

CHAIRMAN BAIR: All in favor say aye.

(Chorus of ayes)

CHAIRMAN BAIR: Aye. The motion is agreed to. Thank you very much. That concludes the discussion agenda.

Any other business before we adjourn?

Okay, great, the meeting is adjourned. Thank you very much.

(Whereupon the meeting was adjourned.)