PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP

1285 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10019-6064

TELEPHONE (212) 373-3000
FACSIMILE (212) 757-3990

LLOYD K. GARRISON (1946-1991)
RANDOLPH E. PAUL (1946-1956)
SIMON H. RIFKIND (1950-1995)
LOUIS S. WEISS (1927-1950)
JOHN F. WHARTON (1927-1977)

UNIT 3601, FORTUNE PLAZA OFFICE TOWER A
NO. 7 DONG SANHUAN ZHONGLU
CHAO YANG DISTRICT
BEIJING 100020
PEOPLE'S REPUBLIC OF CHINA
TELEPHONE (86-10) 5828-6300
FACSIMILE (86-10) 6530-9070/9080

12TH FLOOR, HONG KONG CLUB BUILDING
3A CHATER ROAD, CENTRAL
HONG KONG
TELEPHONE (852) 2846-0300
FACSIMILE (852) 2840-4300

ALDER CASTLE
10 NOBLE STREET
LONDON EC2V 7JU, U.K.
TELEPHONE (44 20) 7367 1600
FACSIMILE (44 20) 7367 1650

FUKOKU SEIMEI BUILDING
2-2 UCHISAIWAICHO 2-CHOME
CHIYODA-KU, TOKYO 100-0011, JAPAN
TELEPHONE (81-3) 3597-8101
FACSIMILE (81-3) 3597-8120

2001 K STREET, NW
WASHINGTON, DC 20006-1047
TELEPHONE (202) 223-7300
FACSIMILE (202) 223-7420

WRITER'S DIRECT DIAL NUMBER

212 373-3316

WRITER'S DIRECT FACSIMILE

212 492-0316

WRITER'S DIRECT E-MAIL ADDRESS

bkarp@paulweiss.com

June 23, 2010

By Hand and E-mail

Wendy Edelberg, Executive Director
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW
Suite 800
Washington, DC 20006-4614

Financial Crisis Inquiry Commission ("Commission")

Dear Ms. Edelberg:

We represent Citigroup Inc. ("Citi" or the "Company") and certain current and former Citi employees (the "Citi Employees") in connection with the FCIC's requests for documents and information and interrogatories relating to the Company. We write in response to the Commission's letter dated June 9, 2010, in which questions are directed to certain Citi Employees concerning their testimony before the Commission on April 7 and 8, 2010.

On behalf of the Citi Employees, we provide responses to certain of those questions. We expect to provide further responses on a rolling basis over the next few weeks. The Company and the Citi Employees reserve the right to supplement, amend, modify or correct any of the responses provided below.

* * * * *

I. **Responses of Nestor Dominguez,** Former Co-Head, Global Collateralized Debt Obligations, Citigroup Markets & Banking, Global Structured Credit Products

(a) *With respect to Collateralized debt obligations ("CDOs") that contain residential mortgage-backed securities ("RMBS"), in each year, how large (in terms of both number of total CDOs and dollar values) was Citigroup's cash CDO business versus its synthetic CDO business?*

As I testified, I left the Company in November 2007. Accordingly, I no longer have access to records that would permit me to respond to this question or verify the accuracy of the Company's response. However, in an effort to respond to this request, the Company has prepared the following two charts, which provide information about three categories of CDOs: (a) cash CDOs (*i.e.*, the CDO collateral was acquired in cash form), (b) synthetic CDOs (*i.e.*, the CDO collateral was acquired in derivative form),[1] and (c) hybrid CDOs (*i.e.*, the CDO collateral includes both cash bonds and derivative positions).

Citi-Structured CDOs with RMBS Collateral: Number of Transactions						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Cash	1	5	9	13	8	1
Synthetic	0	0	2	0	7	1
Hybrid	0	0	0	0	11	14

Citi-Structured CDOs with RMBS Collateral: Total Notional Dollar Value (in billions)						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Cash	$0.4	$4.7	$15.1	$11.3	$7.9	$0.6
Synthetic	0	0	$2.3	0	$7.9	$1
Hybrid	0	0	0	0	$7.7	$19.5

[1] As I testified, I served as co-head of Citi's global CDO business that focused on cash CDOs. I did not oversee the desk at Citi that focused on synthetic CDOs with RMBS collateral.

