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D R A F T
M E M O R A N D U M

TO: File
DATE: February 2, 2010; 4:15 – 6:30pm
RE: Memo for Interview with Janice Warne
This is not a transcript of the proceeding and should not be quoted as such.

Biography from Paul Weiss
Ms. Warne was a managing director at Citigroup Global Markets Inc., most recently in the Subprime Portfolio Group. Her responsibilities included managing the legacy subprime and ABS CDO assets associated with Citigroup's structured credit business.

Ms. Warne joined Salomon Brothers in 1987. From 1993 through 2004, she was the head of ABS/Structured Finance, then of the Structured Bond Group within Debt Capital Markets. From 2004 through 2007, Ms. Warne headed or co-headed the Global CDO business at Citigroup Global Markets Inc., reporting to Michael Raynes, head of Global Structured Products. Ms. Warne left Citigroup in December 2008.

Paul Weiss
Susanna Buergel, Joyce Huang

Citi
Elaine Mandelbaum, Janice Warne

FCIC
Brad Bondi, Tom Krebs, Dixie Noonan, Karen Dubas

BONDI: [Explains FCIC mission and mandate and requirement to be truthful.]

KREBS: Are you a managing director?

WARNE: I'm currently unemployed, but my last position was as a managing director. I reported to Richard Stuckey, who oversaw ABS CDO legacy assets. I worked for and with him.

KREBS: This was in the structured credit business?

WARNE: Not yet. This group was formed in November 2007. Many people had been let go at that point, and I stayed on to try to help work out the assets.

I joined Salomon Brothers in 1987 and worked at Citi through September 2008. I started in the Financial Institutions group and worked with people developing asset-backed securities market (credit card and auto loan securitizations). I stayed with the secured fixed income products and securitized products. I was mostly responsible for nontraditional securitizations. I was involved in tobacco securitizations, utility securitizations, future flow receivables, etc.

In late 2000 I was asked to oversee the nascent CDO business. By 2004, I gave up the other group and focused solely on CDOs. From 2004 until November 2007, I focused on CDOs, and in November 2007 the new group was formed. Throughout my work with the CDO group, I was either overseeing it or co-heading it.

KREBS: What was the organization of the group?

WARNE: I'll talk about the 2006-2007 structure. We did CDOs with respect to all different asset classes (residential mortgage-backed securities, emerging market credit, etc). Our group was tasked with doing all different kinds of CDOs, but our business was focused on the cash market—it wasn't a derivative world.

KREBS: You focused primarily on cash CDOs?

WARNE: That's correct, and the business was customer-focused. We solicited business from big managers on Wall Street. We would be retained as the underwriter, would help structure the deal, and underwrite the deal. Our goal was to fully distribute all of the securities that we issued.

The point at which we priced the security meant that we were comfortable enough to price at those levels. We know what levels work for that transaction—CDOs are very sensitive. If not all of the securities were committed for, we would try to move them off books as fast as possible.

KREBS: Who were likely purchasers of certificates of CDOs?

WARNE: Some of the most senior AAA tranches were bought by insurance or reinsurance companies. AAA securities might be bought by SIVs; mid or mezz securities might be purchased by banks or traditional insurance. The lowest rated would go to hedge funds or other speculators.

KREBS: In order to structure CDOs and maintain cash flows, were CDOs over-collateralized?

WARNE: They weren't over-collateralized, per se. The most important concept is that it's a cash oriented vehicle. You care less about the market value than the cash generating ability of a security. For each given tranche of a CDO there has to be a _____ below it. As a structuring exercise, you would try to make sure that any given tranche has enough equity underneath it to withstand a certain amount of losses that would be equivalent to that rating.

KREBS: Is it the idea of a waterfall of principal and interest? The equity tranche would be first to suffer—it has the highest risk and the lowest rating?

WARNE: It's unrated. After being created, it's distributed. There is not very much of the very bottom piece. There are people who are willing to take the risk of the residual cash flows. They will wait for whatever is left after you pay out everything above it.

KREBS: When the CDO is just an idea, how do you go about establishing it? Do you have a property or collateral manager?

