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March 1, 2010

By Hand and E-Mail

Bradley J. Bondi, Esq.
Financial Crisis Inquiry Commission
1717 Pennsylvania Avenue, NW
Suite 800
Washington, DC 20006-4614

Financial Crisis Inquiry Commission ("Commission")

Dear Mr. Bondi:

As you know, we represent Citigroup Inc. ("Citi" or the "Company") in connection with its response to the Commission's requests for information, including the Commission's February 12, 2010 supplemental request (the "Second Supplemental Request"). The Second Supplemental Request seeks, among other things, responses to interrogatories.

During discussions on February 17 and 18 with one of my colleagues, you identified a number of the interrogatories set forth in your Second Supplemental Request as priorities. We therefore provide responses to certain of those priority interrogatories, as modified by your discussions with my colleagues. Also as discussed, we expect to provide responses to the remaining priority interrogatories as soon as possible. Citi reserves the right to supplement, amend, modify or correct any of the responses provided below.

*   *   *   *   *

Interrogatory No. 1:

What were the primary errors, mistakes, and business practices that caused or contributed to the financial problems at Citigroup, and what actions have been taken to address them? In particular, please explain the practices and circumstances that led to Citigroup's significant losses and other financial difficulties from January 1, 2007 through December 31, 2008.

Response to Interrogatory No. 1:

Citi's financial condition, like that of every other major financial services company, was dramatically affected in late 2007 and throughout 2008 by the unprecedented credit crisis that began to unfold in late 2007 and the collapse in the residential real estate market, which contributed to a global crisis in the world's financial systems and led to the recession that followed. The errors, mistakes and business practices that precipitated these macroeconomic events have been much discussed: housing policies that led to increased subprime lending in the residential real estate market; an explosion in new subprime mortgage products based on the assumption of stable and, indeed, ever-increasing residential real estate prices based on decades of precedent; the Federal Reserve Bank's policy of maintaining historically low interest rates in the post-9/11 period; the growth in demand for securitized and structured credit products by investors of all types in all sectors with widely varying risk appetites and abilities to absorb risk; the lack of transparency in certain financial markets, including derivatives markets; and a regulatory system that did not keep pace with the ever-increasing sophistication, complexity and interrelatedness of the financial markets, to name just a few. These systemic factors, and their confluence, were the primary causes of the losses incurred by Citi. Given Citi's size and global reach, and its exposure to subprime-related asset classes, these factors combined to impact Citi's financial performance dramatically.

Factors Specifically Applicable to Citi. Beyond these systemic factors, the volatility of investor sentiment and investor panic in the midst of the global credit crisis negatively affected Citi in two ways. First, investors had a strongly negative reaction following Wachovia's decision in October 2008 to renege on its transaction agreement with Citi, and market confidence in Citi declined substantially as a result. Second, investors placed increasing emphasis on tangible common equity ("TCE") instead of Tier 1 capital as the measure of the health of a financial institution's balance sheet. When common stock holders believe that a financial institution with strong Tier 1 capital but low TCE, like Citi, will be required to raise additional common equity, that imposes significant pressure on the stock price, which in turn further erodes market confidence.

With the benefit of hindsight, there is one particular factor that greatly exacerbated the impact of these events on Citi's financial performance. Citi had in place risk systems to evaluate the Company's exposures to all markets and products. Citi's risk models employed what were considered at the time to be extreme loss scenarios with respect to the residential real estate market. Citi based its extreme loss scenarios on available information, historic price movements, and well-considered and conservative assumptions shared by financial analysts, commentators, ratings agencies and other residential real estate market experts. Nonetheless, Citi's models—like those employed by virtually every other firm on Wall Street and elsewhere in the global financial markets, including by Citi's key regulators—did not contemplate the possibility of the persistent, extended, unprecedented collapse in residential real estate prices that we have seen in recent years. Citi—like the most conservative real estate lenders and investors of the day—did not plan for this "100-" or "1000-year flood" scenario.

Indeed, Citi shared the conventional wisdom that the growth in securitized products had spread risk widely, such that the failure of any single market or market participant would not cause systemic concerns. The growth in the credit-default swap market and in certain synthetic structures was believed to have spread the risk even more widely. Citi therefore believed that its exposures to residential real estate were effectively managed, hedged and insured against risk. Looking back, Citi, like other market participants, did not fully appreciate that the growth in securitized products, synthetic versions of these products, and the credit-default swap market actually increased Citi's overall exposure to a catastrophic event in the residential real estate market.

