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December 14, 2010

By Federal Express

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Financial Crisis Inquiry Commission ("FCIC" or "Commission")

Dear Gary:

We represent Citigroup Inc. ("Citi" or the "Company") in connection with the Commission's inquiry. In your letters of December 6 and 7, 2010, you provide a series of "quotes" that you indicate the Commission "may include or paraphrase" in its final report. These quotes purport to be taken from the Commission's interviews of the following current and former Citi employees: Murray Barnes, Lloyd Brown, David Bushnell, Nestor Dominguez, Ellen Duke, Edward Kelly, Charles Prince, Robert Rubin, and Sandy Weill. We write to identify certain "quotes" that do not accurately recount what the relevant witness said or are otherwise misleadingly incomplete.

As the outset, we object to the use of *any* purported "quotes" from the FCIC interview "summaries." As explained more fully in our December 14, 2010 letter, these summaries are unprofessional, sloppy and riddled with inaccuracies. Further, the summaries are affirmatively misleading in another respect: They were drafted *after* the

interviews, often in reliance only on notes, and artificially made to resemble transcripts, which they are manifestly not. It appears that the Commission—widely reported to be understaffed and short on resources (indeed, the Commission’s staff often complained to us about its lack of staffing)—undertook the effort and expense to have notes its staff took on laptop computers during these interviews transformed into interview summaries mimicking the format of a transcript for the apparent purpose of suggesting that the summaries should carry the weight, authority, and perceived accuracy of an actual transcript. The purported “quotes” from Murray Barnes, Lloyd Brown, Nestor Dominguez¹ and Ellen Duke are taken from these FCIC interview summaries and should not be included in the Commission’s final report.

* * *

Murray Barnes. With respect to your December 6, 2010 letter to Mr. Barnes, the two bullet points that you have identified do not accurately represent what Mr. Barnes said during his March 2, 2010 interview with the Commission, and are misleadingly incomplete. First, and as previously noted, these bullet points are based on the FCIC’s purported summary of Mr. Barnes’s interview— not a transcript. The use of quotation marks is misleading to the extent it suggests that the language reflects the precise words used by Mr. Barnes during his interview.

The first bullet point reads:

“In hindsight,” he observed, “rather than looking at [the cheap collateral] as an opportunity, we should have reassessed our assumptions and whether that was a sign of the RMBS market showing strains.” He admitted, “There was an assumption or complacency that our past ability to distribute risk would continue.”

This purported summary of Mr. Barnes’s statements mischaracterizes what Mr. Barnes actually said during his interview. The bracketed language is particularly misleading. According to the summary memorandum, Mr. Barnes was discussing widening spreads in the marketplace and the impact of that development on investor interest. That is not accurate. A more accurate summary of Mr. Barnes’s statement would be: “Mr. Barnes observed that, in hindsight, rather than looking at the widening spreads as an opportunity, Citi should have reassessed its assumptions . . . [etc.]”

¹ We note that bullets three through eight in the December 6, 2010 letter sent to Nestor Dominguez are taken from the FCIC interview summary of Mr. Dominguez’s first interview, dated March 2, 2010, while bullets one and two are purportedly taken from the audio file of his second interview, dated September 28, 2010.

The second bullet point reads:

Barnes reflected: “Risk management tended to be managed along business lines. In hindsight, it would have been better to look across risk factors. . . . I was two offices away from my colleague who covered the [securitization] business, but I didn’t understand the nuances of what was happening to the underlying loans. . . . One massive regret is that we didn’t reach out to the consumer bank to get the pulse of mortgage origination. An industry-wide problem is that we didn’t have the tools to understand the underlying collateral.”

This purported quotation of Mr. Barnes’s statements is inconsistent with the FCIC’s own summary memorandum. Mr. Barnes did *not* use the term “across risk factors.” Instead, according to the FCIC’s summary memorandum, he stated, “[i]n hindsight, it would have been better to look along risk factors.” Additionally, the phrases “I didn’t understand the nuances of” and “what was happening to the underlying loans” are not connected in the summary memorandum, contrary to the FCIC’s purported bullet point excerpt.

Lloyd Brown. With respect to your December 6, 2010 letter to Mr. Brown, the bullet point inaccurately describes what Mr. Brown said in his February 25, 2010 interview, and is misleadingly incomplete. First, and as previously noted, the bullet point is based on the FCIC’s summary memorandum of Mr. Brown’s interview – not a transcript. The use of quotation marks is misleading to the extent it suggests that the language reflects the precise words used by Mr. Brown during his interview.

