S. Hrg. 111–472

CITIGROUP AND THE TROUBLED ASSET RELIEF PROGRAM

HEARING

BEFORE THE

CONGRESSIONAL OVERSIGHT PANEL

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

MARCH 4, 2010

Printed for the use of the Congressional Oversight Panel

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CONGRESSIONAL OVERSIGHT PANEL

Panel Members

Elizabeth Warren, *Chair*

Paul Atkins

J. Mark McWatters

Richard H. Neiman

Damon Silvers

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CITIGROUP AND THE TROUBLED ASSET RELIEF PROGRAM

THURSDAY, MARCH 4, 2010

U.S. CONGRESS,
CONGRESSIONAL OVERSIGHT PANEL,
Washington, DC.

The Panel met, pursuant to notice, at 10:03 a.m. in Room SD–538, Dirksen Senate Office Building, Elizabeth Warren, Chair of the Panel, presiding.

Present: Elizabeth Warren [presiding], Richard Neiman, Paul S. Atkins, Damon Silvers, and J. Mark McWatters.

OPENING STATEMENT OF ELIZABETH WARREN, CHAIR, CONGRESSIONAL OVERSIGHT PANEL

Chair WARREN. The March 4 hearing of the Congressional Oversight Panel will come to order. Good morning, I am Elizabeth Warren and I am the chair of the Congressional Oversight Panel.

As everyone in this room knows, in late 2008 a financial crisis threatened to bring the worldwide economy to its knees. Citigroup's special role in this is that on October 28, as one of the nine financial institutions that received extraordinary assistance from the United States government, Treasury injected capital into Citigroup of about $25 billion. Eight weeks later, on December 31st, it injected another $20 billion; and on January 15th, 2009, it extended guarantees of $301 billion in assets.

This was not the first time that Citigroup has needed government assistance to survive. During the Great Depression, Citigroup, then National Bank, stayed alive only because of generous policies put in place by the U.S. government. Again in the 1980s, Citigroup, then operating as Citicorp, benefited from regulators' decisions to waive standards during the Less Developed Country debt crisis.

So today, we have Citigroup—the largest financial services company in the world—it has 200 million customers spread across 100 countries. It is really three different kinds of businesses combined: a commercial bank, an investment bank, and an insurance company. It's worth noting that the merger of these three companies required special permission from the Federal Reserve in order to occur and that, to operate, it required ultimately that the Glass-Steagall laws be repealed so that Citigroup could do its business in this new form.

Now, the turmoil that rocked Wall Street in 2008 has largely subsided, and along with its peers, Citigroup appears to be returning to profitability. Last December, Citigroup repaid $20 billion in

TARP assistance and terminated the asset guarantee arrangement. Treasury planned to sell its remaining 27 percent stake in Citigroup in December, although it was delayed because Citigroup's share price in December was below the price Treasury had paid and it would have meant a certain loss for the United States government.

The sheer magnitude of Citigroup's operations, and the company's history of receiving extraordinary government support, has led this Panel to an inescapable conclusion: Citigroup, along with a handful of other financial institutions, enjoys an implicit government guarantee. Evidence thus far suggests that the United States government will bear any burden and pay any price to ensure that Citicorp does not fail.

In a February 10th research note, Standard & Poor's issued Citigroup a credit rating of A, three grades higher than it otherwise would have rated the company, quote, "To reflect the likelihood that if further extraordinary government support were needed, it would be forthcoming." In other words, Citigroup is too big to fail, and this fact is now directly, measurably affecting its credit rating.

Were it not for the market's view that Citigroup enjoyed this implicit government guarantee—a view reinforced in dramatic fashion by the bailout that this Panel oversees—then it would be viewed as a riskier investment, and frankly it would cost Citigroup more to do business.

So, we will ask a number of questions today about the consequences, both to the taxpayer and Citigroup's business, of the implicit guarantee; how Citigroup has used the tax dollars it received over the course of the crisis and that it continues to hold today; and perhaps most importantly, what are Treasury's and what are Citigroup's strategies for ensuring the American taxpayer will never again be asked to fund another bailout for this institution?

To help the Panel examine these issues, we will first hear from Assistant Secretary of the Treasury for Financial Stability, Herbert M. Allison, Jr. and then from Citigroup Chief Executive Officer, Vikram Pandit.

To both of our witnesses, please know that we are sincerely thankful to you for joining us. We appreciate your willingness to help us learn from your perspectives.

Before we proceed with the first panel, allow me to offer my colleagues an opportunity to provide their own opening remarks. I want to say that I understand that Mr. Atkins has been caught in traffic, so I will ask Mr. McWatters if he would like to make an opening statement.

[The prepared statement of Chair Warren follows:]

ELIZABETH WARREN, CHAIR
PAUL S. ATKINS
RICHARD H. NEIMAN
DAMON SILVERS
J. MARK McWATTERS

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Congress of the United States

CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Elizabeth Warren

Congressional Oversight Panel Hearing on Assistance Provided to Citigroup Under TARP

March 4, 2010

Good morning. My name is Elizabeth Warren, and I am the chair of the Congressional Oversight Panel.

In late 2008 a financial crisis threatened to bring the worldwide economy to its knees.

On October 28, Treasury injected capital into Citigroup along with eight other of the nation's largest financial institutions. After that initial bailout of $25 billion, taxpayers would be called upon to support Citigroup twice more: on December 31, 2008, with $20 billion; and on January 15, 2009, with a guarantee of approximately $301 billion in assets.

This was not the first time that Citigroup needed government assistance. During the Great Depression, Citigroup, then known as National Bank, survived only because of generous policies put in place by the federal government. Again in the 1980s, Citigroup—then operating as Citicorp—benefited from regulators' decisions to waive standards during the LDC debt crisis.

Since then, Citigroup has become the largest global financial services firm in the world, serving more than 200 million customer accounts in more than 100 countries. Citigroup in its current form—commercial banking, insurance services, and securities—encompasses so many types of businesses that the merger creating it required special permission from the Federal Reserve and eventually the repeal of the Depression-era Glass-Steagall Act.

The turmoil that rocked Wall Street in 2008 has largely subsided, and along with its peers, Citigroup is returning to profitability. In December of last year, Citigroup repaid $20 billion in TARP assistance and terminated the asset guarantee arrangement. Treasury has plans to sell its remaining 27 percent stake in Citigroup, although the sale has been delayed because Citigroup's share price in December was below the price Treasury had paid.

The sheer magnitude of Citigroup's operations, and the company's history of receiving extraordinary government support, has led this Panel to an inescapable conclusion: Citigroup, along with a handful of other financial institutions, enjoys an implicit government guarantee. The United States government will bear any burden and pay any price to ensure that Citigroup does not fail.

On February 10, Standard & Poor's issued Citigroup a credit rating of "A"—three grades higher than it would otherwise—"to reflect the likelihood that if further extraordinary government support were needed, it would be forthcoming."

In other words, were it not for the market's view that Citigroup enjoyed an implicit government guarantee—a view reinforced in dramatic fashion by the bailout that this Panel oversees—then it would cost Citigroup more to do business and it would be viewed as a riskier investment.

What are the consequences, both to the taxpayer and for Citigroup's business, of this implicit guarantee? How has Citigroup used the tax dollars it received over the course of the crisis and continues to hold today? And perhaps most importantly, what are Treasury's and Citigroup's strategies for ensuring the American taxpayer will never again be asked to fund another bailout for this institution?

To help the Panel examine these issues, we will hear first from Assistant Secretary of the Treasury for Financial Stability Herbert M. Allison, Jr. and then from Citigroup Chief Executive Officer Vikram Pandit.

To both of our witnesses, please know that we are sincerely thankful to you for joining us. We appreciate your willingness to help us learn from your perspectives.

Before we proceed with the first panel, allow me to first offer my colleagues an opportunity to provide their own opening remarks.

STATEMENT OF J. MARK MCWATTERS, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. MCWATTERS. Thank you, Professor Warren. I very much appreciate the attendance of Assistant Secretary Allison and Mr. Pandit, and I look forward to hearing their views.

Over the past two years, the taxpayers have repeatedly heard the phrase "too big" or "too interconnected to fail" ascribed to certain financial institutions, and they have, no doubt, wondered, what is captured by such a concept and why these financial institutions merited the investment of hundreds of billions of dollars of taxpayer-sourced TARP funds.

Today we have the opportunity to learn why Citigroup was considered too big or too interconnected to fail, why Treasury allocated $45 billion of TARP funds to the institution, and why Treasury, the Federal Reserve, and the FDIC guaranteed over $300 billion of its assets and liabilities.

Although I doubt if Citigroup's credit card, branch banking, or even its commercial lending division created the too big or too interconnected to fail problem, it is critical that the taxpayers fully understand why the failure of specific investment strategies and business operations within Citigroup threaten the underlying financial stability of our country.

The taxpayers are also interested to learn if Treasury or the financial markets consider Citigroup, as presently structured, too big or too interconnected to fail and whether yet another reversal of its economic fortunes will necessitate the expenditure of additional taxpayer-sourced TARP funds.