As a result of these risk management assessments, Citi believed that tens of billions of dollars of AAA+-rated, so-called "super senior" tranches of CDOs collateralized in part by subprime-related securities were safe, secure and faced virtually no chance of default or material depreciation in value. Given the Company's business model and practices at the time, Citi's exposure to these securities was greater than almost any other financial institution in the world. However, beginning in the fall of 2007, these super-senior securities were subject to sudden and material write-downs, leading to massive unanticipated losses at Citi. The declining value of these securities was greatly exacerbated by the systemic failure of liquidity in the financial markets in 2008, which caused mark-to-market valuations to plunge to historically unprecedented levels. These unprecedented developments, in combination, constituted the single largest factor contributing to Citi's losses: from the third quarter of 2007 through the first quarter of 2009, Citi suffered write-downs of $30.2 billion on super-senior securities alone.

Notably, Citi's view that these super-senior products carried virtually no risk was consistent with the nearly unanimous view of market participants around the globe. For example, in April 2007, the International Monetary Fund stated that the "deterioration in the credit quality of subprime mortgages" was "not likely to pose a serious system threat" to CDO "tranches rated A or higher." Former Federal Reserve Bank Chair Alan Greenspan shared this view, calling senior tranches of CDOs "nearly riskless." In March 2007, Moody's ran a "worst case" projection of CDO performance, assuming significant subprime defaults, and concluded that in the "worst case . . . the senior AAA tranche remains investment grade." And Comptroller of the Currency John

Dugan stated in 2008: "By being senior to the triple A tranche, the super-senior tranche would have an even lower probability of default than triple-A rated securities generally, including triple A-rated corporate securities. . . . [T]his label was a powerful designation of safe credit to the investing community." Comptroller Dugan went on to note that "regulated firms . . . thought they had conservatively purchased 'safe' securities," and further recognized that "all market participants made [the] mistake" of "grossly underestimating the risk of super senior tranches of CDOs." Other financial institutions, industry leaders and market observers echoed this perspective.

Actions Taken. Citi has taken numerous market-leading steps to address these and other related issues. From a management perspective, Citi has focused increased resources and attention on its internal risk function. In February 2008, the Company named Brian Leach as its new Chief Risk Officer, as well as naming four new senior-level risk officers with substantial risk management experience. To ensure the importance and independence of the risk function, Mr. Leach reports directly to the Chief Executive Officer, serves as an Executive Officer of Citigroup and as a member of the Management Executive Committee, and gives reports to the Audit Committee (formerly the Audit and Risk Management Committee), the Risk Management and Finance Committee and the Board at every regular meeting.

The senior risk team has developed new industry-leading tools to monitor, aggregate and evaluate risk exposures within and across Citi's businesses, products and regions, including product risk, sector risk, geographical risk and client risk. Each of Citi's major businesses has its own independent chief risk officer who reports to the Chief Risk Officer. There are also individual chief risk officers responsible for specific regions and products. All risk officers work with, but are independent from, the business lines. With new tools and renewed focus, the risk infrastructure at Citi serves not only a control function, but also enables senior business managers to make informed decisions about risk and reward.

Citi also has developed more dynamic risk-measurement processes and systems that permit the rapid modification of risk assumptions (particularly stress/shock assumptions) to reflect current circumstances and allow the risk management team and senior business management to customize forward-looking scenario analyses to address rapidly changing market conditions. The Company also has improved and embedded its capital model into risk control. In connection with business/investment decisions, Citi has expanded its consideration of how much capital will be at risk in stress/shock scenarios, and those stress/shock scenarios are continually reevaluated to better account for potentially extreme outcomes. Liquidity stress and sensitivity analyses are part of the Company's business and investment decisions. The Company has developed internal capital allocation and pricing mechanisms that encourage individual businesses to moderate activities that otherwise might lead to significant balance-sheet growth or unexpected capital reductions. Business lines that create contingent liquidity exposures—as identified by stress/shock testing—are charged appropriately to reflect the cost of obtaining liquidity, or are subject to capital reductions.

Finally, Citi has raised significant capital and streamlined its business over the past two years to focus on its core commercial and consumer banking franchise. The Company has been split into two business groups: Citicorp, the Company's core, client-driven banking business, and Citi Holdings, which contains non-core businesses and assets that will be sold or wound down over the coming years. This reorganization has made the Company a stronger, better-capitalized, leaner, and more focused business, with markedly reduced exposure to many of the activities that contributed to the Company's recent losses.

Interrogatory No. 2:

Did any action or inaction by the Citigroup Board of Directors cause or contribute to the financial problems experienced by Citigroup since 2006?

Response to Interrogatory No. 2:

No. As discussed in the Company's answer to Interrogatory No. 1, the market upheaval in late 2007 was historically unprecedented. The Company's Board of Directors at all times has discharged its fiduciary and institutional duties to Citi and its shareholders. Throughout the relevant time period, the Board and its Audit and Risk Management Committee were advised of, and consulted on, significant and material matters relating to Citi's business activities, management and financial exposures. As the global financial crisis unfolded, management engaged in an active dialogue with the Board regarding material developments in the credit and subprime markets, among other critical and material areas of concern. Throughout the crisis, management and the Company's Board have been actively addressing the issues and challenges facing the Company as a result of its subprime-related exposures and other areas affected by the global economic downturn.