The bullet point reads:

Lloyd Brown of Citigroup explained to the FCIC that in the end, most of the transactions fulfilling these agreements “would be considered in the normal course of business.”

This summary of Mr. Brown’s interview is ambiguous as it refers to “the transactions” and “these agreements” without any indication of what transactions or agreements are referenced. Thus, it is impossible to determine whether this isolated excerpt from Mr. Brown’s interview mischaracterizes his testimony, is false, or would mislead the reader.

David Bushnell. With respect to your December 6, 2010 letter to Mr. Bushnell, one of the two bullet points inaccurately describes what Mr. Bushnell said in his April 1, 2010 interview, and is misleadingly incomplete. This inaccuracy is particularly egregious, given that an actual transcript exists of Mr. Bushnell’s interview.

The second bullet point reads:

The exact dates are not certain, but according to Chief Risk Officer Bushnell, others in Citigroup's senior management also heard about the growing mark-to-market losses on those super-senior tranches in "late August, early September," well after Citigroup bought the commercial paper backing the senior tranches of the CDOs that BSAM managed.

This excerpt of Mr. Bushnell's interview mischaracterizes Mr. Bushnell's actual statements. Mr. Bushnell did not refer to "growing mark-to-market" losses on "super-senior tranches" in the period of "late August, early September" 2007. Instead, he mentioned that time period as the first time super-senior positions on CDOs were ever discussed at a Business Heads meeting. Mr. Bushnell stated, recalling conversations during this time period regarding the super-senior tranches, "we could have mark-to-market volatility." Mr. Bushnell explicitly limited his discussion to the possibility of volatility, not "growing losses." To the extent this excerpt suggests that Mr. Bushnell and others were aware of growing losses during this time period, it is inaccurate and does not appropriately reflect Mr. Bushnell's interview.

Nestor Dominguez. With respect to your December 6, 2010 letter to Mr. Dominguez, we adopt and incorporate by reference the objections made by Mr. Dominguez's counsel, Linda Imes, in her letter to you, dated December 8, 2010.

In addition, the following four bullet points identified in your letter do not accurately reflect what Mr. Dominguez said in his interviews with the Commission on March 2 and September 28, 2010, and are misleadingly incomplete. First, and as previously noted, the last three bullet points below are based on the FCIC's summary memorandum of Mr. Dominguez's March 2 interview—not a transcript. The use of quotation marks is misleading to the extent it suggests that the language reflects the precise words used by Mr. Dominguez during his interview.

The second bullet point reads:

"It was every salesman's job to sell structured products," Nestor Dominguez, co-head of Citigroup's CDO desk, told the FCIC. "We spent a lot of effort to have people in place to educate, to pitch structured products. It was a lot of effort, about a hundred people. And I think our competitors did the same."

Based on our review, this quote does not reflect what Mr. Dominguez actually said in his interview. We believe the first sentence should read, "We had sales representatives in all

those [global] locations, and their jobs were to sell structured products.” Additionally, the last sentence should read, “And I presume our competitors did the same.”

The third bullet point reads:

In 2005, Citi’s CDO desk was a tiny unit in the company’s investment banking arm, accounting for less than 1% of revenues – “eight guys and a Bloomberg” terminal, in the words of Nestor Dominguez, co-head of the desk.

Apart from Ms. Imes’s objections, which we incorporate by reference, we cannot confirm your source for the “less than 1%” figure.

The sixth and seventh bullet points read:

When asked why few other American financial institutions wrote liquidity puts on CDOs, Dominguez pointed to the size of Citibank’s balance sheet.

“It only works if you are a big bank,” he told the FCIC.
“It’s a complicated product and it requires a lot of structuring and expertise. You needed to be a bank with a strong balance sheet, access to collateral, and existing relationships with collateral managers.”

These quotes mischaracterize Mr. Dominguez’s statements because they fail to include the larger context in which the question was presented. The FCIC staff asked why “other market participants”—not other American financial institutions—did not use liquidity puts. In the context of this discussion, Mr. Dominguez explained clearly the global context, noting that Société Générale and BNP Paribas were significant market participants that used liquidity puts.