(b) *Did the super-senior CDO bonds that Citigroup held on its books suffer any actual cash-flow losses, as opposed to write-downs associated with a loss in value? If so, please quantify and describe the cash-flow losses associated with the super-senior positions?*

Through the date of my departure from Citi in November 2007, I am not aware of any super-senior CDO positions retained by Citi that suffered actual cash-flow losses as opposed to mark-to-market write-downs. I am informed that certain of Citi's retained super-senior positions suffered cash-flow losses subsequent to my departure. I understand from Citi that the Company separately will provide the Commission with information about the nature and extent of these losses.

(c) *You testified that Citigroup was able to sell the super-senior CDO tranches. Please describe all sales of super-senior CDO tranches to third parties. What was the approximate date when it became difficult to sell those tranches?*

As I testified, Citi attempted to sell or obtain credit protection on certain of the super-senior tranches of CDOs that Citi structured.

With respect to the CDOs that Citi structured with a liquidity-put feature, the super-senior tranche was funded through the sale of short-term commercial paper. Citi retained the risk associated with the super-senior tranche in the event of dislocations in the commercial paper market. Citi did not undertake to sell its retained exposure to these structures.

With respect to CDOs structured without a liquidity-put feature, I understand that the Company previously provided the Commission with a chart that lists the investors (or providers of credit protection) in each tranche, including the super-senior tranche, of CDOs that included subprime RMBS collateral from 2005 to 2007. (*See* CITI-FCIC 00091306 – CITI-FCIC 00091336.)

I do not recall a specific date when it became difficult to sell the super-senior tranches. However, I do recall that, beginning in August 2007, as the subprime market experienced increasing difficulty, it became difficult to find investors willing to acquire any tranches of CDOs.

(d) *Please describe the vintage of each of the super-senior CDO bonds that Citigroup held as of November 4, 2007. What was the oldest vintage tranche held as of that date?*

On November 4, 2007, Citi announced that it held approximately $43 billion in net super-senior CDO exposure with subprime RMBS collateral as of the third quarter of 2007. I understand from information provided by

Citi that this $43 billion of super-senior CDO exposure consisted of (a) approximately $18 billion of super-senior tranches of ABS CDO, and (b) approximately $25 billion in commercial paper principally secured by super-senior tranches of ABS CDOs.

Although I do not presently have access to records that would allow me to respond to this question, the Company has prepared the two charts below listing the vintage (closing date) for each of the super-senior tranches and commercial paper secured by super-senior tranches that constituted the $43 billion retained by Citi as of November 4, 2007. The oldest vintage bond is Grenadier Funding, which closed on July 14, 2003.

Super-Senior CDO	Date
Pillars	5-Jan-04
G-Square	14-Dec-04
Summer Street	20-Oct-05
Topanga	18-Jan-06
GSC ABS CDO 2006-1c	31-Mar-06
Madaket	11-May-06
Ivy Lane	18-May-06
Avanti	22-Jun-06
Cetus ABS CDO 2006-1	20-Jul-06
Capmark VI Revolver	24-Jul-06
Coldwater	17-Aug-06
Cetus ABS CDO 2006-2	27-Sep-06
Mugello ABS CDO 2006-1	14-Nov-06
Cetus ABS CDO 2006-4	15-Nov-06
Lacerta ABS CDO 2006-1	29-Nov-06
FAB	30-Nov-06
Octans ABS CDO 2006-3	6-Dec-06
HSPI I	12-Dec-06
Tallships	14-Dec-06
Cookson High Grade	5-Mar-07

Super-Senior CDO	**Date**
Adams Square III	6-Mar-07
Octonion	6-Mar-07
Palmer ABS CDO 2007-1	7-Mar-07
Plettenberg Bay	8-Mar-07
Laguna	28-Mar-07
Armitage	29-Mar-07
HSPI II	14-Jun-07
Pinnacle Peak	3-Jul-07
Bonifacius	27-Jul-07
Jupiter	2-Aug-07