Interrogatory No. 4:

Citigroup has been described by former Treasury Secretary Henry Paulson as having an "unwieldy organization structure" that "lacked a single unifying culture or clear business strategy." Do you agree or disagree with this description? Please explain.

Response to Interrogatory No. 4:

Citi respectfully disagrees with Secretary Paulson's alleged characterization. To be sure, Citi has a different historic focus and global breadth than certain other financial institutions that are smaller, more narrowly focused and more U.S.-centric. Citi, by contrast, historically has focused on commercial and consumer banking, investment banking, insurance, brokerage and trading, among other businesses, and has an unparalleled international presence. Citi's size and diversity are among its greatest strengths and are attributes that will directly contribute to Citi's long-term stability.

That said, Citi has significantly streamlined its organizational structure over the past two years in an effort to return to its core historic strength as the world's premier global consumer and commercial bank. To this end, the Company has organized its businesses into two groups: Citicorp, which is the Company's core, client-driven bank business, and Citi Holdings, which contains non-core businesses and assets that the Company is selling or winding down over time. Citi has reduced its assets in Citi Holdings by $168 billion in 2009 and by $350 billion from the peak at the end of the first quarter of 2008. As part of this effort, Citi has sold its Smith Barney brokerage business, a large part of its proprietary trading businesses and certain of its private equity and hedge fund businesses. As a result, Citi is a smaller, more focused organization than it was two years ago, with a reinvigorated focus on its historic core banking businesses.

Interrogatory No. 5:

Did the lack of integration of Citigroup's various companies and business units cause or contribute to the financial difficulties that Citigroup experienced?

Response to Interrogatory No. 5:

No. Citi does not agree with the assumption implicit in this interrogatory, *i.e.*, that there was a "lack of integration" in Citi's "various companies and business units." Moreover, as discussed in the Company's response to Interrogatory No. 1, Citi's losses in 2007 and 2008 stemmed in large measure from macroeconomic and systemic developments that were entirely unrelated to the Company's organizational structure.

Interrogatory No. 6:

How did compensation plans and practices at Citigroup cause or contribute to financial problems? What changes have been made to your company's compensation plans and practices since 2000? What are the current executive compensation plans and practices? Please explain the reasons for any changes in compensation plans and practices.

Response to Interrogatory No. 6:

Citi's executive compensation practices did not cause or contribute to its financial problems. Citi always has been committed to responsible compensation practices and structures. Nevertheless, in light of the continued distress in the economy and Citi's receipt of TARP funds, Citi has undertaken to make meaningful changes to its executive compensation practices.

For example, for 2009, Citi has balanced the need to reward its employees fairly and competitively based on their performance with the need to ensure that employee compensation reflects principles of risk management and performance metrics tied to long-term contributions to sustained profitability as well as fidelity to appropriate values and rules of conduct.

Consistent with that goal, Citi agreed for 2009 to comply with the compensation determinations made by the Office of the Special Master for TARP Executive Compensation (the "Special Master"), even though Citi was no longer a recipient of exceptional governmental assistance as of December 31, 2009. In this regard, the Special Master determined the maximum amount and structure of 2009 compensation paid to Citi's senior executive officers and next twenty most highly compensated employees, and determined the structure of 2009 compensation for Citi's next 75 most highly compensated employees. In addition, while Citi has long awarded a significant percentage of incentive compensation to senior management in stock, that percentage was increased this year.

We enclose Citi's Annual Proxy Statements from 2001 through 2009, bearing control numbers CITI-FCIC 00090457 through 00091305, which provide detailed information regarding Citi's executive compensation plans and practices from 2000 through 2008, and set forth changes that have been implemented during that period.

Interrogatory No. 7:

What types of, and how much, compensation was awarded in each year since January 1, 2004 to Robert Rubin, Charles Prince, Thomas Maheras, Randolf Barker, David Bushnell, Gary Crittenden, Susan Mills, Jeff Perlowitz, and Janice Warne?

Response to Interrogatory No. 7:

We provide below the compensation information, by calendar year, for Robert Rubin, Charles Prince, Thomas Maheras, Randolph Barker, David Bushnell, Gary Crittenden, Susan Mills, Jeff Perlowitz, and Janice Warne, from 2004 to 2009. In each Table, the "Category" column indicates whether the employee was paid pursuant to a contractual guarantee or commitment ("C") or a discretionary award ("D").

We note that, as part of Citi's stock ownership commitment, members of the management executive committee generally are required to retain at least 75 percent of the equity awarded to them as incentive compensation (other than cash equivalents and net of amounts required to pay taxes and exercise prices) as long as they are members of senior management. Members of the senior leadership committee also are required to retain at least 50 percent of the same categories of net equity awards for the same period of time. We also note that from 2007 through 2009, the value of Citi's common stock declined by more than 90 percent.