Perhaps the most troublesome aspect of such status is the moral hazard risk arising from the implicit guarantee generated by the willingness of the United States government to bail out excess risk-taking and ill-considered business decisions undertaken by certain financial institutions.

In addition, the implicit guarantee afforded those financial institutions considered too big or too interconnected to fail may place such institutions at an inappropriate competitive advantage over their smaller peers. As long as the possibility exists that Treasury or the financial markets may consider Citigroup as too big or too interconnected to fail, it is critical that Citigroup clearly articulate to the taxpayers what actions it has taken to eliminate such status, as well as the possibility that its directors, officers and employees will engage in needlessly risky behavior that may impair the continued viability of the institution, and our overall economy. Citigroup should disclose what risk management and internal control policies and procedures it has implemented so as not to require a future bailout from the taxpayers.

In my view, one of the principal causes of the financial crisis was the separation of risk from reward, where officers and employees of TARP recipients were financially motivated to structure transactions so as to pass all of the risk of loss embedded in such transactions to their employer, or to third-party investors, while earning significant personal compensation derived from the initial closing of such transactions. It will be interesting to learn how Citigroup has modified its compensation structure, so as to appropriately link remuneration with the inherent risk arising from the underlying transactions, as well as the performance of the institution, as a whole.

It is also my expectation that the taxpayers will learn today whether Citigroup will require additional TARP funds; whether Citigroup is solvent on a fair market value basis after considering contingent liabilities; whether Citigroup would be required to raise additional capital if the stress test were repeated using current and existing economic conditions; whether Citigroup has sold any mortgage-backed securities to the Federal Reserve, the Treasury, Fannie Mae or Freddie Mac at a price in excess of then-fair market value; whether Treasury has developed a rational exit strategy for its investment in Citigroup; and, whether enhanced underwriting standards and the precipitous drop in demand from prospective borrowers has led to a material decrease in consumer and commercial lending.

Thank you for joining us today, and I look forward to our discussion.

Chair WARREN. Thank you, Mr. McWatters.

Mr. Silvers.

STATEMENT OF DAMON SILVERS, MEMBER, CONGRESSSIONAL OVERSIGHT PANEL

Mr. SILVERS. Yes, thank you, Chair Warren.

Good morning. Like my fellow panelists, I am pleased to welcome, once again, Assistant Secretary Allison to the Panel, and Citigroup Chief Executive Officer Vikram Pandit. Before I turn to the substance of our hearing, I want to note how much I particularly appreciate Mr. Pandit's presence here today, and the thoughtfulness of both witnesses' written testimony.

This is one of these extraordinary Washington moments where I confess that I'm not sure I have much to add to my colleague, Mark McWatters', statement. I want to congratulate him on the thoroughness and appropriateness of his remarks. But, because this is Washington, I can't resist making my own.

Citigroup has played a unique role in the history of TARP. In comments I've submitted for the written record, I go into this in some detail, but in essence the uniqueness of the role is defined by the fact that despite the existence in November of 2008, under the TARP, of a Systemically Significant Failing Institutions Program, and Citigroup's obvious status at the time as a failing systemically significant institution, Citigroup was not given aid under that program. Instead, it received its additional aid—beyond the Capital Purchase Program described by my colleagues a moment or so ago—it received that additional aid under what appeared to be more favorable ad hoc terms.

Now, obviously, Mr. Allison was not present at that time, and the decisions at that time were made by Secretary Paulson and his team. But these events have helped define TARP from its inception. The Citigroup bailout, and the Bank of America bailout that followed, which was modeled on it, raised—and continue to raise—serious issues of transparency and equitable treatment for financial institutions of varying size and political clout.

Now, more recently, up until December of last year, Citigroup's regulators were unwilling to allow Citigroup to repay TARP funds and thus emerge from TARP-related oversight. The regulators reversed themselves in December of 2009, and Citigroup completed a common stock offering whose proceeds were used to repurchase the government-owned preferred stock that had not already been converted into common, but the government was left as Citigroup's largest common stockholder.

Now today, in the aftermath of that transaction, it appears clear that the Obama Administration's Treasury Department has managed TARP's holdings in Citigroup to affect what is essentially a limited balance sheet restructuring; effectively requiring or inducing Citigroup's preferred stockholders to become common stockholders—not just the government, but the private preferred stockholders that preceded the government on the balance sheet. Now, this step, this move, diluted common stockholders' share of future profits substantially, and this is something I strongly support from the perspective of fairness and moral hazard—some of the considerations that my colleagues were mentioning a moment or so ago. But these transactions did not appreciably alter Citigroup's total Tier 1 capital, as a percentage of Citigroup's risk-adjusted assets, nor did it result in any consequences for Citigroup's bondholders.

As a result, I remain concerned that Citigroup's balance sheet remains vulnerable, that Citigroup is only intermittently profitable, and that there are continuing pressures on Citigroup to repeat the events of the bubble cycle by weakening its capital structure in the pursuit of unsustainable returns on equity. In particular, I note that in the report that our chair referred to a moment or so ago, a relatively sympathetic report, Standard and Poor's noted that its credit rating for Citigroup, as was just mentioned, was three notches higher than it would have been were Citigroup standing on its own, that Citigroup remained on the less well-capitalized end of its global peers, fully risk-adjusted. And I think this is a critical fact, at least that Standard & Poor's believes this, and I want to explore this later with the witnesses. And finally, that the outlook for Citigroup remained negative.

Now, these events, in total, leave many unanswered questions, frankly, more than we will be able to address today. I hope, though, that we will be able to focus today on the following key issues: (1) What aspects of Citigroup's business model prior to the financial crisis made the company particularly vulnerable to that crisis, and do those vulnerabilities remain? (2) Has Citigroup's balance sheet been sufficiently restructured, meaning has a hard enough look at the assets been made, per my colleagues Mark McWatters' comments? And have the liabilities been dealt with adequately to reflect the true state of the assets, and (3) What is the proper strategy for the Treasury Department now in relation to its current continuing role as Citigroup's largest shareholder? And finally, in light of this history, what steps should the Treasury Department take to ensure that in the future Citigroup is treated fairly in the context of how other banks, both large and small, are treated under TARP and related government programs?

So, I look forward to discussing these and other issues in the body of this hearing. And once again, I want to express my deep thanks and appreciation to the witnesses.

[The prepared statement of Mr. Silvers follows:]

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CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Damon Silvers

Congressional Oversight Panel Hearing on Assistance Provided to Citigroup Under TARP

March 4, 2010

Good morning. Like my fellow panelists, I am pleased to welcome once again Assistant Secretary Herb Allison and Citigroup Chief Executive Officer Vikram Pandit. Before I turn to the substance of our hearing, I want to note how much I particularly appreciate Mr. Pandit's presence here today and the thoughtfulness of your written testimony.

Citigroup has played a unique role in the history of TARP. Citigroup received $25 billion in TARP funds in exchange for preferred stock when the Capital Purchase Program began in October, 2008 under then Treasury Secretary Hank Paulsen. As this Panel has repeatedly noted, the sole criteria for eligibility for Capital Purchase Plan investments was that the institution seeking the funds was healthy. The Special Inspector General for TARP has since found that Citigroup was not healthy when it received CPP funds.

A little more than a month later, at the end of the week before Thanksgiving, 2008, Citigroup contacted the Treasury Department to ask for further aid, reportedly informing Treasury that the alternative was imminent bankruptcy. In response, then Treasury Secretary Paulsen decided to provide Citigroup with an additional $25 billion in TARP funds in exchange for preferred stock, as well as a combined Treasury-FDIC-Federal Reserve guarantee for $300 billion of unspecified assets on Citigroup's balance sheet. Despite the existence at the time under TARP of a Systemically Significant Failing Institutions Program, and Citigroup's obvious status as a failing systemically significant institution, Citigroup was not given aid under that program. Instead, it received aid under what appeared to be more favorable, ad hoc terms.

These events helped define TARP in its initial weeks of operation. The Citigroup bailout, and the Bank of America bailout that followed modeled on it, raised serious issues of transparency and equitable treatment for financial institutions of varying size and political clout. And as we noted in some length in our February, 2009 report, the result was that the Treasury Department did not receive fair value for its investments in Citigroup at the time those investments were made.

Up until December of last year, Citigroup's regulators were unwilling to allow Citigroup to repay TARP funds and thus emerge from TARP-related oversight. The regulators reversed themselves in December, and Citigroup completed a common stock offering whose proceeds were used to repurchase the government-owned preferred stock that had not already been converted into common stock, but leaving the Treasury Department as Citigroup's largest common stockholder.

Today, it appears clear that the Obama Administration's Treasury Department has managed TARP's holdings in Citigroup to effect a limited balance sheet restructuring—effectively forcing Citigroup's preferred stockholders to become common stockholders. This step diluted common stockholders' share of future profits substantially—an approach I support from the perspective of fairness and moral hazard. But these transactions did not appreciably alter Citigroup's total Tier 1 capital, nor did it result in any consequences for Citigroup's bondholders.