WARNE: We facilitate the issuance of those securities. The beneficiaries of those deals are the collateral managers. We did a lot of work for the best firms on Wall Street—TCW, Credit Suisse Alternative Capital (CSAC), and Pimco.

They'd come to us (or we'd pitch an idea to them) and we'd decide to work together on an asset-backed CDO. As a first step, they would provide to us a general idea of the kinds of asset-backed securities that they'd be interested in buying. We'd say, given the yields on those securities and the interest rates that we'd have to put on the securities we'd issue, how would we structure this so it would make sense? Are the economics such that this deal would produce interest income to bond investors and cash flows to equity investors?

KREBS: What's the difference between a cash CDO and a CDO squared?

WARNE: A CDO squared refers to a CDO that has other CDOs underlying it as collateral.

KREBS: That's very complex. The institutions that would buy those must be very sophisticated?

WARNE: Intex was an analytical program that was used. CDOs were purchased by the most sophisticated investors. Using Intex, they could decide what they wanted and follow the cash flows. This was not a security that was sold broadly by any means. There was a premium on interest rates compared to a typical security. For example, a top tranche of an ABS would pay 7%, the securitization of a credit card would take 7.5%, and a CDO would trade on 8% as the coupon value. It paid investors to understand the complexity and risk of the product.

KREBS: During 2005-2007, were CDOs so popular because interest rates were so low?

WARNE: With our distribution, we sold a relatively small portion of ABS CDOs to European markets. There was more interest in Asian markets. I think it was a case of investors liking to get a higher yield for the same security. Across structured AAAs, they'd rather buy higher interest rate ones if a rating agency says that an AAA CDO is the same as an AAA RMBS.

Up until 2007, the RMBS market had been very robust. It was viewed to be very safe and liquid. Someone could pick how much risk they wanted by what tranche they bought.

KREBS: There were a significant number of mortgage-backed securities that were based on subprime or Alt-A. How can you take subprime mortgages and turn them into a AAA security?

WARNE: The first step is to take subprime mortgages, pool them, and turn them into a security. That structuring is a result of how rating agencies evaluate securities—their practice is accepted by the industry and regulators. A portion of those securities could be rated AAA because there are enough securities below them to cover all of the other losses.

Regarding stress and stress tests, the rating agencies require that you do mathematical analysis to make sure that the securities that you're requesting ratings for can withstand a certain number of defaults. Could it pay interest as required if defaults increased to a certain level? We tried to make sure that under very dire market conditions that a security could still perform.

KREBS: Was this for a particular length of time?

WARNE: Rating agencies came up with their own criteria.

KREBS: Who did the mathematical analysis?

WARNE: To establish the initial rating criteria, the rating agencies do all of their own work. They'll tell us that this is what it will take to get an AAA rating on a security. When we're working with a manager, we'll run a model to see if the security would pass the test that we think that they would apply.

KREBS: Do you meet with rating agencies?

WARNE: They take our analysis and look through it and draw their own conclusions.

KREBS: What do you know about the quality of the underlying mortgages?

WARNE: We would not be concerned about the quality of the underlying mortgages. We'd be interested in the residential mortgage-backed security. We're two steps removed from the original mortgage. What we care about is making sure that among the RMBS that the manager selects for the pool, that there's significant diversity (geographic, etc.) and that we're not too concentrated.

KREBS: Whose RMBS are used in the CDOs?

WARNE: We can use anything in the market. The collateral manager would decide what securities they want to buy. We'd buy those and warehouse them on our balance sheet until the CDO is structured.

If TCW decided to buy a particular RMBS, they would instruct that this security be purchased. Citi would purchase it on behalf of TCW, and we would warehouse it on our balance sheet until all of the securities are purchased and they are packaged into a Special Purchase Vehicle.

KREBS: Those are cash CDOs that we're talking about so far?

WARNE: Yes, the underlying collateral was actually a physical bond.

KREBS: What's a hybrid CDO?

WARNE: It has both some cash securities and some CDS (synthetic securities). Some will pay cash, and some will just be referencing a security throughout the transaction.

KREBS: When there is a CDS, is the effect that if a loss is incurred in the tranche, the counterparty pays the loss?