All of the information provided in this letter and the enclosed documents is being provided with the understanding that it will be treated as strictly confidential, as discussed in greater detail at the conclusion of this letter. The Tables below, in particular, contain highly personal and competitively sensitive compensation data, which the Company respectfully requests be treated with the utmost confidentiality.

Table 3: 2006

Name	Category	Salary Paid	Cash	Common Stock Equivalent	CAP	Retention Equity Awards	Total Comp
Barker, Randolph	D	$ 200,000	$11,580,000	$ –	$ 9,328,333	$ –	$21,108,333
Bushnell, David	D	$ 400,000	$ 3,900,000	$ –	$ 3,141,667	$ –	$ 7,441,667
Maheras, Thomas	D	$ 250,000	$19,200,000	$ –	$15,466,667	$ –	$34,916,667
	D	$ 200,000	$ 715,000	$ –	$ 476,667	$ –	$ 1,391,667
	D	$ 200,000	$ 5,130,000	$ –	$ 4,132,500	$ –	$ 9,462,500
	D	$ 1,000,000	$13,200,000	$ –	$10,633,333	$ –	$24,833,333
	D	$ 1,000,000	$ 8,400,000	$ –	$ 6,766,666	$ –	$16,166,666
Warne, Janice	D	$ 200,000	$ 3,120,000	$ –	$ 2,513,333	$ –	$ 5,833,333

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Interrogatory No. 8:

What efforts have been made to "claw back" compensation that has been paid to any executive, board member, trader, or risk officer since January 1, 2007? This request includes but is not limited to any efforts to claw back any form of compensation from Robert Rubin, Charles Prince, Thomas Maheras, Randolf Barker, David Bushnell, Gary Crittenden, Susan Mills, Jeff Perlowitz, and Janice Warne.

Response to Interrogatory No. 8:

Since 2002, the Board has had in effect a "clawback" policy, pursuant to which Citi required reimbursement of any bonus or incentive compensation awarded to an executive officer or effecting the cancellation of nonvested restricted or deferred stock awards previously granted to the executive officer if: (a) the amount of the bonus or incentive compensation was calculated based upon the achievement of certain financial results that were subsequently the subject of a restatement, (b) the executive engaged in intentional misconduct that caused or partially caused the need for the restatement, and (c) the amount of the bonus or incentive compensation that would have been awarded to the executive had the financial results been properly reported would have been lower than the amount actually awarded. Because the conditions for clawback pursuant to the 2002 plan were not met, no clawback was made pursuant to that policy.

Citi adopted an expanded policy in 2008. Under the 2008 plan, any bonus or incentive compensation for members of the senior leadership committee is subject to recovery by Citi (*e.g.*, by forfeiture of nonvested awards or repayment of vested awards) if such compensation is based on statements of earnings, gains or other criteria that are later shown to be materially inaccurate, without regard to whether the inaccuracy arose from any misconduct. A substantial portion of the incentive compensation for the senior leadership committee is also deferred.

Citi also instituted a clawback policy in connection with its preferred stock exchange with the government, dated December 2008. That policy applies prospectively. If 2009 performance turns out to be based on materially inaccurate performance criteria, then incentive compensation for 2009 will be forfeited or recovered. Malfeasance is not required for a clawback; in addition, Citi has imposed a clawback on incentive compensation that applies if an executive materially violates risk limits. Citi also provides for deferrals or sales restrictions on significant amounts of incentive compensation, meaning that, for as long as the stock cannot be transferred, the value of the executive's award is at risk if Citi's stock price declines.

Since January 1, 2007, Citi has not attempted to claw back compensation pursuant to the clawback policies described above.

<u>Interrogatory No. 14:</u>

When did the Board of Directors (or any committee thereof) first learn of Citigroup's exposure associated with (a) the liquidity puts on the super-senior CDO tranches, (b) the CDOs and MBS in inventory, (c) Citigroup's investments in CDOs and MBS, (d) the special investment vehicles, and (e) subprime residential lending?

<u>Response to Interrogatory No. 14:</u>

Minutes or materials from meetings of Citi's Board of Directors or its committees reflect information relating to subprime residential lending, including risk management relating to subprime loans, as early as July 1999.

Minutes or materials from meetings of Citi's Board of Directors or its committees reflect information relating to the securitization of mortgages, including Citi's structuring of MBS and CDOs, as early as February 2002.

Minutes or materials from meetings of Citi's Board of Directors or its committees reflect information relating to Special Purpose Entities ("SPEs"), of which structured investment vehicles ("SIVs") are a type, as early as April 2002.

In response to specific events that affected the subprime lending market in 2007, Citi management made multiple presentations to the Audit and Risk Management Committee ("ARMC") that described unfolding events in the subprime lending market and Citi's potential exposures.

As you know, the Company has provided the Commission with copies of these minutes and related materials in response to prior information requests. Those materials reflect the information provided in this response.