Ellen Duke. With respect to your December 6, 2010 letter to Ms. Duke, the bullet point does not accurately represent what Ms. Duke said in her March 18, 2010 interview with the Commission, and is misleadingly incomplete. First, and as previously noted, the bullet point is based on the FCIC’s summary memorandum of Ms. Duke’s interview—not a transcript. The use of quotation marks is misleading to the extent it suggests that the language reflects the precise words used by Ms. Duke during her interview.

The first bullet point reads:

Duke recalled for the FCIC a risk meeting in the fall of 2007 during which the contradictory strategies were

discussed, a full six months after the desks went their opposing ways. Even so, Duke was not particularly concerned when the issue came up, because she and her risk team assumed incorrectly that the two units had different quality collateral and thus conducted their businesses differently. “We were seduced by structuring and failed to look at the underlying collateral,” she said.

This summary of Ms. Duke’s interview mischaracterizes Ms. Duke’s actual remarks in several respects. First, as reflected in the FCIC’s summary memorandum, Ms. Duke’s remarks were not made with reference to any particular meeting in the fall of 2007. Instead, Ms. Duke recalled generally becoming aware in September 2007 that Global Securitized Markets was de-levering subprime and Global Structured Credit Products was “doing more.” Second, the quote attributed to Ms. Duke is inaccurate insofar as it suggests that Ms. Duke was referring to herself and the individuals on the risk team that she managed. Neither the summary memorandum nor our contemporaneous notes of the interview supports the inclusion of the word “we” at the beginning of the quoted language. Nor does the context in which the discussion was based support an inference that Ms. Duke was referring to her risk team, as the bullet point misleadingly suggests. Rather, according to contemporaneous notes, Ms. Duke’s comment referred more generally to the banking industry’s and other market participants’ reliance on the subordination achieved through the securitization process and the assumption that the underlying collateral was not highly correlated.

Edward Kelly. With respect to your December 7, 2010 letter to Mr. Kelly, two of the four bullet points do not accurately represent what Mr. Kelly said in his interview with the Commission on March 3, 2010, and are misleadingly incomplete. The misleading nature of the Commission’s selective quotations is particularly egregious, given that an audio recording exists of Mr. Kelly’s interview.

The first bullet point reads:

Future Citigroup CFO Edward “Ned” Kelly III told the FCIC, “Having agreed to do the deal was a recognition on our part that we needed it. And if we needed it and didn’t get it, what did that imply for the strength of the firm going forward?”

This cropped quote mischaracterizes Mr. Kelly’s statements because it improperly excludes his introductory caution that he was expressing what he believed to have been the *marketplace’s* reaction. Mr. Kelly explicitly stated that this view is neither his nor Citi’s, but rather his impression of the market’s view at the time. As the audio recording of Mr. Kelly’s interview clearly reflects, the full quote is as follows:

“After we announced the Wachovia deal, ironically I think there was a perception on the part of the market that we had now conceded that we needed a larger presence in the United States, that there was a value to deposit funding that we had been willing to forgo for some time, but having agreed to do the deal was a recognition on our part that we needed it.”

Your inclusion of only the last part of Mr. Kelly’s statement misleadingly implies that Mr. Kelly was expressing a concern that he or Citi held.

The fourth bullet point reads:

Citigroup’s Kelly, who helped negotiate the deal, told the FCIC, “There was not a huge amount of science in coming to that [\$306 billion] number.” The deal was structured to “give the market comfort that the catastrophic risk has been taken off the table.”

This selection misquotes Mr. Kelly and again fails to provide the appropriate context. Mr. Kelly did not use the term “catastrophic” risk, but instead stated, “in part [we] were driven by how much would be enough to give the market comfort that we had in fact eliminated that tail risk.” In addition, this excerpt oversimplifies Mr. Kelly’s point. As the audio recording of Mr. Kelly’s interview reflects, Mr. Kelly expressly indicated that there were several considerations in coming to the final number:

“We had two views . . . the size actually was very similar to Wachovia . . . [and] we went through asset categories that we thought might fit, backed into that number, and in part were driven by how much would be enough to give the market comfort that we had in fact eliminated that tail risk.” Mr. Kelly later added, “but not so large as to be impractical.”

The cropped quotation implies that the number was an arbitrary figure chosen to calm the market’s fears, when in fact Mr. Kelly’s statements made clear that the number was based on several analytic considerations.