As a result, I remain concerned that Citigroup's balance sheet remains vulnerable, that Citigroup is only intermittently profitable, and that there are continuing pressures on Citigroup to repeat the events of the bubble cycle by weakening its capital structure in the pursuit of unsustainable returns on equity. In particular, I note that in a relatively sympathetic credit report, Standard and Poor recently noted that its credit rating for Citigroup was three notches higher than it would be without the implicit Federal guarantee S&P believes still exists, that Citigroup remained on the less well capitalized end of its global peers, and that the outlook for Citigroup remained negative.

These events leave many unanswered questions—many more than we will be able to address today. I hope though that we will be able to focus on the following key issues:

1) What aspects of Citigroup's business model made the company particularly vulnerable to the financial crisis, and do those vulnerabilities remain?

2) Has Citigroup's balance sheet been sufficiently restructured?

3) What is the proper strategy for the Treasury Department now in relation to its current continuing role as Citigroup's largest shareholder?

4) In light of this history, what steps should the Treasury Department take to ensure that in the future Citigroup is treated fairly in the context of how other banks, both large and small, are treated under TARP and related government programs?

I look forward to discussing these and other issues in the remainder of this hearing. Thank you.

Chair WARREN. Thank you, Mr. Silvers.

Mr. Atkins.

STATEMENT OF PAUL ATKINS, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. ATKINS. Thank you, Madam Chair.

I'd also like to add my thanks to Mr. Allison and Mr. Pandit for appearing before this panel today. You are here voluntarily, and are taking valuable time out from your very busy schedules—especially this time of year—to be here in Washington. We, and the taxpayers, thank you for helping to bring some openness and personal connection to our oversight role.

Like the rest of the financial services industry, Citigroup has had huge challenges during the past couple of years. Without the U.S. taxpayer, Citigroup might not be in business at all today. Citigroup's stock chart over the last 3 years shows a sad decline from more than $55 per share in 2007, to $3 a share today. That represents a huge loss for shareholders, ultimately retirees on fixed incomes, parents saving for college, and people putting money away for a rainy day fund.

But it also means a huge loss of wealth for employees, many of whom have lost much of their most important asset. It's difficult to rebuild loyalty, enthusiasm, innovation, and motivation in that sort of environment. A financial services firm may have lots of assets, but ultimately—like any company—it's only as good as the quality of the people that it attracts. Does a huge stake owned by Treasury help or hurt that effort? A financial services firm, ultimately, like any company is only as good as the people that it attracts.

There are many risks to taxpayers as shareholders of an enterprise such as Citigroup which, of course, is going through many major changes. Its holdings of self-described "non-core businesses" have decreased by some 40 percent over the last year or two. There is, of course, no assurance that this realignment will be successful, or that it will reposition Citigroup for success in the future, and that's the risk that an equity holder takes, analyzing management's decision-making and deciding whether or not to go along for the ride. Of course, the taxpayer in this case is both, as Treasury terms it, "a reluctant shareholder," and also, "a totally inexperienced shareholder." It's certainly not Treasury's core expertise.

I should make a couple of points regarding regulatory risk, because Citigroup, like a lot of people in business, faces business risks, credit risks, counter-party risks, exchange risks, and of course, also political and regulatory risks. Congress, of course, is considering several bills that could reshape the regulatory landscape significantly, and I strongly disagree with some of the positions that Citigroup has taken in this regard and I'm concerned that Citigroup is allowing itself to become a politicized entity.

It's difficult to avoid the impression that one of the motivations is for the company to curry favor with the hand that feeds it, whether it be crammed-down systemic risk regulator, resolution authority or whatever, my fear is that Citigroup is currying favor with its largest shareholder at the expense of the enterprise and all shareholders.

Just last year, in the Citigroup branch here in Washington on 18th and Pennsylvania, just one block from the White House, the tellers all had several copies of a book by Barack Obama at their stations. When I asked if that were a political statement, the teller told me, "No, we're giving them away to people who open new accounts." Well, that certainly is a political statement, or at least, an amazing example of sycophancy to your biggest shareholder.

So, today I'll be very interested to hear how Treasury manages its investment in Citigroup and what its timing for divestiture will be, given the current marketplace situation and its contractual limitations. Citigroup has many ambitious plans, and several decisions to make before a Treasury offering can be accomplished, so I look forward to exploring these issues this morning.

Thank you very much.

Chair WARREN. Thank you, Mr. Atkins.

Superintendent Neiman.

STATEMENT OF RICHARD NEIMAN, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. NEIMAN. Thank you, and good morning.

Today's oversight hearing, in my opinion, is a unique opportunity. In addition to the reasons stressed by my panel colleagues, my hope is that we will be able to view critical oversight topics through two different perspectives: that of the Department of the Treasury, the creator and administrator of the TARP program, and that of Citigroup, one of its largest recipients.

Having Assistant Secretary Allison and Mr. Pandit here together at this event is an occasion to consider whether TARP strategies are working, and to determine if we are taking the right steps going forward.

I will be especially interested to hear whether our witnesses believe that larger banks like Citigroup have turned the corner. After the public confidence inspired by the stress tests and subsequent earnings reports, are larger institutions still in need of TARP support? Does the return of many larger institutions to profitability signal a return to sustainability in their business model, or are temporary trading gains masking continuing weaknesses and losses in loan portfolios?

Citigroup has engaged in serious realignment and reorganization efforts, both through the creation of Citi Holdings and in divestitures of business lines. Has the taxpayers stake in Citigroup been well-served by these actions? Are there lessons learned from Citigroup's experience that could apply to other institutions?

Finally, we must take advantage of Mr. Pandit's presence today to question him not just from the perspective of our ownership interest in Citigroup, but also as homeowners and consumers. Citigroup has a large number of mortgages at risk of foreclosure, so I intend to fully explore Citigroup's modification efforts under HAMP and alternative programs.

Citigroup is also a large and important consumer lender, so the public will gain a great deal by exploring their lending practices and their view on how regulatory reform should protect consumers.

If we have learned anything from this crisis, though, it is that risk can materialize where it is least expected. Therefore, a strategic vision for institutions, for TARP, and for broader regulatory reforms, must creatively think about the range of developing risks and how best to protect consumers and taxpayers.

I look forward to your contribution to this process through your testimony today and the answers to our questions, and I personally want to thank you again for your attendance.

[The prepared statement of Mr. Neiman follows:]

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Congress of the United States

CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Richard Neiman

Congressional Oversight Panel Hearing on Assistance Provided to Citigroup Under TARP

March 4, 2010

Thank you and good morning. Today's Oversight Panel hearing is a unique opportunity. I would like to emphasize that this hearing combines our regular dialogue with Treasury with a consideration of issues facing Citigroup, one of the largest financial firms in the world.

My hope is that we will be able to view critical oversight topics through these two different perspectives. Having Assistant Secretary Allison and Mr. Pandit here together at this event is an occasion to consider whether TARP strategies are working – and to determine if we are taking the right steps going forward.

I will be especially interested to hear whether our witnesses believe that larger banks like Citi have turned the corner. After the public confidence inspired by the stress tests and subsequent earnings reports, are larger institutions still in need of TARP support? Does the return of many larger institutions to profitability signal a return to sustainability in their business model, or are temporary trading gains masking continuing weaknesses and losses in loan portfolios?

Citigroup has engaged in serious realignment and reorganization efforts, both through the creation of Citi Holdings and in divestitures of business lines. I look forward to hearing more about the processes and criteria that informed these choices. Has the taxpayer's stake in Citi been well served? Are there lessons learned from Citigroup's experience that could apply across institutions?

Finally, we must take advantage of Mr. Pandit's presence today to question him not just from the perspective of our ownership interest in Citi, but also as homeowners and consumers. Citi has a large number of mortgages at risk of foreclosure, so I intend to fully explore Citi's modification efforts under HAMP and alternatives. Citi is also a large and important consumer lender, so the public will gain a great deal by exploring their lending practices and their view on how regulatory reform should protect consumers.

If we have learned anything from this crisis though, it is that risk can materialize where it is least expected. Therefore, a strategic vision for institutions, for TARP, and for broader regulatory reforms, must creatively think about the range of developing risks and how best to protect consumers and taxpayers. I look forward to your contribution to this process through your testimony today.

Chair WARREN. Thank you, Superintendent Neiman.

Mr. Allison, would you like to make some opening remarks? If you would, hold yourself to five minutes. We will, of course, take any written remarks and include them in the record. Thank you.

STATEMENT OF HERBERT M. ALLISON, JR., ASSISTANT SECRETARY FOR FINANCIAL STABILITY, U.S. DEPARTMENT OF THE TREASURY

Mr. ALLISON. Thank you very much, Chair Warren and members Silvers, Neiman, Atkins and McWatters, for the opportunity to testify today.

I will discuss Treasury's investments in Citigroup, our reasons for making these investments and our progress toward exiting them.

In September 2008, the nation was in the midst of one of the worst financial crises in our history. The economy was contracting sharply and fear of a possible depression froze financial markets. The U.S. government took unprecedented steps to prevent the complete collapse of the financial system that threatened the economy. In one of the most important responses to the crisis, Congress enacted the Emergency Economic Stabilization Act, or EESA, which granted Treasury authority to restore liquidity and stability to the U.S. financial system through the Troubled Assets Relief Program. Since TARP's creation, Treasury has made cash investments of $245 billion in 707 banks.