<u>Interrogatory No. 15:</u>

Did risk managers in the CDO business unit report directly or indirectly to any business personnel in that unit? Please explain in detail the line of reporting of risk personnel associated with CDOs and whether that line of reporting changed over time.

<u>Response to Interrogatory No. 15:</u>

Independent risk managers with responsibility for the CDO business area did not report directly or indirectly to any personnel in the business reporting line. To the contrary, since 2003 Citi's independent risk management function has been entirely independent of the business. All independent risk managers report within an independent risk management chain directly up to the Chief Risk Officer, who is a part of senior management and reports directly to the CEO. From 2003 to 2007, independent risk managers with responsibility for the CDO business area reported to the Corporate Investment Bank's Head of Independent Risk Management. In April 2006, the Corporate Investment Bank's prior Head of Independent Risk Management, Jessica Palmer, was succeeded by co-Heads of Independent Risk Management, Ellen "Bebe" Duke (who focused on market risk) and Patrick Ryan (who focused on credit risk), who were direct reports to David Bushnell, Citi's Chief Risk Officer through November 2007.

Interrogatory No. 18:

To the extent not covered in the responses to the requests above, please identify and describe the liquidity puts that Citigroup sold to investors in CDO tranches, the profits earned each year as a result of the liquidity puts, and the losses in each year to date associated with the liquidity puts.

Response to Interrogatory No. 18:

For certain cash CDO transactions that Citi structured between 2003 and 2006, the senior-most level of the capital structure was funded by the issuance of short-term asset-backed commercial paper ("ABCP") (as opposed to a funded super-senior long-term debt instrument or an unfunded super-senior swap). To facilitate the issuance of this commercial paper, Citi issued renewable 364-day put options to the CDOs as a fall-back source of financing, in case of a significant widening of credit spreads or temporary inability to issue commercial paper. The CDOs could exercise these "liquidity puts"—requiring Citi to purchase commercial paper at a fixed rate and, ultimately, if Citi chose not to renew the liquidity puts, to fund the senior-most tranches through long-term notes—in the event that, among other triggers, the CDOs were unable to roll their commercial paper at interest rates below a specified trigger rate. Upon issuance, the liquidity puts were substantially out-of-the-money and believed to be highly unlikely to be exercised. The total notional amount of the liquidity puts written by the Company was approximately $25 billion.

In July 2007, the interest rates on commercial paper issued by certain of the CDOs increased significantly. To forestall the formal exercise of the puts, beginning in the summer of 2007, Citi began to purchase the CDO-issued commercial paper as it came due, an approach that Citi believed would afford it more flexibility if and when liquidity returned to the ABCP market. For Citi, these commercial paper holdings—which, as noted above, funded the senior-most level of the issuing CDOs' capital structures—were functionally equivalent to holding super-senior interests in the CDOs, which were perceived as having an extremely low probability of default. The Company chose to purchase the CDO-issued commercial paper because owning the commercial paper directly was economically equivalent to its contractual obligation under the liquidity put, but holding the commercial paper was believed to provide some additional flexibility in finding third-party investors in the event of improved market conditions. As of December 31, 2007, the Company had purchased all of the approximately $25 billion of the commercial paper subject to the liquidity puts.

As we have discussed, we will provide information concerning the profit and loss in connection with the Company's CDO-related activities, as well as the other business areas that you have identified, in response to Interrogatory No. 3 as soon as possible.

Interrogatory No. 19:

Please provide a list of the top ten purchasers of cash CDOs in each year since January 1, 2005.

Response to Interrogatory No. 19:

As we discussed, we enclose a document, bearing control numbers CITI-FCIC 00091306 through 00091336, which contains an investor list for each cash CDO that included residential mortgage-related assets structured by Citi since January 1, 2005. The enclosed information includes details regarding thirty-one cash CDOs structured by Citi during that time period. We are continuing efforts to collect information regarding Capmark 6, a cash CDO transaction that closed on July 24, 2006.

Interrogatory No. 20:

Please provide a list of the top ten purchasers of synthetic CDOs in each year since January 1, 2005.

Response to Interrogatory No. 20:

As we discussed, we enclose a document, bearing control numbers CITI-FCIC 00091337 through 00091340, which contains an investor list for each synthetic CDO that included residential mortgage-related assets structured by Citi since January 1, 2005. The enclosed information includes details regarding eight synthetic CDOs structured by Citi during that time period. We are continuing efforts to collect information regarding GSC 2006-1, a synthetic CDO transaction that closed on March 31, 2006.

Interrogatory No. 22:

For each quarter since January 1, 2005, how much RMBS securitized by Citigroup was placed into CDOs that Citigroup structured? Please provide the dollar amount in each quarter and the percentage of total purchases by the structuring units at Citigroup.