WARNE: Within the CDO itself, if it's based on subprime RMBS, we'd think of it as an insurance contract. The attractiveness is that the investor doesn't have to finance holding a security on their balance sheet. It's as if I owned that AA subprime RMBS, but I don't hold the security. It's a reference obligation. But you still get the interest rate and risk that you desire from that security.

I can own a GM bond, and I will get a coupon on that that will pay. The cost is that I have to finance that—the investor will have to take into account the cost of buying the bond. If I own a GM CDS, I don't own the bond. I have an asset that's a piece of paper. I'll get cash payments that reflect that I am responsible for GM credit, but I don't have to finance it.

For the purposes of payments to note-holders, all of the cash that's coming in is counted as the same cash. It's split up between interest and principle.

KREBS: Who writes CDS?

WARNE: It's a broadly traded market. All major firms have a desk for this. It is a traded market analogous to a corporate bond market.

KREBS: What were the good years for CDOs in terms of volume at Citi?

WARNE: I believe that—again, this is not just the ABS CDOs, we had a diversified business across several asset types—our volumes increased throughout the years. 2006 would have been the peak in volume. Asset-backed and CLOs continued to grow throughout time.

[Krebs shows the list of CDOs]

WARNE: This list is a combination of synthetic CDOs, which were created by a different desk, as well as deals that would have been done by my desk. I wouldn't worry so much about the differences of hybrid model—you can think of that as a form of the cash CDO.

For people who grew up in the derivatives world and correlation trading, there was a set of deal structures in the market that were different than the cash market. This market was bigger in Europe. The entire pool would be derivatives. It had different waterfalls and different payment priorities. Credit default swaps were used in them.

Those deals evolved differently than our market. They were often more tailored to an individual investor. With bespoke trades, not all tranches were sold. An investor would just buy a mezzanine tranche or the like.

KREBS: How were securities sold?

WARNE: My business was sold in 144As and Reg. S in the United States.

KREBS: Was there a secondary market?

WARNE: In 2002 or 2003, there developed the beginning of a secondary trading market in the CDO market. Analytical packages came into widespread use at that time, so investors could have their own view about what a CDO was worth. The two programs were Intex and Wall Street Analytics, but Intex was the dominant brand.

KREBS: Mortgage-backed securities were underpinning the CDOs. How is it that Citi knew what was in the offering that it was issuing?

WARNE: We wouldn't look at tapes of underlying loans. We would just look at the securitization and decide if it was okay to put in our structure.

In the cash business, we would work with a collateral manager, and they would dictate the portfolio of securities (frequently new securities) that they would want in their CDO.

KREBS: Isn't that a matter of negotiation?

WARNE: It was not a negotiation. The collateral manager directed the investments. It was a three step process. (1) We had to check with the mortgage trading desk to make sure they were comfortable with us holding a security on our books until deal was structured. (2) We then had to make sure the security fit correctly within the deal. (3) The senior syndicate manager made sure that they were comfortable with selling it into the marketplace.

KREBS: Were the RMBS seasoned? If you held them for 3-6 months, shouldn't you be getting regular payments?

WARNE: The co-head of the unit was Nestor Dominguez. Nestor had a trading background. He was responsible for risk oversight with our syndicate and trading books.

Organization structure: Under Nestor and me, we were organized geographically and by product line. There were teams in New York, London, Hong Kong, and Japan. The business was largely broken down in the U.S. according to the collateral type: structuring, syndicate, or secondary trading. There were various structuring teams for asset-backed securities, collateralized loan obligations, and an "other" category. Each of those structuring groups shared a counterpart on the syndicate desk. So there would be a senior manager on syndicate desk for asset-backed securities, etc.

In the London office, the collateral was almost exclusively leveraged loans. The syndicate desk would assist with distributing U.S. securities into Europe. In Tokyo, there was a small team that was mostly sales-oriented. In Hong Kong, there was a five-person team that mostly did structuring and sales.

BONDI: Did you ever report to Tom Maheras?

WARNE: In 2006, I reported to Michael Raynes. [She runs through an organizational chart]

BONDI: Could we have an organization chart?

KREBS: With 144A offerings, since you were mostly concerned with RMBS and not with the underlying mortgages, what disclosures did you make?