Liquidity Put CDO	Date
Grenadier Funding	14-Jul-03
Blue Bell	12-Dec-03
Ajax Bambino	15-Dec-03
Millstone Funding	4-Feb-04
Saturn Ventures II	22-Apr-04
Klio Funding	25-Jun-04
Klio Funding II	29-Oct-04
Pinnacle Point	4-Nov-04
McKinley Funding	10-Dec-04
Zenith Funding	21-Dec-04
Quatro - PmX Funding	27-Dec-04
Kent Funding	6-Apr-05
Athos Funding	16-May-05
McKinley Funding II	18-Aug-05
Klio Funding III	1-Nov-05
Raffles Place	16-Nov-05
Tierra Alta	30-Mar-06

(e) *Were there any discussions of selling the super-senior tranches at a discount to remove them from Citigroup's books?*

I do not recall discussions of selling the super-senior tranches at a discount.

During my tenure, however, Citi did seek, from time to time, to hedge its exposure to super-senior ABS CDOs. Given the typically large size of super-senior tranches, and the relatively small returns provided on those positions, the universe of potential counterparties able to assume the risk of the super-senior tranche of CDOs was limited.

(f) *Did Citigroup sell or transfer any CDO bonds or tranches to other CDOs or CDO^2s that Citigroup sold to investors? If so, identify all such sales or transfers. Were any of the sales or transfers associated with the inability to sell the bonds or tranches to investors?*

Citi was a large underwriter of CDO securities from 2003 to 2007. As such, it would not be unusual for a Citi CDO to include some securities from a CDO that Citi previously had structured.

I do not have access to records that would permit me to provide the detail requested by the Commission. However, I understand that the Company previously provided the Commission with a chart that details the amount and percentage of Citi-structured CDO securities in Citi-structured CDO transactions. (*See* CITI-FCIC 00091762.)

(g) *To your or Citigroup's knowledge, was any collateral manager of CDOs that Citigroup structured or underwrote involved in shorting, directly or indirectly, any of the CDO bonds or underlying collateral that the collateral manager had selected for the CDO?*

I am not aware of an instance where a collateral manager of a Citi-structured CDO, directly or indirectly, shorted the particular CDO bonds (or underlying collateral) of that CDO.

II. **Responses of Murray Barnes**, Former Managing Director, Independent Risk Citigroup, Inc.

(a) *How was Citigroup able to book its super-senior tranches at par and keep them at that valuation for an extended period of time?*

As of June 30, 2007, and for prior periods, Citi primarily relied on comparing the spread paid on its super-senior ABS CDO inventory to spreads on recently-priced deals that were similarly AAA-rated, first-pay tranches and that were, at the time, viewed as the most directly comparable reference point for pricing purposes. This included other super-senior ABS CDO securities and associated credit default swaps on super-senior tranches executed with other financial institutions, as well as first-pay CLO tranches backed by leveraged loans. In light of the prevailing spreads observed from market transactions, Citi generally carried the super-senior CDO securities at cost, or par. This marking methodology reflected the view that a similar market-clearing transaction represented the most directly comparable level against which to benchmark the super-senior inventory. It was also consistent with the then widely-held belief—both within the company and throughout the broader market—that the super-senior positions bore almost no risk of principal loss.

By September 2007, and in subsequent periods, the absence of any CDO new issuance given the stress seen in the subprime RMBS market meant that Citi could no longer rely on other, recently-priced CDO deals for comparison purposes. As such, Citi developed a proprietary model to price its super-senior CDO inventory based, in part, on an intrinsic cash flow methodology of the CDO"s underlying collateral. This model took into account judgmental inputs such as forecasted house price appreciation, employment and interest rates, as well as other factors. As of September 30, 3007, applying the intrinsic cash-flow model, Citi took a very modest markdown on the value of its portfolio of super-senior CDO securities. As market conditions deteriorated significantly in October 2007, and then throughout 2008 and into the first quarter of 2009, Citi took further markdowns on its super-senior CDO exposure as the continued downward pressure on home prices adversely impacted the underlying RMBS market.