Response to Interrogatory No. 22:

We enclose a chart, bearing control number CITI-FCIC 00091341, which identifies CDOs that included residential mortgage-related assets structured by Citi since January 1, 2005 and reflects the following information: (1) the type of CDO (*e.g.*, synthetic mezz, cash HG); (2) the date of closing of the CDO; (3) the notional amount of the collateral portfolio; (4) the notional amount of RMBS in the collateral portfolio; (5) the notional amount of the RMBS structured by Citi ("Citi-RMBS") in the collateral portfolio; (6) the RMBS collateral as a percentage of the total collateral portfolio; and (7) the Citi-RMBS collateral as a percentage of the total collateral portfolio.

Interrogatory No. 25:

Please explain (a) the circumstances by which limits were set for investments or holdings by Citigroup in cash and synthetic CDOs and MBS, (b) the various types of limits, (c) the person or persons responsible for setting and approving the limits, (d) the limits in each category for each year since January 1, 2004.

Response to Interrogatory No. 25:

The Independent Risk Management Group ("Independent Risk"), currently headed by Brian Leach, sets limits relating to trading and warehousing of assets, monitors compliance with limits, and reviews requests for increases in risk limits. Independent Risk establishes limits based on the specific goals of a business and evaluates those decisions as a business develops and matures. Independent Risk assesses potential exposures in a variety of ways, including by multiplying the size of the position by the stress levels for that position. The stress levels represent the possibility of potential loss based on historical data. Depending on the size of the potential exposure, Independent Risk applies varying levels of approval. There is frequently a dialogue between the business and Independent Risk about the proper stress levels for a specific business, but stress levels ultimately are set by individual risk managers.

Businesses are responsible for remaining within applicable risk limits. Independent Risk also independently monitors compliance with risk limits. In addition, Independent Risk continually monitors businesses and associated risk limits in light of market developments. Risk limits are formally reviewed annually, but are monitored daily, and business desks may request changes at any time. Independent Risk consults with senior management in reviewing risk limit adjustments.

We enclose Citi Markets & Banking Market Risk Management's Annual Limit Book for the year 2007, bearing control numbers CITI-FCIC 00091342 through 00091761, which detail the limits that were set with respect to structured credit products, including CDOs, and identify the risk managers responsible for each limit.

Interrogatory No. 28:

Who were the investors in the Ridgeway Court Funding II offering in 2007?

Response to Interrogatory No. 28:

The document enclosed in response to Interrogatory No. 19 includes a list of the initial investors in the Ridgeway Court Funding II CDO transaction, based on the best information available to the Company.

Interrogatory No. 29:

What CDOs sold since January 1, 2005 were so-called "recycled" CDOs (i.e., CDOs that had been created previously by Citigroup but were not sold)?

Response to Interrogatory No. 29:

Citi did not issue any "recycled" CDOs.

As you are aware, the collateral underlying each CDO varied and, in some structures, included other CDO assets. In certain cases, CDOs structured by Citi were collateralized in part by CDO tranches issued in connection with prior offerings of Citi-structured CDOs.

We enclose a chart, bearing control number CITI-FCIC 00091762, which identifies CDOs that included residential mortgage-related assets structured by Citi since January 1, 2005 and reflects the following information: (1) the type of CDO (*e.g.*, synthetic mezz, cash HG); (2) the date of closing of the CDO; (3) the notional amount of the collateral portfolio; (4) the notional amount of the CDOs in the collateral portfolio; (5) the notional amount of the CDOs structured by Citi ("Citi-CDOs") in the collateral portfolio; (6) the CDO collateral as a percentage of the total collateral portfolio; and (7) the Citi-CDO collateral as a percentage of the total collateral portfolio.

Interrogatory No. 31:

Please explain the types of residential subprime mortgages offered by CitiFinancial, the underwriting parameters (i.e., minimum FICO score permitted, highest loan-to-value, etc.), and the performance of each type since January 1, 2000.

Response to Interrogatory No. 31:

Since January 1, 2000, CitiFinancial has offered the following mortgage products, all non-purchase money mortgage products secured by owner-occupied residential real property: (1) fixed rate first mortgages, (2) fixed rate second mortgages, (3) adjustable rate first mortgages, and (4) adjustable rate second mortgages. In addition from mid-2006 through early 2007, CitiFinancial piloted a home equity line of credit product, which was discontinued in February 2007. CitiFinancial suspended origination of adjustable rate loans in late 2007 and offers only fixed rate mortgage loans at this time. CitiFinancial has never offered negative amortization mortgages, "teaser" or "option" adjustable-rate mortgages, interest-only mortgages or stated income mortgages. CitiFinancial branches make no purchase-money mortgages, do not originate mortgages through brokers or purchase mortgages from correspondent lenders, other than a small bank referral program that was discontinued in 2008, and require full documentation and verification of identity, income and employment for all mortgages.