WARNE: I believe that the pool was available on Intex once the deal closed, but I don't believe it was in the offering memoranda. The offering memoranda would describe the criteria by which the collateral would come into the pool and give information about the collateral manager and details about waterfalls.

KREBS: When did you first begin to see problems in the CDO market?

WARNE: By the end of 2006, we saw some of the selloff in the ABX index. In February 2007, Hong Kong and Shanghai announced some of their losses with HSBC. By February 2007, we decided not to do anymore RMBS CDOs. We had a certain number of securities on our books that we would still use in transactions, but we wouldn't buy any more securities for new CDOs until we saw what was happening in the market

Disclosures didn't give market commentary. To the extent that investors were worried, it would have been reflected in a higher coupon rate.

BONDI: Did you disclose any of the decisions that you were making post-February 2007 to investors?

WARNE: No. The point at which we decided not to open new warehouses, we still had a significant number of securities on our balance sheet. I don't know how the decision came about; I just know that the result was not to open new warehouses. To the extent that we knew that we had a large pipeline already, to put more securities on our balance sheet in a slow market would not be a prudent risk management decision.

BONDI: There was a decision not to open new warehouses…

WARNE: What I don't remember was how formal or informal that decision was. I don't know if it was a policy decision handed down. I think it was more of a wait and see situation.

BONDI: For the deals that were already in the pipeline, did you disclose to investors in those deals that you had decided not to open new warehouses?

WARNE: Not to my knowledge.

KREBS: We spoke to folks from Audit today, and they said that they began to have concerns in the second quarter of 2007. Did you meet with them?

WARNE: We would regularly meet with product risk, audit control, etc. We had significant interaction with internal audit. There were lots of discussions about product risk, credit risk, etc.

KREBS: Would they have been apprised of the decision in 2007?

WARNE: I don't think everyone got in the room and made this decision. I can't tell you if that decision was conveyed. I know that our warehouse positions were evaluated on a daily basis, so they would have been aware of our exposure, but I'm not sure what they were explicitly told.

KREBS: Let's talk about this list of CDOs.

WARNE: It's just a list of tickers. It would be difficult for you to know much about this list of CDOs.

KREBS: Does this list look complete to you?

WARNE: I can't speak to anything done by the Correlation Desk, but I can look at my desk. I have no reason to think that this is not an accurate list.

KREBS: From the end of the year in 2006 to February 2007, how many transactions were done?

WARNE: The maximum would be one or two transactions.

KREBS: How many were done after February 2007?

WARNE: I'm not positive, but five or six sounds right to me.

KREBS: Did you do the Ridgeway Courts II CDO?

WARNE: Yes.

KREBS: Can you tell me a little about it? If August 28, 2007 was the closing date, by that time wouldn't there have been a significant downturn in the value of CDOs generally?

WARNE: Yes. The rating agencies took action in late June or early July and significantly downgraded them.

KREBS: Do you know what happened with this CDO?

BUERGEL: Ridgeway Court II closed in June. I'm not sure why the August date appears on the offering circular.

WARNE: I thought that our last deal closed in June 2007. I don't remember if Ridgeway II was our last deal or not.

KREBS: Was the penultimate deal similar in structure to Ridgeway?

WARNE: I'm not sure. I'd have to see what the deal was.

KREBS: Why was it closed?

WARNE: The manager still wanted it to be closed, and we could still distribute the securities. The investors that we talked to had access to Intex and rating agencies, and they were getting high coupon values for the risk.

KREBS: Who owned the super-senior tranche?

WARNE: I believe Citi owned the super-senior tranche.

KREBS: I have heard and read about Lehman Brothers and Bear Stearns taking their own collateral and posting it as collateral for repo lines of credit.

BUERGEL: That wasn't what was happening here. Citi did not post this as collateral.

WARNE: We didn't own it in the same way.

KREBS: How do you locate the credit-default swaps to include in the transaction?

WARNE: We work with the mortgage trading desk, and then they work with our desk and other desks to find a price.

KREBS: In the Ridgeway II, Ambac issued the credit-default swap.

WARNE: I don't remember.

KREBS: Who would negotiate the issuance of the CDS in this type of security?