There is broad agreement today that, because of TARP and other governmental actions, the United States averted a potentially catastrophic failure of the financial system.

In a series of transactions under TARP, Treasury invested a total of $45 billion in Citigroup and agreed to share losses on a portfolio of approximately $301 billion of Citi's assets. In February 2009, Treasury announced stress tests for the 19 largest U.S. bank holding companies to measure how much additional capital each institution would need in order to remain sufficiently capitalized if the economy were to weaken further. The stress test results, announced in May, indicated that 9 institutions had adequate capital and that the other 10 would have capital needs totaling $75 billion. Of this amount, Citigroup's additional capital requirement was $5.5 billion.

After the stress test was completed last May, Citi conducted a series of exchange offerings from preferred shares to common, and significantly improved its Tier 1 common equity. Treasury converted $25 billion of its preferred to common at $3.25 per share. Large banks have subsequently raised $110 billion of new common equity, and $43 billion of capital in other forms. The banks renewed access to capital in the public markets has enabled them to make repayments to Treasury totaling $169 billion to date, representing 70 percent of all TARP investments in banks.

While the financial markets have not yet fully recovered, conditions have significantly improved. Treasury has notified Congress that it does not expect to use more than $550 billion of the $700 billion authorized for TARP, and is terminating the Capital Purchase, Asset Guarantee, and Targeted Investment Programs.

In December of 2009, the Federal Reserve agreed to allow Citigroup to repay Treasury's exceptional assistance and terminate the asset guarantee. To be permitted to take these measures, Citi—like the other institutions subject to the stress test—was required to have a post-repayment capital base at least consistent with the stress test standard, and to have further demonstrated its financial strength by issuing senior, unsecured debt for a term greater than five years and without the backing of FDIC guarantees.

Today, Citigroup has repaid the $20 billion in exceptional assistance and has paid $2.8 billion in dividends to Treasury. Taxpayers have earned a profit on these investments. The government's contingent liability for the asset guarantee has been terminated at no loss to the government, in fact, taxpayers have made a profit from this guarantee.

Additionally, Treasury has announced plans to divest the government's holdings of Citigroup's common shares in an orderly manner over the next 12 months. Decisive actions taken by the U.S. government have created a financial system far stronger than a year ago. However, the financial system is operating under the same rules that led to its near collapse. These rules must be changed to address the moral hazard posed by large, interconnected financial institutions that present risk to the financial system. The Administration has proposed comprehensive financial reforms that seek to force these institutions to internalize risk, remove expectations of government support, and protect taxpayers from having to finance future interventions.

Thank you very much.

[The prepared statement of Mr. Allison follows:]

Written Testimony of Herbert M. Allison, Jr.,
Assistant Secretary for Financial Stability
Before the Congressional Oversight Panel
March 4, 2010

Thank you Chair Warren and members Silvers, Neiman, Atkins and McWatters, for the opportunity to testify before you today.

You have asked me to discuss our investments in Citigroup. I will also discuss the Treasury Department's reasons for making these investments and its strategy for exiting these investments.

In mid-September 2008, the nation was in the midst of one of the worst crises in our financial history. The economy was contracting sharply. Fear of a possible depression froze markets. Immediate, strong action was needed to avoid a complete collapse of the financial system. Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and other U.S. government bodies undertook an array of unprecedented steps to avert a collapse and the dangers posed to consumers, businesses, and the broader economy. However, additional resources and authorities were needed to help address the severe conditions our nation faced.

Recognizing the need to take difficult but necessary action to confront a financial system on the verge of collapse, Congress enacted the Emergency Economic Stabilization Act of 2008 (EESA) and granted Treasury authority to restore liquidity and stability to the U.S. financial system by purchasing and guaranteeing troubled assets in a wide range of financial institutions.

It was in this context that the U.S. government invested significant amounts of capital for the purpose of stabilizing the financial system and preventing an economic catastrophe. As a component of its capital program, the U.S. government invested a total of $45 billion in Citigroup under the EESA. This consisted of $25 billion under the Capital Purchase Program (CPP) and $20 billion in exceptional assistance under the Targeted Investment Program (TIP). In addition, the U.S. government agreed to share losses on a portfolio of approximately $301 billion of Citigroup assets under the Asset Guarantee Program (AGP).

Many people questioned these actions at the time. Some asked why Treasury made an investment in 2008 under the CPP only to make an additional investment in Citigroup one month later. Many doubted whether the government would ever be repaid in full. Indeed, in the Congressional Oversight Panel's February 2009 Oversight Report (Valuing Treasury's Acquisitions), Treasury's CPP investment in Citigroup was valued at 57-67% of face value and its TIP investment was valued at 41-59% of face value.

Today, Citigroup has repaid the $20 billion in exceptional assistance, and the taxpayer has earned a positive return on this investment. The $25 billion CPP investment has a current market value which also suggests a positive return—although this valuation could change based on changes in the price of Citigroup's common stock. The government's contingent liability for the asset guarantee has been terminated. There was no loss to the government and there has been a positive return to the taxpayer from this guarantee. Additionally, in December Treasury announced that it expected to sell the Citigroup common shares it holds over the following 12 months.

Now, we will review in more detail the history of Treasury's investments in Citigroup.

Citigroup's participation in TARP Programs

Capital Purchase Program

Under the authorities granted by EESA, Treasury made investments in preferred stock of Citigroup. Citigroup was included in the first group of participants in the CPP, the primary program established by the prior Administration pursuant to the Troubled Asset Relief Program (TARP) established under EESA. Through this program, Treasury strengthened the capital base of our financial system. Treasury ultimately invested $205 billion in more than 700 institutions under the CPP, including almost all of the nation's largest financial institutions as well as hundreds of smaller ones. This program was essential to averting a collapse of our financial system, as has now been acknowledged by many, including this Panel in its December 2009 report.

CPP investment amounts were determined by the size of the bank - no less than one percent and no greater than three percent (five percent for small banks) of the recipient's risk-weighted assets could be invested, with a maximum possible investment of $25 billion. Treasury invested $25 billion in Citigroup in October 2008. In return for its investments under the CPP, Treasury received nonvoting preferred stock that paid an annual dividend of 5% for the first five years. Treasury also received warrants to purchase common stock.

Targeted Investment Program and Asset Guarantee Program

In November 2008, Treasury announced further assistance to Citigroup under the TIP and the Asset Guarantee Program (AGP). TIP and AGP were targeted programs designed to stabilize the financial system by providing additional assistance to institutions, such as Citigroup, that were facing particular difficulties. Under the TIP, Treasury invested $20 billion in Citigroup in return for additional preferred stock paying an 8% dividend. Under the AGP, Treasury, the FDIC, and the Federal Reserve agreed to share losses on a portfolio of $301 billion of loans, mortgage-backed securities, and other financial assets held by Citigroup, with Treasury's loss share capped at $5 billion. Treasury and the FDIC received a fee consisting of preferred stock paying an 8% dividend in return for their commitments and the Federal Reserve was to be paid a fee if its commitment to back up the guarantee with a non-recourse loan was called. Treasury received additional warrants for common stock in both transactions.

Some have questioned why Treasury agreed to invest in Citigroup under the CPP only to have to commit to provide additional assistance less than two months later. When considering this question, it is important to keep in mind the extraordinary circumstances of the fall of 2008. The government was taking a variety of unprecedented actions to contain the crisis, allay the fears of the markets and stabilize the system. Yet the depth of the crisis, the measures needed to address it, and the effects of taking any particular action could not be predicted, since the nation had never faced similar circumstances. In particular, although the announcement of the initial investments under the CPP was well received, the outlook for the U.S. economy and Citigroup continued to deteriorate in subsequent weeks. For example, while the CDS spread on 10 year senior Citigroup debt fell from 354 basis points on October 13, 2008 – the day before the announcement of Treasury's CPP investment – to 161 basis points the following day, the spread was back up to 378 basis points on November 21, 2008 – the last trading day before the announcement of Citigroup's TIP and AGP assistance. At the same time, broader measures of risk throughout the financial system were also highly unstable. The VIX Volatility Index fell from 70 on October 10, to 55 on October 14, but was back up to 73 on November 21. Due to the deterioration in confidence, there was concern that, without government assistance, Citigroup would not be able to obtain sufficient funding in the market over the following days.

As the Federal Reserve has observed, a failure to act to reestablish confidence in Citigroup by providing additional liquidity and an asset guarantee program would have had a significant adverse effect on U.S. and global financial markets. A further deterioration of Citigroup would have led investors to doubt the ability and willingness of U.S. policymakers to support U.S. banking institutions and financial markets – notwithstanding Treasury's recent CPP investments. Investors would have been concerned about direct exposures of other financial firms to Citigroup, and might have begun to doubt the financial strength of other large U.S. financial institutions that might be seen as similarly situated – likely weakening overall confidence in U.S. commercial banks. More generally, given Citigroup's substantial international presence, global liquidity pressures would likely have increased and confidence in U.S. assets more broadly could have declined. All of these effects would likely have led to a much greater worsening of the global financial and economic turmoil. In light of these extraordinary risks, and keeping in mind the corrosive and damaging uncertainty at the time, Treasury believes that its actions were warranted and necessary.