Over the past decade, CitiFinancial's underwriting guidelines for mortgages have generally required a minimum FICO score of 500 and limited LTV to 100%. However, the average FICO during the entire period ranged from 600-650 with average LTV ranging from 67-81%. CitiFinancial's underwriting guidelines for mortgages also include, among other requirements, parameters concerning ability to pay (ATP) and permissible collateral. ATP is calculated by subtracting the total monthly payments (including utilities and property taxes) from the customer gross monthly income, then dividing by the remaining gross monthly income. The minimum ATP for fixed rate first and second mortgages is currently 45%, increased from 25% in July 2009. The minimum ATP for adjustable rate first and second mortgages was 45%, increased from 35% in January 2005; however, CitiFinancial is not offering adjustable rate loans at this time CitiFinancial also restricts permissible collateral for mortgages to owner-occupied single family homes. Loans secured by mobile homes and condominiums have more restrictive requirements.. CitiFinancial does not permit as security for mortgages non-owner-occupied property, co-ops, timeshares, commercial property, vacation property, unimproved land, structures on land not owned by the applicant, or other unconventional collateral.

CitiFinancial's Real Estate Product business experienced the following profits or losses from 2006 to 2009, factoring in costs and expenses but excluding loan loss reserves:

2006: $251,582,700 profit

2007: $231,942,500 profit

2008: $92,794,000 profit

2009: $167,400,400 loss

Interrogatory No. 32:

Please explain the employee compensation system for origination of subprime mortgages and identify any changes in the system since January 1, 2000.

Response to Interrogatory No. 32:

The total compensation for CitiFinancial branch employees is a combination of salary and incentive compensation. Only a small portion of the total compensation is incentive compensation. Generally, incentive compensation was less than 25% of branch manager's total compensation and less than 15% of other branch employees' total compensation. Until July 2007, the incentive programs for branch employees were team-based—no one in the branch received a bonus unless the branch met minimum requirements. While the individual incentive program was added in 2007, the focus of the incentive programs have not changed. The focus continues to be on loan sales, delinquency management, net outstandings, and controllable expenses. Internal audit and credit reviews scores are also factors in the incentive calculations. Incentives are reduced or eliminated if the branch receives poor branch audits and credit reviews.

Interrogatory No. 33:

Why did CitiFinancial keep in portfolio the subprime loans that it originated?

Response to Interrogatory No. 33:

In short, CitiFinancial's business plan is to function as a community-based lender, which includes keeping the loans it makes in portfolio. CitiFinancial is structured as a branch network in which branch locations originate, collect and service loans, including both consumer loans and mortgages. While the risk parameters for the loans are set centrally and apply uniformly across the branches, each branch keeps the loans it makes and services the loans locally. This enables CitiFinancial to maintain effective relationships with customers.

Interrogatory No. 35:

Please identify and explain the types of residential subprime mortgages purchased by Citigroup, the underwriting parameters (*i.e.*, minimum FICO score permitted, highest loan-to-value, etc.), and the performance of each type since January 1, 2000.

Response to Interrogatory No. 35:

As Susan Mills, Philip Seares, and others explained in their February 2 and 3, 2010 interviews, the group purchasing subprime mortgages in the Global Securitized Markets ("GSM") area of what is currently Citi's Institutional Clients Group functioned primarily as an intermediation business. Unlike comparable groups at certain other broker-dealers, the GSM business model was to purchase and securitize loans according to the underwriting standards of loan originators. As a result, GSM did not develop or maintain underwriting parameters; rather, GSM performed due diligence with respect to loans that it was purchasing utilizing the underwriting standards of the originators of those loans. In addition, when securitizing loans, GSM passed along the representations and warranties that it received from the sellers of the loans to investors in the resulting securities, and Citi described the underwriting standards of the originators of the underlying loans in the materials made available to investors.

We enclose a chart, bearing control number CITI-FCIC 00091763, which reflects a variety of high-level information about residential whole loans purchased by the subprime desk in GSM, including the approximate dollar volumes of fixed-rate and adjustable loans, and information about weighted average FICO scores and loan-to-value ratios.

Interrogatory No. 36:

How did the underwriting parameters (*e.g.*, loan type, FICO scores, loan-to-value, etc.) differ for the subprime loans that Citigroup purchased in bulk transactions for securitization as compared to the subprime residential mortgages that Citigroup originated for its portfolio? Did Citigroup purchase any mortgages that would not have met CitiFinancial's underwriting guidelines?

Response to Interrogatory No. 36:

Regarding underwriting parameters for subprime loans purchased in bulk transactions for securitization in GSM, we respectfully refer the Commission to the response to Interrogatory No. 35, above. The underwriting guidelines of certain loan originators from which GSM purchased mortgages may not have met CitiFinancial's underwriting guidelines.

Interrogatory No. 39:

What warehouse lines did Citigroup have with mortgage originators? When did those warehouse lines close or otherwise cease to exist, and what were the circumstances? What profit or loss did Citigroup book for each warehouse line in each year since January 1, 2000?