(b) *Please describe the stress tests that were performed on the super-senior CDO bonds that Citigroup held on its books. What were the assumptions used?*

The CDO business, including its retained super-senior exposure, was subject to the same stress testing framework that was applied to all of Citi"s trading businesses. Stress testing at Citi consisted of a three-pillar approach:

i. The first stress test was referred to as the Historical Simulation stress. It involved performing an historical simulation of market moves over a three-month (or 65 business day) risk horizon, relying on historical market moves going back to the late-1990s. Rolling 65-day market moves were applied to current exposures and the aggregate P&L across the portfolio was then ranked highest loss to highest gain. This stress test effectively assumed that the magnitude of past market moves is representative of the potential for adverse moves in the future and that the historical correlation of market moves across every risk factor is preserved.

ii. The second stress test was referred to as the Worst-Case Move stress. It involved performing a historical simulation of market moves over a three-month risk horizon, relying on the same data set as in i. above. Historical 65-day moves were applied to current exposures but instead of taking the aggregate P&L and then ranking the distribution highest loss to highest profit, the Worst-Case Move Stress Test simply took the largest 65-day loss for each risk factor and then aggregated those losses. This stress test effectively assumed that the worst 65-day move in each risk factor happens at the same time and so the historical correlation of market moves breaks down. This was commonly viewed as a significantly more severe stress test than i. since the correlation between each risk factor effectively goes to the upper (+1) or lower (-1) bound, whichever results in a larger loss.

iii. The third stress test was referred to as the Risk Manager Estimate. Its aim was to complement the stress tests described in i. and ii. by enabling Market Risk to apply some judgment into the stress test analysis. In order for this judgment to be applied consistently across all products throughout Citi, the guidelines at the time required Market Risk to "stress" the trading portfolio over a three-month risk horizon and to a 99.97% confidence level (equivalent to a 3 in 10,000 event, which was viewed as the default probability of Citigroup at the time given its then-AA rating). For certain markets that exhibited a high degree of price continuity and transparency, the need to apply judgment was less pronounced as historical price moves during times of stress were commonly viewed as a reasonable indicator of future potential moves. The judgment applied to the Risk Manager Estimate stress was more relevant for markets that were prone to greater price discontinuity and/or a sudden loss of liquidity.

Prior to September 2007, the Historical Simulation stress and the Worst Case Move stress would have both shown zero losses for super-senior ABS CDO inventory. Also, prior to 2007, the Risk Manager Estimate stress test assigned a nominal spread move to the super-senior ABS CDO inventory that, while immaterial in absolute terms, was still viewed as conservative in that it represented a spread widening of as much as 50% in relative terms. With the benefit of hindsight, it is now clear that even the Risk Manager Estimate (reflecting a 99.97% confidence) was overly reliant on historical experience—a period in which super-senior ABS CDO tranches had never been impacted.

After September 2007, the Risk Manager Estimate was enhanced by incorporating some of the output from the intrinsic cash flow model, including looking through to each CDO"s underlying collateral"s characteristics, including collateral type, vintage and level of credit enhancement (subordination) and applying different stress moves to each attribute. Given how prevailing market conditions were so out-of-sample with the historical price experience of the underlying collateral types, a much higher degree of judgment was applied to the stress testing methodology.

III. **Responses of Charles O. "Chuck" Prince, III**, Former CEO and Chairman, Citigroup, Inc.

(a) *With regard to subprime exposure in the fourth quarter of 2007, please explain the discrepancy and delay between the $13 billion subprime figure released to the public on October 15 and the $55 billion presented to Citigroup's Corporate Audit and Risk Committee and Board of Directors. (Please note that according to Page 1 of Citigroup's "Risk Management Review," the $55 billion was comprised of $13 billion subprime exposure, $16 billion in direct super senior debt, and $27 billion in liquidity and par puts.)*

Having now reviewed the October 15, 2007 Risk Management presentation to the Corporate Audit and Risk Management Committee, I see that the description of Market and Banking's subprime exposure explicitly differentiates the $13 billion in subprime exposure: "the total subprime exposure in markets and banking was $13 billion" from the remaining $43 billion in super-senior exposure. Although I believe I attended the meeting where it was presented, I did not prepare or review prior to the meeting the materials used at that meeting. Upon review, the presentation appears to me to be consistent with a view that subprime exposure was considered to be $13 billion. The "additional" exposure of "$16 million in direct super senior and $27 billion in liquidity and par puts appear to have been viewed separately. It is now clear that the Company's retained exposure to super-senior CDO tranches and liquidity puts had a significant negative impact on the Company and caused Citi to suffer large losses. It is important to keep in mind, however, that the second half of 2007 was a period of unprecedented upheaval in the credit markets. I believe that it was widely believed at the time by experts, both inside and outside the company, that these above-AAA positions were extremely unlikely to suffer any material loss of value—even though that belief proved to be incorrect with the benefit of hindsight. As a result, the super-senior and liquidity put positions were conceived of as fundamentally different in character from other subprime-related exposures that were taking losses as of mid-October.