Charles Prince. With respect to your December 7, 2010 letter to Mr. Prince, two of the ten bullet points do not accurately represent what Mr. Prince said in his interview with the Commission on March 17, 2010, and are misleadingly incomplete. These inaccuracies are particularly egregious, given that an actual transcript exists of Mr. Prince’s interview.

The first bullet point reads:

“Securitization could be seen as a factory line,” Citigroup’s ex-CEO Chuck Prince told the FCIC. “You needed raw material to put in the front end of that. . . . As more and more and more of these subprime mortgages were created as raw material for the securitization process, not surprisingly in hindsight, more and more of it was of lower and lower quality. And at the end of that process, the raw material going into it was actually bad quality, it was toxic quality, and that is what ended up coming out the other end of the pipeline. Wall Street obviously participated in that flow of activity.”

This quote ignores the broader regulatory context Mr. Prince emphasized. Mr. Prince stressed that this “factory line” was only realized through the “lack of adequate regulation of the origination of mortgages.” By extracting the quote from this context, Mr. Prince’s statement is transformed from a nuanced observation about the combined roles of market regulators and participants into one that places a far greater emphasis on the activities of “Wall Street” than the transcript, fairly read, permits.

The seventh bullet point reads:

The context was a discussion of the upcoming third-quarter results. As reported, this is also when Chairman and CEO Prince first heard about the possible losses from the super-senior CDO tranches: “[I]t wasn’t presented at the time in a startling fashion . . . [but] then it got bigger and bigger and bigger, obviously, over the next 30 days.”

This bullet point misstates Mr. Prince’s statement in two respects. First, as the transcript makes clear, Mr. Prince recalled that the discussion referenced was part of a weekly “Business Heads meeting,” not—as this excerpt suggests—a discussion of upcoming third-quarter results. In addition, Mr. Prince expressly stated that he could not precisely reconstruct the conversations he may have had regarding CDO super-senior tranches in September 2007. Second, the discussion Mr. Prince described was not about “possible losses,” but, as Mr. Prince expressly testified, about the Company’s “open positions.” In fact, Mr. Prince expressly stated that “at the time this first came to my attention in the September time frame, even at that point people believed the super seniors would not have any losses.” As a result, the use of this quote to describe a purported discussion concerning third-quarter estimated losses is grossly misleading.

Robert Rubin. With respect to your December 7, 2010 letter to Mr. Rubin, the second of two bullet points takes what Mr. Rubin said in his interview with the

Commission on March 11, 2010 out of the context of the discussion, and is misleadingly incomplete. This is particularly egregious, given that an actual transcript exists of Mr. Rubin's interview.

The second bullet point reads:

A second meeting was held September 12-- after Rubin was back in the country --and the focus shifted to the CDOs. This meeting marked the first time Rubin recalled hearing of the super-senior and liquidity put exposure. He later commented, "As far as I was concerned they were all one thing, because if there was a put back to Citi under any circumstance, however remote that circumstance might be, you hadn't fully disposed of the risk."

As Mr. Rubin made clear in his interview, Citi reasonably held the view that the super-senior and liquidity put exposure--which were rated above-AAA--had only *de minimis* risk. Removing Mr. Rubin's comment from this larger context of the dialogue he described within the Company is inappropriate and misleading.

Sandy Weill. With respect to your December 6, 2010 letter to Mr. Weill, the bullet point is not appropriate for inclusion in the Commission's final report.

The bullet point reads:

"I think if you look at the results of what happened on Wall Street, it became, 'Well, this one's doing it, so how can I not do it, if I don't do it, then the people are going to leave my place and go someplace else.' . . . [R]isk became less of an important function in a broad base of companies, I would guess."

As Mr. Weill made clear, his comment was based purely on conjecture, and was made with the benefit of hindsight—Mr. Weill himself expressly stated that he was guessing when making the comment. We respectfully submit that the Commission's report should not rely on after-the-fact speculation—or guesses—by Citi's former-CEO regarding events that transpired years after he departed the Company.

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On behalf of Citi, we vigorously object to the inclusion in your public report of unverified, inaccurate, or misleading information or quotes, as identified above. We appreciate your attention to these matters and look forward to continuing our discussion about these matters with you.

Respectfully submitted,

Brad S. Karp / A.I.K.

Brad S. Karp