Response to Interrogatory No. 39:

We enclose a chart, bearing control numbers CITI-FCIC 00091764 through 00091765, which reflects information about warehouse lines of credit with residential mortgage originators arranged through the GSM Mortgage Finance group. There are four additional warehouse lines that are not included in the enclosed chart because gathering the needed information about these lines has proved to be particularly time-consuming. We will supplement our response to this interrogatory with an updated chart reflecting these additional warehouse lines as soon as possible.

As we discussed, the Company does not maintain the relevant data in the form requested by the Commission; accordingly, because compiling the data in the form requested would be exceedingly burdensome, the enclosed document does not reflect profit or loss figures broken out by each warehouse line, or profit or loss figures prior to 2006.[3] In addition, the profit and loss figures reflected in the enclosed document are approximate.

Interrogatory No. 43:

Please explain the reasons and circumstances for bringing the SIVs on the balance sheet in 2007. In doing so, please identify the members of management and the board of directors who were consulted or involved in the decision.

Response to Interrogatory No. 43:

On December 13, 2007, Citi announced its decision to provide a support facility, which it was not contractually or legally required to provide, to certain Citi-advised SIVs. As a result of this commitment, Citi included the SIVs' assets and liabilities in its Consolidated Balance Sheet as of December 31, 2007, under applicable accounting rules. On February 12, 2008, Citi finalized its commitment to provide $3.5 billion of mezzanine capital to the SIVs under certain defined circumstances. The facility was increased to $4.5 billion during the fourth quarter of 2008.

The decision to provide additional support was made in response to a series of developments beginning with Moody's and S&P's November 30, 2007 announcements of possible downgrades of the outstanding senior debt of the SIVs and the continued reduction of liquidity in the SIV-related ABCP and medium-term note markets, which were the traditional funding sources for the SIVs.

Citi's commitment of support to the SIVs was intended to support the current ratings of the SIVs' senior debt and to allow the SIVs to continue to pursue an orderly asset reduction plan. Several key factors supported and contributed to this decision:

- For some time preceding the December 2007 decision to provide a support facility, the SIVs had successfully been pursuing alternative funding strategies, primarily asset reductions, to meet maturing debt obligations. The SIV assets (net of cash and cash equivalents) had been reduced from $87 billion in August 2007 to $49 billion as of

[3] We understand that, apart from Mortgage Finance, a former Citi affiliate based in California called First Collateral Services ("FCS") had small-volume warehouse lines with some mortgage originators. This response does not take into account any activities at FCS. In addition, the enclosed document does not reflect a small number of syndicated warehouse facilities for mortgage originators for which JPMorgan Chase or Bank of America served as the lead and Citi had only a small role (*i.e.*, less than ten percent of the total facility).

December 13, 2007, while maintaining the overall high credit quality of the portfolio. Citi anticipated that continued orderly asset reductions would be sufficient to meet liquidity requirements through the end of 2008. Consequently, when deciding to make the commitment, Citi expected that there would be little or no funding requirement from the facility.

- In addition, because of the high credit quality of the SIV assets, Citi's credit exposure under the commitment was substantially limited. As of December 13, 2007, approximately 54% of the SIV assets were rated AAA and 43% AA by Moody's, with no direct exposure to subprime assets and immaterial indirect subprime exposure of $51 million.

The decision to consolidate the SIVs' assets and liabilities onto Citi's balance sheet was made by, among others, Vikram Pandit (CEO), Gary Crittenden (then-CFO), Zion Shohet (then-Treasurer), and John Havens (then-CEO of CAI), in consultation with members of the Board of Directors including Michael Armstrong.

Interrogatory No. 44:

Who first raised the concept that the SIVs may need to be brought on the balance sheet? When was this raised and in what forum?

Response to Interrogatory No. 44:

See Response to Interrogatory No. 43, above. Citi conducts regular analysis of its involvement in Variable Investment Entities to determine whether, consistent with FASB Interpretation No. 46 (FIN 46-R), consolidation is necessary. Consolidation under FIN 46-R is based on expected losses and residual returns, considering various scenarios on a probability-weighted basis.

Following Moody's November 30, 2007 announcement that it was putting certain Citi SIVs on watch, Citi's initial assessment was that consolidation was not required. In the early part of December 2007, Citi sought alternative funding for the SIVs from third parties. As the market continued to contract, Citi found it increasingly difficult to obtain alternative funding sources and considered providing the support facility described in response to Interrogatory No. 43, above, to facilitate the SIVs' continued orderly unwinding. On December 11, 2007, Michael Helfer informed the Board that Citi's management was considering taking additional steps to support the SIVs, which would require consolidation under applicable accounting rules.

* * * * *

As we have discussed, the Company is providing the information in this letter in response to the Supplemental Request and 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 recent 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/sro.

Brad S. Karp