WARNE: That would be done by the relevant mortgage trading desk. We don't negotiate credit default swaps for residential mortgage-backed securities. The CDS for the synthetic collateral would be on the CDO secondary desk. That would be Donald Quintin.

BUERGEL: Any trading desk that engages in transactions or swaps could have done this. For the credit default swaps that served as synthetic capital, they are sourced as capital on the street by the collateral manager (e.g., CSAC would have been responsible for sourcing the underlying capital).

Ambac provided a swap on the super senior, so that's completely different.

BONDI: So Ambac provided a swap to Citi for the super senior?

WARNE: That would have been on our desk. It could have been Shalabh Mehrish or Mihail Nikolov or Nestor Dominguez.

KREBS: Prior to liability, there would have had to been a cushion that defaulted somewhere in the cash waterfall?

WARNE: I don't know the specifics for this deal here, but typically super senior is somewhere around 80%.

KREBS: How often do you mark securities to market?

WARNE: The securities go in and out of the warehouse at cost. That's how the market works.

KREBS: Were any of the securities in this transaction previously held by Citigroup?

WARNE: I don't know.

KREBS: If that had happened, would it have been prohibited?

WARNE: No, you can do that.

KREBS: How often was TCW a collateral manager?

WARNE: We worked with TCW quite a bit.

BONDI: Have you ever given a deposition related to your work at Citi?

WARNE: No.

BONDI: Have you ever been interviewed by a regulator related to your work at Citi?

WARNE: I occasionally interacted with FINRA and the SEC, but it wasn't the enforcement divisions.

BUERGEL: Citi participated in the CSE program, so they gave the regulators materials on CDOs.

BONDI: Can you talk about the new group formed in 2004?

WARNE: It wasn't a new group. Until late 2003 or 2004, I was overseeing the CDO group in addition to the group that I had previously run. After that time, management asked me to give up responsibility for the other group and only oversee the CDO business. It wasn't a new group, just a shift in responsibility.

BONDI: I saw a figure that had Citi as the largest issuer of CDOs. Were you involved in any decisions to grow the business?

WARNE: The general role of a manager was to grow your business. That was the overall strategy.

BONDI: Who mandated you?

WARNE: Your question is premised on someone giving me a direct order. There wouldn't be a proclamation of "Let's Grow the Business."

BONDI: Were you involved in discussions with management about growing the CDO business. If so, who would you have talked to?

WARNE: Michael Raynes, Chad Leat, Geoffrey Coley, or Randy Barker were likely who I would have met with. This is just general recollection, not specific meetings that I can think of. There were many meetings to talk about the business and what we're doing.

BONDI: You used the term that you were "mandated" to grow the CDO business.

WARNE: As a manager of the business, my purpose was to grow the business and grow revenues.

BONDI: What was the purpose of the CDO desk?

WARNE: It was to generate revenue and serve our clients. They appreciated our service.

BONDI: Did you grow your client base, or did the number of clients remain static?

WARNE: That's hard to answer. Over time, we dealt with more managers, but I'm not sure if we had more managers at one point in time than another.

BONDI: Is there a document or a few documents that would break down the CDOs that were done each year from 2004 to 2007 to say what was in each deal and who the investors were in the deal?

WARNE: We would regularly compile information on the first two, but the last would be slightly more difficult.

BONDI: What would those documents be called?

WARNE: They're just "deal lists."

BONDI: I'd like to see a breakdown of deals each year, collateral, etc.

What were the terms of your departure?

WARNE: It was kind of mutual. After 2008, it was clear that I no longer had a substantive role at the firm. I was encouraged to look elsewhere in the firm.

BONDI: Did you receive a severance package?

WARNE: Yes.

BONDI: Are you still being paid by Citi?

WARNE: I am when I help the legal department with various matters.

BONDI: Do you have a formal retainer with Paul Weiss?

WARNE: No.

BONDI: Did you prepare with Paul Weiss for today?

WARNE: Yes, for about an hour.

BONDI: What was your severance?

WARNE: It was an after tax amount of about 36 CFR 1256.56 - Priva

BONDI: What was your compensation?