(b) *Please comment on the use of regulatory and capital arbitrage by financial institutions and their role in the financial system.*

There is a growing consensus that regulatory capital requirements need to be reevaluated and reformed in order to incorporate some of the difficult lessons learned during the course of this ongoing crisis. I share this view. Regulatory capital requirements exist, of course, to help ensure the safety and soundness of our banking institutions. The increasing prevalence of tools such as securitization to reduce risk weighted assets has increased the challenges associated with relying on regulatory capital requirements as a measure of the soundness of our financial institutions. These challenges stem not just from the tools institutions use, but also in how our regulatory capital requirements are applied, including that, in the past, they often applied differently to different kinds of institutions (*e.g.*, securities firms vs. banks) and differently to various subsets of holding companies. From my perspective, reform must focus not just on the methodologies by which regulatory capital is measured but also on the participants in the marketplace whatever their differing forms of business might be, in order to ensure that any reform is effective throughout the financial system.

(c) *Did Citigroup ever create products that were specifically designed to avoid capital requirements?*

As I think about my nearly 30-year tenure at Citi, I cannot recall any instance of Citi creating a product specifically designed to avoid capital requirements imposed on the Company.

(d) *Were new products ever designed solely to reduce capital burdens? How does this correspond to the 2002 CMAC memo describing the liquidity puts?*

During my testimony before the Commission, I mentioned Citi creates products to meet the needs of its clients. In keeping with this primary goal, it was both prudent and consistent with good financial management for Citi's businesses to consider, among other factors, the capital impact of products the businesses offered to clients.

During my tenure, we worked hard to put Citi's assets to work in an efficient manner to accomplish that goal. Like other public companies, Citi has an obligation to its shareholders to maximize revenues. In this context, it would not be unusual for Citi to seek, in a manner transparent to its regulators, favorable capital treatment for the assets it retained on balance sheet. I have not previously reviewed the 2002 CMAC memorandum that I understand is referenced in this question. (CITI-FCIC 99791.) However, based on my recent review, the memorandum, which describes the expected regulatory capital treatment of a structure that includes a contingent funding swap arrangement, appears to detail efforts by the business to meet this goal.

(e) *Did Citigroup have the technical capacity to assess the quality of RMBS (in CDOs) prior to 2007?*

I do not have personal knowledge of the Company's technical capabilities to assess the quality of the collateral underlying CDO structures, including

RMBS securities. However, I am informed that, prior to 2007, it was standard in the industry to rely upon ratings and other metrics in assessing the quality of RMBS securities used as collateral in structured credit products. Consistent with this standard, I do not believe Citi employed analytic tools or models to independently and directly evaluate the quality of RMBS securities collateral for CDO transactions.

* * * * *

As we have discussed, the Company is providing the information in this letter pursuant to the Commission's representations that the information provided to the Commission will be maintained in strict confidence and will be used by the Commission solely for the purposes of this inquiry.

We understand from our discussions that the Commission's work, and the materials it requests and obtains from the Company, are not subject to the provisions of FOIA. We also understand that the Commission intends to keep the materials submitted to it by the Company strictly confidential in connection with this inquiry.

If any person not a member of the Commission or its staff (including, without limitation, any government employee) should request an opportunity to inspect or copy any confidential information provided by the Company, or if you or any member of the Commission or its staff contemplates disclosure of this information to any other person, the Company requests that the Commission promptly notify Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, N.Y., N.Y. 10019 (att'n Brad Karp) and Citigroup Inc., 399 Park Avenue, N.Y., N.Y. 10022 (att'n P.J. Mode).

Please do not hesitate to contact me if you would like to discuss this letter or any other matter.

Respectfully,

Brad S. Karp /jos

Brad S. Karp