The Stress Test and Citigroup's Recapitalization Plan

The Obama Administration took office in the midst of a deep recession. The Administration confronted this situation with a comprehensive plan to get credit flowing again, which included bringing together the government agencies with authority over our nation's major banks to initiate an intensive forward-looking assessment about the risk on banks' balance sheets in adverse conditions.

Therefore, a key component of the Financial Stability Plan was the stress test. Treasury worked with the Federal banking agencies to design a one-time, forward-looking assessment – known as the Supervisory Capital Assessment Program (SCAP) – on the nineteen largest U.S. bank holding companies. Federal banking supervisors conducted these assessments to estimate the amount of capital banks would need to absorb losses in a more adverse economic scenario and to provide the transparency necessary for individuals and markets to judge the strength of the banking system. Results of the stress tests were released on May 7, 2009. As a consequence of the SCAP, the banking agencies concluded that Citigroup needed to raise an additional $5.5 billion in capital to establish a buffer of protection against the more severely adverse conditions that might result if the deterioration in economic conditions exceeded predictions.

In February 2009, Citigroup announced a recapitalization plan to strengthen its capital base. In response to its SCAP requirements, Citigroup announced the expansion of this plan by an additional $5.5 billion. In the summer of 2009, Citigroup completed the recapitalization plan. Treasury exchanged the preferred stock received under AGP and TIP for an equivalent amount of trust preferred securities, which are senior in right of repayment to preferred stock but otherwise have many similar terms, and exchanged the preferred stock received under CPP for approximately 7.7 billion shares of Citigroup common stock at an exchange rate $3.25 of per share.

TIP Repayment and AGP Termination

As you know, amendments made to EESA by the American Recovery and Reinvestment Act of 2009 require Treasury to permit a recipient of TARP assistance to repay that assistance subject to consultation with the appropriate Federal banking agency. In December of 2009, the Federal Reserve agreed to allow Citigroup to repay part of the TARP assistance it received and terminate the AGP, provided that Citigroup raised an acceptable amount of private capital to replace the government assistance. The capital plan included (i) raising approximately $20 billion in the private market through the issuance of common shares and tangible equity units that will convert into common stock and (ii) providing $1.7 billion in 2009 compensation to its employees in the form of common stock or a common stock equivalent rather than cash. On December 22, 2009, Citigroup completed the offerings of common stock and tangible equity units, and the next day it repurchased the $20 billion of TIP trust preferred securities. Treasury, the FDIC, the Federal Reserve Bank of New York and Citigroup agreed to terminate Treasury's guarantee commitment. In consideration for early termination of the guarantee, Treasury and the FDIC agreed with Citigroup that they would keep $5.2 billion of the $7 billion of Citigroup trust preferred securities issued under the AGP.

As I've mentioned, the government incurred no losses under the AGP, and has made a positive return on the premium Citigroup paid for this ten-year insurance. As a result, Treasury will realize a positive return on both the TIP investment and the asset guarantee. Treasury has earned $2.8 billion in dividends as of December 2009 on these investments and will realize additional returns on sale of the remaining trust preferred securities as well as the warrants.

Some have questioned whether Citigroup should have been allowed to repay Treasury.

As noted above, Treasury cannot refuse repayment if the regulator approves it. But more importantly, Treasury believes replacing taxpayer dollars with private capital is exactly what it should be doing. TARP has provided the temporary support that has stabilized the financial system. Banks are now more able to access the equity markets. To date, Treasury has received $170 billion in TARP repayments and large banks have raised more than $140 billion in private capital since the SCAP results were released. Citigroup's capital levels have improved since fall 2008. Citigroup's Tier 1 Common Ratio as of September 30, 2008 was 3.7% - as of December 31, 2009, it was 9.8%.

In addition, it should be remembered that the existing shareholders have been substantially diluted as a result of both the government's actions, the recapitalization and the offering. The existing shareholders of Citigroup have seen their interests diluted by more than 80% since 2008, and now own less than 20% of the firm. Today, Treasury holds more than 27% of the common stock of Citigroup.

Treasury's Current Holdings; Exit Strategy

The U.S. government is a shareholder reluctantly and out of necessity. The TARP investments were not made to make money but to help avert a collapse of our financial system. Because financial conditions have started to improve, Treasury is winding down TARP programs that helped put large banks on a sounder footing, and these institutions have begun exiting from these investments. Treasury wants these institutions to exit these investments, and return TARP funds to Treasury, as soon as permitted under EESA.

Based on current market valuations, Treasury's current holdings from the original $25 billion CPP investment would represent a positive return. If Treasury were able to sell all its Citigroup common shares at the current market price, taxpayers would realize a positive return on this CPP investment. I should also note that if Treasury were to incur a loss on its investment, the Administration's proposed Financial Crisis Responsibility Fee, if enacted, would ensure that every penny of taxpayer assistance from TARP is paid by large financial institutions and the cost of the rescue to taxpayers is zero.

Conclusion – Successes and Need for Financial Reform

Treasury and other institutions of government have accomplished a great deal in a short amount of time to stabilize the financial system, a necessary precondition to the resumption of economic growth. Action taken by Treasury, the Federal Reserve, the FDIC, and other government agencies averted a catastrophic collapse of our financial system, which is far stronger today than it was a year ago. But the key question is: how does Treasury avoid having to provide assistance to institutions like Citigroup again?

Today, the financial system is operating under the same rules that led to its near-collapse and to this deep recession. These rules must be changed to address the moral hazard posed by large, interconnected financial institutions considered "too big to fail." The Administration has proposed comprehensive financial reforms that seek to address this moral hazard by forcing these institutions to internalize the risks they impose on our financial system and to remove expectations of government support.

First, the government needs the ability to limit risk-taking by institutions that threaten the overall stability of the system and can cause extraordinary damage to the American economy. Under the Administration's proposals, major financial firms would be required to report regularly to supervisors the nature and extent to which other major financial firms are exposed to it, as well as firm-wide risk concentrations, so that the government can identify firms whose failure could pose a threat to overall financial stability and our economy. Major financial firms would be subject to more stringent capital requirements, tough new liquidity requirements, and constraints on interconnectedness with other major firms. Higher levels and quality of capital would be required for all banking firms. To prevent the emergence of firms whose relative size alone could pose a threat to financial stability, the proposals supplement the existing cap on insured deposit concentration with a broader cap that would apply to all categories of liabilities for the largest financial firms. And, to ensure that the taxpayer-backed safety net for banking firms is not extended to high-risk activities unrelated to the core business of banking, banking firms would be prohibited from engaging in proprietary trading—trading for the banking firm's own account and not in connection with client business—and from investing in or sponsoring hedge funds and private equity funds.

Second, the government must have the ability to seize and wind down failing major financial institutions in an orderly manner, minimizing the company's risk to our financial system, economy, and taxpayers. The Administration's proposals provide this resolution authority, subject to strict governance and control procedures, with losses absorbed not by taxpayers but by equity holders, unsecured creditors and, if necessary, through a fee on other major financial institutions, similar to the Financial Crisis Responsibility Fee.

As we look ahead, we must not forget the lessons we have learned from this period. We need to reform our nation's laws to provide stronger, more effective regulation of our financial system and to protect consumers. Doing so will decrease the need for future intervention. Reforming our regulatory system in a way that is stronger and better suited to manage risk and ensure safety and soundness must be our highest priority.

Thank you.

Chair WARREN. Thank you, we appreciate your being here, Mr. Allison.

I'd like to start this morning with Treasury's role in overseeing TARP, generally and overseeing Citi, in particular.

On October 14th, 2008, Secretary Paulson announced the creation of the Capital Purchase Program and the infusion of cash into nine financial institutions, including Citi, and under the program he announced—these are the words he used—"These are healthy institutions, and they have taken this step of accepting taxpayer money for the good of the U.S. economy. As these healthy institutions increase their capital base, they will be able to increase their funding to U.S. consumers and businesses." On October 28, under that program, Citi got $25 billion and was pronounced a "healthy institution."

And yet, on November 23rd, which I think is about three weeks and four days later, the Secretary of the Treasury said that Citi was—Citi and Citi alone—was in such dire straits that it would need an additional $20 billion, and that was, then, followed by another $102 billion in guarantees.

What I want to understand is, now we describe Citi as a "healthy institution," what does "healthy" mean now that it didn't mean on October 14, 2008?

Mr. ALLISON. Thank you, Chair Warren, for your question.

Again, as you know, the Treasury does not make comments about the financial health of any particular institutions. In having the funds repaid——

Chair WARREN. I'm sorry, I was quoting the Secretary of the Treasury on the health of Citi and other financial institutions.

Mr. ALLISON. I think at the time that was an extreme situation.. I'm not going to comment or second-guess what the Secretary of the Treasury at that time had to say.

Chair WARREN. So, your position is that we declared it a healthy institution, and now we take no position on the financial health of Citi?

Mr. ALLISON. It's not our policy to comment on whether any institution presents a systemic risk or on its particular health.

I might also say that, because we're a large shareholder in Citi at this time, as you pointed out, we can't make comments on the prospects of Citigroup.