WARNE: My salary was small part of my compensation—there was a bonus and stock options over three years. The salary was about 36 CFR 1256.56 - and the bonus was about 36 CFR 1256.5 It was related to the performance of the group, my contribution to that performance, and the performance of the capital markets area.

BONDI: Did you testify in the FINRA arbitration?

WARNE: Yes I did. It was Citi vs. Loyola.

BONDI: What is a liquidity put?

WARNE: From the period of 2003 through early 2006, Citi did transactions where for high grade RMBS or ABS, the super senior piece was funded in the asset-backed commercial paper markets. It provided attractive financing for the super senior tranche of a CDO.

BONDI: What is the purpose of providing a liquidity put?

WARNE: Commercial paper investors demand absolute liquidity, so there needed to be a direct line of credit to make sure funds are available to pay them. The liquidity put allowed Citi to repurchase commercial paper if ____.

BONDI: What was Citi's compensation for liquidity put?

WARNE: Citi received fees for structuring and underwriting a transaction. There typically are multiple dealers who receive fees. The underlying rates would be LIBOR + 20. The first liquidity put was approved in 2003 by the Capital Markets Approval Committee (CMAC) that included representatives from credit, tax, legal, systems, and product control.

BONDI: Who was on the CMAC committee in 2003?

WARNE: It was housed within Markets and Banking. It was headed by Steve Bueno or his predecessor (the head of CMAC).

Subsequent transactions would either have to approve new transaction forms or did not need to be approved if you use similar language.

BONDI: Did the management of Citigroup know about liquidity puts when they were made?

WARNE: Within Citi Markets and Banking, relevant management personnel should have known about it. I don't know whether Tom Maheras or David Bushnell would have known.

BONDI: When were liquidity puts first exercised?

WARNE: There was a requirement to roll commercial paper at certain rates (LIBOR + 35 or 40). Around June or August/September of 2007, all of that started coming back on the balance sheet. It wasn't a decision to put it back on balance sheet—it was an obligation at that point. I was part of the team that understood that they were coming back on the balance sheet, but it wasn't a decision, it was a contractual obligation.

BONDI: Was there any meeting or briefing explaining the liquidity puts?

WARNE: There was a large team involved overseeing the commercial paper coming back on the books. A lot of people were involved on a day to day basis. Scott Freidenrich (head), Don Bendernagel, Hugh Conroy, Bret Dooley, CitiFunding, Murray Barnes.

BONDI: Were Chuck Prince, David Bushnell, or Tom Maheras briefed on these matters?

WARNE: I would have no knowledge of this.

BONDI: It sounds like there were decisions involved in which tranches Citi would hold for itself.

WARNE: At the beginning, our objective was to fully distribute everything that was created. I don't remember ever holding an entire tranche; we would just hold certain securities that either weren't sold or that we were holding for an investor for later.

The derivatives team had a Correlation Book. From 2006 to 2007, Mickey Bhatia would have reported to Michael Raynes.

BONDI: In Hearing 1, John Mack said "not only did we eat our own cooking, but we choked on it."

WARNE: Our business model was not to retain, our business model was to distribute.

BONDI: What is a negative basis trade in a CDO transaction?

WARNE: The yield on a super senior exceeds the cost of insuring that risk and separating out the ____ component. The basis points of interest minus the basis points of funding plus the basis points of insurance equal the spread.

BONDI: How successful was Citi with redistributing all of the tranches in the cash CDOs?

WARNE: I believe we were very successful.

BONDI: Is there a report of what tranches were and were not distributed? Did you get performance reports on a regular basis of underlying RMBS or CDOs?

WARNE: No.

[BREAK AT 6:00 PM]

WARNE: I do want to add something. I do recall having a conversation with Nestor, myself, and Tom Maheras when we were talking about the asset-backed commercial paper market in general. This was in 2007, post-Bear Stearns hedge funds.

Probably August or September, Dave Bushnell called to ask some questions about liquidity puts. I believe that he had some background on them, but it's hard to say what the extent of his knowledge was from our conversation. There may be a summary sheet on liquidity puts that we gave him.

BONDI: We're trying to understand what happened at Citi. What happened in the CDO shop that led to the significant write-downs and losses at Citi?