Chair WARREN. But you're making the decisions at Treasury about Citi's backing out of the TARP program.

Mr. ALLISON. I think it's very important to point out that that's not the case. In fact, under the law passed by Congress, we have no decision-making with regard to Citi's repayment to Treasury. That authority is given to the regulators of these banks. They make that determination after—as I mentioned in my testimony—they conduct additional tests of the capital adequacy of the institution that is proposing to repay. We then, once they've made that determination, that is, the regulatory agency, we have no choice but to receive the funds in repayment.

Chair WARREN. So, you see the role of Treasury here as passive on the question of Citi's financial structure? Passive on the question of Citi's overall economic health?

Mr. ALLISON. We certainly——

Chair WARREN. Treasury is not involved in this?

Mr. ALLISON. Chair Warren, we are strongly advocating financial reforms to prevent this situation from happening again, by assuring that no single institution can threaten the financial system.

Chair WARREN. I appreciate that, but are you telling me you are exercising no supervision over Citi in its financial operations today? No oversight of the financial health of this institution?

Mr. ALLISON. As you know, Madame Chair, we are a very reluctant shareholder, as Mr. Atkins pointed out. We wish to dispose of those shares into the public market as soon as circumstances permit, in an orderly manner. We are—we have agreed, with Citigroup, in a contract and we've stated publicly, this is the general policy of the U.S. Treasury—we are not going to be an active shareholder, we are not going to interfere in the day-to-day management of these companies——

Chair WARREN. So——

Mr. ALLISON. We will only vote in a proxy on certain, well-defined, and limited circumstances.

Chair WARREN. So, the health of Citi is not your department. That belongs somewhere else in government.

Mr. ALLISON. Again, we are concerned about the financial system. We're concerned that no institution should be able to present significant risk to the financial system, and that's why we're strongly advocating financial reforms that we hope will be enacted by Congress shortly.

Chair WARREN. Right, I understand that about going forward.

Let me just ask one other quick question, if I can slip it in, and that is, under the stress test, Citi was required to raise $58 billion and in exchange, offered another $5.5 billion in fresh capital. If Citi had not been able to raise that money, what would Treasury have done?

Mr. ALLISON. Well, I think that's a hypothetical question——

Chair WARREN. Yes, it is.

Mr. ALLISON. Yes, it is. Citi did make these exchanges, we participated in that exchange, as I testified.

Chair WARREN. What would Citi have done if it could not have raised the money?

Mr. ALLISON. I can't speculate on that.

Chair WARREN. You can't speculate.

Mr. ALLISON. I can't.

Chair WARREN. About what they would have done?

Mr. ALLISON. No.

Chair WARREN. All right, thank you. My time is up.

Mr. ATKINS. Thank you, Madam Chair.

I wanted to explore a little bit about the offering that Citigroup did last fall, last summer, I guess it was. So, I just wanted to get your explanation, there was obviously, it looked like, not as smooth as probably either you all or Citi wanted it to go. So, I wanted to ask for your explanation of how that hiccup happened in the offering process?

Mr. ALLISON. Well, again, Citi managed the offering. That was their decision. We did announce, at the time, that we intended to sell not our entire offering, but $5 billion, perhaps, alongside Citi's offering.

We decided that, because of the behavior of the stock at that time, it was not in the taxpayers' interest to make that sale, on our part. As to their offering, I wouldn't comment on the offering. They did succeed in placing $20 billion of new shares, and obviously shareholders were willing to make that investment, in the public market. And what's really important is that they were setting the stage to replace government capital with public capital, which we think is much stronger capital. We don't want to be a shareholder in that company and we think that companies are far stronger if they're public—if they're financed out of the public, rather than the government.

Mr. ATKINS. Well, when we look now, then, at the situation, with respect to the stock and there's some 27 billion shares or so outstanding. The most shares of any New York Stock Exchange-listed company that I know of and, of course, the government owns about 27 percent of that.

So, have you all considered that once the lock-up period ends, how you will tackle such a large disposition of shares? Especially with the share price being below $5?

Mr. ALLISON. Yes, Mr. Atkins, we've given this very careful thought, as you can imagine. I'm not in a position to make a public statement about how we will dispose of our shares—that's not in the taxpayers' interest—but I can assure you that we've looked at many different alternatives and consulted widely, and we will be making our decision apparent over time.

Mr. ATKINS. So, you intend to hold, perhaps, a number of offerings rather than one?

Mr. ALLISON. As much as I'd like to be responsive to your question, I don't think it's in the taxpayers' interest to do so, sir.

Mr. ATKINS. No, I agree. Okay.

Well, as far as, then, your involvement with respect to management and the Board of Citigroup, could you sort of explain to me how often you have contacts and what sort of contacts those are?

Mr. ALLISON. We have contacts with Citi as we do with many other banks. We are taking a very limited role as an investor. We are not getting involved in the day-to-day management of Citigroup. Instead, we will only be active as a shareholder in voting for Directors, in voting on major corporate events, in voting on issuance of significant new shareholdings in major asset sales, in changes in by-laws or charter. Other than that, we intend to act as any public shareholder.

Mr. ATKINS. Well, when we had a hearing last week with respect to GMAC and when the government took the position in GMAC which, of course, was declared to be a bank holding company, they took seats on the Board and are increasing the number of seats because of the amount of the holding has increased in GMAC. Citigroup is, of course, in a different position, although two Board members have recently announced are leaving the Board. Is there any plan for the government to have members of the Board?

Mr. ALLISON. We have the right and the ability to vote on Directors and that's the position that we'll take at the appropriate time.

Mr. ATKINS. So, you have no plans to put a government representative on the Board?

Mr. ALLISON. No, I would note that Citigroup's Board has changed significantly in recent times. In response, I presume, to this crisis.

Mr. ATKINS. But that was not due to government prompting or——

Mr. ALLISON. I cannot comment on that, and I don't have that information.

Mr. ATKINS. I see. Okay.

My time is up, thank you.

Chair WARREN. Mr. Silvers.

Mr. SILVERS. Thank you.

Assistant Secretary Allison—I'm somewhat disappointed by the way in which you appear to be narrowing your testimony in response to questions from the chair. I'm looking at your written testimony and I want to make sure that I—it appears to me that the statement—the statement on page three of your written testimony—in relation to Treasury's investments in Citigroup—that Treasury believed its actions were warranted and necessary, that represents the taking of a position on several questions related to Citigroup. So, I'm going to try to unpack what I believe the position you're taking is.

For starters, would you concur with the statement that in November of 2008, Citigroup was a systemically significant financial institution?

Mr. ALLISON. I would.

Mr. SILVERS. You would. Okay. So, at least we've established something, here.

Mr. ALLISON. We have.

Mr. SILVERS. Secondly, would you concur with the statement that on November 21st, 2008, Citigroup was a failing institution?

Mr. ALLISON. I think that the entire banking system was at risk. Virtually all major banks were having difficulty, or would have had difficulty, funding themselves. I think that that was probably the most significant financial crisis the country has faced.

Mr. SILVERS. Assistant Secretary, did any other financial institutions contact the Treasury Department on November 21st, 2008 and express the view that they were going to fail within a week?

Mr. ALLISON. Mr. Silvers, I was not there at the time, I cannot comment on that.

Mr. SILVERS. Okay, can you check the phone records, perhaps and see if anyone else happened to have made such a call?

Mr. ALLISON. We'll be happy to respond to your question, yes, sir.

Mr. SILVERS. There is now voluminous press and I think, now, book accounts and—for all I know—songs and TV shows in which this, what I just stated to you, has been asserted. Do you have any reason to believe that Citigroup did not do that?

Mr. ALLISON. I have no reason to believe, either way. I have no knowledge of it, and therefore I cannot comment, but we will respond to your question.

Mr. SILVERS. Well, you said the entire financial system was failing. Do I interpret that to mean that you agree that Citigroup was failing on that date?

Mr. ALLISON. I believe that incredibly strong action was necessary at that time to prevent a catastrophic failure——

Mr. SILVERS. But Mr. Assistant Secretary, that's not my question. My question is—and I don't disagree with you, by the way, that strong action was needed at the time, and during that period. But I'm asking you, was Citigroup a failing institution? This, clearly, can't be that complicated a question to answer.

Mr. ALLISON. I'm trying to comment on the broader issue, and——

Mr. SILVERS. But I'm not asking you about the broader issue, I'm asking you about a specific firm.

Mr. ALLISON. Yes.

Mr. SILVERS. The subject of this hearing.

Mr. ALLISON. I'd like to respond to your question, if I may.

Mr. SILVERS. Sure.

Mr. ALLISON. I think that Citi, and a number of other banks, many banks, would have been on the brink of failure had the system not been underpinned by actions of the government—including the Federal Reserve and the U.S. Treasury.

Mr. SILVERS. But no other—the Treasury Department took the type of systemic action that you're talking about, truly systemic action, a month earlier.

Mr. ALLISON. Yes.

Mr. SILVERS. And, as you note, the Fed took certain other actions, but a unique step was taken that week with respect to Citi.

Mr. ALLISON. In the case of Citi in that week, what action was taken. Citi was in a position where it was—and it did communicate this to Treasury, I know this—that they could have difficulty funding themselves at that time. Their debt spreads had widened considerably, and so, in the opinion of their management, they were facing a very serious situation.

Mr. SILVERS. These sound like euphemisms for "failing." I don't understand, frankly, and I have the greatest respect for you and the work you've done with the TARP, and I don't mean to be taken in any other way, but I do not understand why it is that the United States government cannot admit what everyone in the world knows, which is that, in that week, Citigroup was a failing institution. And I don't understand why—since no one denies that they called the Treasury Department and asked for extraordinary aid and said, effectively, they would run out of cash, why it is that we can't all agree that they were failing. Can you explain to me why that is?

Mr. ALLISON. I'm not trying to take issue with your characterization.

Mr. SILVERS. Okay, let's move on.

Mr. ALLISON. What I'm trying to do is to describe what the actual situation was.

Mr. SILVERS. Well, we agree, then that they were failing. So, they were a failing systemically significant institution. We've established that much.

Now, can you explain why they were not placed in the program that Treasury had at the time—and again, I know that you weren't there but you devoted a substantial part of your written testimony to defending these actions. Can you explain why a systemically significant failing institution was not placed in the Systemically Significant Failing Institutions Program?

Mr. ALLISON. There was a program, a Targeted Investment Program and——

Mr. SILVERS. But, Mr. Assistant Secretary, that program did not exist on that date.

Mr. ALLISON. Well, I don't have the details on the particular circumstances around that investment. It's my understanding that that investment—if you're talking about the additional $20 billion—was characterized as part of the Targeted Investment Program. I'd be happy to look at that, too——

Mr. SILVERS. Six weeks after it was made, Mr. Secretary.

Mr. ALLISON. Right.

Mr. SILVERS. Can I just—I know my time is expired, if you can indulge me for five more seconds, or 10 more seconds—I just find it—I find it extraordinary that it's not possible to simply have a straightforward conversation about this.

Mr. ALLISON. I'm trying to—Mr. Silvers, at the time I was not there.

Mr. SILVERS. I know you weren't there. I don't understand why, then, you're so protective of decisions that I don't think make any sense.

Mr. ALLISON. I don't think I'm being protective, I'm trying to describe what I know, sir.

Chair WARREN. Thank you.

Mr. ALLISON. In a factual way and not a normative way.

Chair WARREN. Thank you, Mr. Allison.

Mr. McWatters.

Mr. MCWATTERS. Thank you.

Mr. Allison, do you have any reason to anticipate that Citigroup will require additional TARP funds?

Mr. ALLISON. None.

Mr. MCWATTERS. I'm sorry, I don't understand your response. No more TARP——

Mr. ALLISON. I have no reason to expect, and we have no plans whatsoever to make further investments in Citigroup.

Mr. MCWATTERS. Fair enough.

On a fair market value basis, after considering contingent liabilities, do you believe Citigroup today is solvent?

Mr. ALLISON. Again, we rely on the determinations by the regulator which, I know, carefully reviewed their financial situation before they agree to permit repayment to the Treasury Department by Citigroup.

Mr. MCWATTERS. That sounds like yes.

Mr. ALLISON. I make no comment, as I mentioned before, about the state of Citigroup. We, as a shareholder, cannot comment on their condition or their prospects.

Mr. MCWATTERS. Let me ask this—if the stress tests were conducted again today, using current economic conditions and the expectation of future economic conditions, would Citigroup be required—most likely be required—to raise additional capital?

Mr. ALLISON. That would be a determination by their regulators, not by the Treasury Department.

Mr. MCWATTERS. So, what do you think?

Mr. ALLISON. I would like to be as forthcoming with you as I can. I am here to provide you with information. We cannot make a comment on the Citigroup's prospects or their financial condition, as a shareholder in Citigroup at this time, and as an institution that is not their regulator.

Mr. MCWATTERS. But after the taxpayers invested $45 billion, $300 billion guarantee, your answer is the financial equivalent of the Fifth Amendment? I mean——

Mr. ALLISON. No, sir. What I would point out is that Citigroup has repaid the U.S. Treasury $20 billion and we have terminated that guarantee for $301 billion——

Mr. MCWATTERS. Yes.

Mr. ALLISON. So, today we are a shareholder in Citigroup, only.

Mr. MCWATTERS. Which is the reason I ask——

Mr. ALLISON. Yes, sir.

Mr. MCWATTERS [continuing]. If they're solvent, and whether you anticipate additional money will be required from TARP?

Mr. ALLISON. I've said that, we don't anticipate any additional money will be required from TARP. We have no plans in that regard, we are intending to dispose of our investments in Citigroup, as rapidly as we responsibly can.

Mr. MCWATTERS. What do you anticipate the exit strategy will be?

Mr. ALLISON. Again, as we said, we intend to dispose of our holdings in a responsible, careful manner within the next year.

Mr. MCWATTERS. Okay.

Have you thought about completing another round of stress tests under current economic conditions?

Mr. ALLISON. We, again, understand and know that the regulators are carefully monitoring these banks. It is not our role to perform stress tests of the banks, that's done by the regulators in close consultation with those banks.

Mr. MCWATTERS. But have you thought about the issue? Have you made a recommendation? Do you think the stress tests should be run again? Or is everything okay?

Mr. ALLISON. We believe that the financial system is in far better shape than it was before, evidence of that is the fact that banks have been able to raise substantial amounts of equity, and also have been raising debt funds without government guarantees. And therefore, as we look forward—as I testified—while we still see some problems in the financial system, it's far stronger than it was a year ago.

Mr. MCWATTERS. Have the current stress tests been audited by GAO? Are they in the process of being audited?

Mr. ALLISON. I don't know whether GAO has audited those stress tests. We will get back to you on that question.

Mr. MCWATTERS. Okay. And I would like to know when you expect the results of the audits, what you anticipate they will say and whether or not there was an understatement of required capital?

Mr. ALLISON. Again, I can't speak for other agencies of the U.S. government.

Mr. MCWATTERS. I understand.

I have a short time left, but why, specifically, do you think that Citigroup needed to be bailed out? What happened? What was the problem? And again, as I said in my opening statement, it wasn't branch banking, it wasn't credit cards, I think, it was something else. What was that, and has it been fixed?

Mr. ALLISON. Well, I think what we saw was a great deal of risk in the financial system at that time. It became quite evident as the markets began to seize up that these institutions were facing large exposure in a variety of ways, and that their capital could be rapidly depleted, which led to the TARP program, where Congress itself agreed that this was an unprecedented crisis, and that the U.S. government would have to step in to provide support.

Mr. MCWATTERS. Okay, my time is up.

Chair WARREN. Superintendent Neiman.

Mr. NEIMAN. Thank you.

Mr. Allison, as you know, on our next panel, we're all going to be hearing from one of the largest banks in the country and one of the largest TARP recipients. I'd like to explore with you, during my time, the dynamics around large banks, both in terms of current market conditions, and the future direction of TARP?

So, the question is, how do you view the trend of repayments from Citi, but also the larger institutions that have repaid TARP funds? And, specifically, how much of it reflects a return to health and how much of it reflects—or is a reaction against programs, standards, or the stigma of participating in TARP.

Mr. ALLISON. Well, first of all, we are pleased to see that large banks have succeeded in raising substantial amounts of equity capital in the public markets, and that they are replacing government capital with public capital, to the point we've now received back 70 percent of the government's investment in banks at a significantly profit to the U.S. taxpayers. And, as they replace government capital with public capital, the quality of that capital is certainly far better, and it provides a base for them to do additional capital raises, going forward.

So, we are highly encouraged and pleased by the progress that has been made in these banks recapitalizing themselves in the public market.

Mr. NEIMAN. So, does that return of capital—and in many cases, profitability—does it reflect a return to sustainable profits in their business model? Or do you see it as a reflection of temporary trading gains that may possibly be masking continuing weaknesses and losses in loan portfolio?

Mr. ALLISON. Well, we look at their capital ratios—the large banks have shown material improvement in the Tier I and equity ratios, which is the most important type of capital. And they're able to raise funding in the markets—the markets are observing the health of these banks, and what we're seeing is evidence—through these capital raises—of greater public market confidence in the health of these banks.

Mr. NEIMAN. And what does it say about the quality of the earnings? Is that sustainable as to where it's coming from? And to the extent that it's coming from lending versus trading, I think is an important factor.

Mr. ALLISON. Well, again, if I start commenting on earnings streams, some may interpret it as my commenting on Citigroup, and I've got to be extremely careful.

Mr. NEIMAN. Right. Let's talk more broadly, because we do have metrics.

Mr. ALLISON. Yes.

Mr. NEIMAN. And I think some of the more important ones are those that have come out of the Federal Reserve, the quarterly—from the FDIC on lending statistics—their last quarterly banking report, issued last week, shows historic drops in lending levels. In fact, it's the largest yearly decline since the FDIC was created. How would you analyze and interpret this data regarding decreased lending levels. Does it show a significant lack of progress in financial stability, or other factors, in your interpretation?

Mr. ALLISON. Well, there are many possible reasons for the decline in lending and this has been widely discussed.