WARNE: In hindsight, we retained super senior positions that proved to be susceptible to default or downgrade. With liquidity puts, we did not ever in our wildest dreams think that the asset-backed commercial paper market would evaporate. At the point at which I left, the liquidity put transactions were all still current with respect to payments of interest. There was $80 million toward payments of principal. In hindsight, we should have realized the risk of holding large amounts on our balance sheet with that exposure. No one was in the realm of thinking that super-senior tranches would have losses.

BONDI: Were you trying to distribute all of the cash CDO except for super-senior tranches?

WARNE: Holding super-senior tranches was a relatively late phenomenon in the business with hybrid deals. Even with asset-backed, liquidity-put commercial paper, all of that commercial paper was fully distributed. The distribution of all of the capital structure was our *modus operandi* up until the last phase of synthetic structuring.

BONDI: Is there a document for the amount of super-senior tranches of CDOs held by Citi throughout the years?

WARNE: I don't know that such a document exists.

BONDI: Do you have any regrets?

WARNE: In hindsight, it's really unfortunate that at the time, we and a lot of other people missed the draconian nature of the downturn in the mortgage market, as well as a lot of other factors. At the time, our group operated in a highly transparent way; it was highly integrated, and we were proactive in our communications. We followed the control procedures that we were supposed to be following and acted in a highly ethical and straightforward way.

Did we miss a lot of things? Absolutely. Did we comport ourselves in a way that was professional and ethical? Absolutely.

BONDI: There are some reports that some banks shorted the CDOs that they sold investors.

WARNE: The secondary trading desk might have long or short positions depending on their book, but that was a very small percentage of our overall business. That was in normal business, not proprietary trading. You'd have to talk to Donald Quintin.

BONDI: Tell me about risk management.

WARNE: Market Risk and Credit Risk were highly involved in the business. Murray Barnes was the liaison to our desk. He reported to Ellen Duke, and she reported directly to Bushnell (this is the independent risk function).

BONDI: How did you interact with Barnes?

WARNE: There was regular reporting. We agreed with him on guidelines in terms of size and ratings concentration. We talked with him regularly about risk overall. They had to approve any liquidity put transactions.

BONDI: Aside from casual communications, what communications did you have with Chuck Prince?

WARNE: Virtually none.

BONDI: What about Robert Rubin?

WARNE: None.

BONDI: What interactions did you have with any of the parent company CFOs during your tenure?

WARNE: In December 2007 or January 2008, I would occasionally have conversations with Gary Crittendon to brief him on statistics. I explained some of the liquidity put structures for some of his investor calls.

BONDI: Did he say anything that led you to believe that he was not aware of liquidity puts prior to December 2007 or January 2008?

WARNE: No.

BUERGEL: The company issued an 8-K on November 4, 2007 that described all of these positions.

BONDI: Was there ever a time that you lost faith in the rating agencies?

WARNE: I was quite surprised when they came out with the downgrades in June/July 2007. That came out of the blue. I was dumbfounded at the scale and severity of the downgrades. The implications were huge for the RMBS being downgraded and the subsequent CDOs. It was quite draconian.

BONDI: Did you disagree with those downgrades?

WARNE: I'm not familiar enough with RMBS ratings to know whether to agree or disagree. They came out with thousands of ratings in one fell swoop. A lot of the reason that CDOs went into default is because the RMBS downgrades triggered the default. It wasn't a case of RMBS defaults.

KREBS: What about purchases of junior or senior debt in Ridgeway?

WARNE: I don't know.

KREBS: What about stress testing?

WARNE: We looked at the composition of the warehouse.

KREBS: With respect to assets underpinning the offering document, were any purchased from Citi?

WARNE: They may have been, but Citi was not big into RMBS securitizations from purchases in subprime.

NOONAN: You said that investors were getting a higher coupon on an AAA CDO tranche than an AAA RMBS tranche. I don't fully understand why a CDO would be a riskier investment than a RMBS.

WARNE: Risk is not the right term. AAA should have the same default risk no matter what, but the CDO is more complex and doesn't have robust secondary market. The higher coupon is related to the technical aspects of the security.

KREBS: [Requests that Warne keep this discussion confidential and between her and her lawyers.]