It can be due to a natural caution, during a recession, on the part both of borrowers and lenders. And, as I'm sure you know, we have announced a program to provide—to make available—additional capital to mid-sized and small banks who do outsized amounts of lending to small businesses around the country. We're going to announce a $30 billion program, we're hoping to get congressional approval for aspects of that program, and to move it forward as rapidly as possible. And that program is geared to lending, because it will—it provides for sharp reductions in dividend payments to Treasury on the part of banks that lend materially more than they are today.

Mr. NEIMAN. One more question on metrics—one of the important metrics that we have used is the Treasury's monthly snapshot of the largest banks who have been reporting.

Mr. ALLISON. Yes, yes.

Mr. NEIMAN. As I look at the data, most recently, of February 16th, the snapshot now only reflects 11 institutions, because it no longer contains institutions that have repaid TARP funds, and I think in this report it was, "Have repaid in June of 2009."

Mr. ALLISON. Yes.

Mr. NEIMAN. I think that will have limited, continued limited usefulness, this data, as we go forward, to the extent that institutions are excluded from the report. Is there any consideration of expanding it? I could see continuing asking institutions to continue to report, despite the fact that TARP funds may have been repaid.

Mr. ALLISON. Yes, yes. In fact, when the banks began to repay last summer, we called the banks that were repaying and requested that they continue to report through the end of this year, and they all agreed to do that. We'll be happy to take your question under consideration.

Mr. NEIMAN. Yes, I think early on we've even encouraged expanding it more broadly——

Mr. ALLISON. Yes, yes.

Mr. NEIMAN. And we'd be very concerned to the extent that it is limited.

Mr. ALLISON. Yes. Thank you.

Mr. NEIMAN. Thank you.

Chair WARREN. Thank you.

Mr. NEIMAN. My time is expired.

Chair WARREN. Thank you.

Thank you, Superintendent Neiman.

So, I was struck by your comment, Assistant Secretary Allison, that the taxpayers made a profit on your deal with Citigroup, that Citi has a too big to fail guarantee, that is very valuable right now. It shows up in their credit rating that the American taxpayer will not let them fail. What is Citi paying the taxpayers for that guarantee?

Mr. ALLISON. First of all, there is no too big to fail guarantee on the part of the U.S. government. And I can't account for any statement that some outside agency may make.

We intend, as I mentioned, to dispose of our shares in Citigroup as soon as possible.

Chair WARREN. Mr. Allison, I understand that. But the question I'm asking, the market clearly perceives that there is a too big to fail guarantee, and the market is rating Citi higher because of that. That gives Citi an advantage in raising capital, that is very valuable to Citi and it is potentially very costly to the American taxpayer, and I want to know if the American taxpayer gets paid for that.

Mr. ALLISON. Well, really what you're pointing out is the need for re-regulation of the financial system.

Chair WARREN. I understand that.

Mr. ALLISON. Because it's essential that no institution is viewed——

Chair WARREN. I will take that as a no, that we are not being paid for the guarantee that we are——

Mr. ALLISON. There is no guarantee of that institution, or any other institution.

Chair WARREN. I will take that as a no.

So, let me ask, you said we have no more plans to put TARP funds into Citigroup. Part of the reason that Citigroup had to be bailed out stemmed from the difficulty of untangling the operations and counterparty risks around the world. So, what I'd like to know is, how has Treasury managed systemic risk questions posed—not just by Citigroup—but by all of the large companies, but particularly by Citigroup in consultations with your regulatory counterparts around the globe? What are you doing about that? Are we any safer than we were a year ago?

Mr. ALLISON. There are continuous conversations with financial leaders around the world and I think you've seen them say that there's closer coordination today and much better communication.

Chair WARREN. Well, I'm glad that there may be more coordination, let me ask it in the more specific, perhaps, with respect to Citi. Are you making any effort to separate Citi's activities, it's counterparty risks and operations around the world, that we say could cause systemic failure? Are we making any effort to segregate that, say, from their trading activity that's a fairly high-risk undertaking?

Mr. ALLISON. Again, as you know, we've made many statements and taken the initiative to request major changes in financial regulation in this country which could address a number of those issues.

For example, insisting on capital adequacy, comprehensive oversight of these institutions, and very important, a resolution authority so that no institution and—the government should not be put in the position of having to take over an institution, or to somehow support it.

Chair WARREN. Mr. Assistant Secretary?

Mr. ALLISON. Yes.

Chair WARREN. I appreciate the need for reform of the financial system. And looking forward, I think that's exactly what we have to do. The question, however, is that we have a system in place right now. Treasury came to the United States Congress and said, in October of 2008, "We have to have $700 billion or the economy will fail." One of the specific problems is that Citi had this deeply intertwined, overseas operation that, we were told, as a people would, if we tried to unravel it, cause a systemic shutdown in economic markets. The results would be catastrophic. And that was one of the principle reasons that the American Congress went along with the TARP bailout.

So, my question is, what are you doing about that now? What are you doing to isolate the part of Citi, and Citi's operations that could cause systemic failure if they go down from Citi's other high-risk undertakings? For example, their trading activities?

Mr. ALLISON. Yeah. Well, as you know, there is the Volker rule that is being discussed today——

Chair WARREN. Well, you're talking to me about the future. And the future you're talking about is one that puts it back on Congress to change the laws——

Mr. ALLISON. Let me——

Chair WARREN. I'm in favor of that, Mr. Assistant Secretary.

Mr. ALLISON. Yes.

Chair WARREN. But we have to survive day-to-day and it is Treasury who is responsible. We don't want you back here asking for money.

Mr. ALLISON. Chair Warren, we totally share your concerns. And that is why we are advocating that reform be initiated and passed as rapidly as possible.

Chair WARREN. I'm going to do this one more time.

Mr. ALLISON. Please do.

Chair WARREN. Please don't tell me about advocating change for the future. What I'd like to know is what are you doing to manage the risks that are in front of Citi and facing the American people, right now?

Mr. ALLISON. Well, Citi, again, is under regulatory oversight—comprehensive regulatory oversight—and the regulators are responsible for assuring that Citi is being properly controlled and that it has adequate capital.

Chair WARREN. Are you telling me there are no efforts to segregate the risky activities from the systemically critical activities?

Mr. ALLISON. We are not involved in managing Citi on day-to-day basis. And the regulators oversee Citigroup, I think that's a question you might ask Mr. Pandit when he comes here, shortly——

Chair WARREN. Good idea.

Mr. ALLISON [continuing]. Finish.

Chair WARREN. All right, thank you.

I apologize to my panelists for going over.

Mr. Atkins.

Mr. ATKINS. Thank you very much.

I just have a couple more questions, here. One with respect to—there was an interesting article by Reuters yesterday about a small Midwestern bank called Midwest Bank Holdings—this is a little bit off-topic, but it will get back to on-topic in a second. I just want to read it here: "The small Midwestern bank has negotiated with the U.S. Treasury for the taxpayers to essentially buy the bank's shares at an above-market value price in an unusual transaction reflecting how the government's bank investments are entering a new phase. Midwest Bank Holdings agreed to swap $84.8 million of preferred shares that it sold to the U.S. government in 2008 for securities that will convert to about only $15.5 million of common shares, roughly an 80 percent loss to taxpayers." And it quotes hedge fund managers; there's a lot of funny stuff going on, here.

In Section 101 of ESSA, it basically says that, "The Secretary shall take such steps as may be necessary to prevent unjust enrichment of financial institutions participating in a program, including by preventing the sale of a troubled asset to the Secretary at a higher price than what the seller paid to purchase the asset." So, I was wondering if you can elucidate us with respect to this particular transaction. Does this portend a change with respect to Treasury's view of the assets that it holds under TARP as they remain?

Mr. ALLISON. As we looked at the situation of Midwest Bank, we determined that the best way to protect the taxpayers' investment would be to convert our position into mandatory convertible preferred on the condition that the bank raise additional capital—a substantial amount of additional capital from public sources. So, this is all about protecting the taxpayers' interests and preventing, we hope, further erosion in our position with that bank.

Mr. ATKINS. Okay, so again, I know you said that you can't really speculate with respect to Citi, and again, we have a huge interest in that particular company and a huge number of shares are outstanding. So, you might consider other sorts of situations like this that might convert what we currently hold into other sorts of security interests in the company?

Mr. ALLISON. Well, our interests are protecting taxpayers and their investments. And there may be situations where we will look at what we might do in the way of protecting ourselves through a structured recapitalization that we might participate in, but in each one of these cases, we're guided by what's in the taxpayers' interests.

Mr. ATKINS. Okay, so that gets me back to some of the other things that the Administration is doing and whether or not that's really in the best interest of the taxpayers and the shareholders in this case, of Citigroup. And you mentioned, the so-called Volker Rule—which I guess I saw a report that formal language was sent up to the Hill today—what effect will that have on my interest as a taxpayer in Citi as a shareholder, or elected shareholder, at that, to the profitability of Citigroup and its businesses?

Mr. ALLISON. Well, again, I think that's a question better asked to the CEO of Citigroup and again, I cannot comment on potential impacts on the company in which we hold a large investment.

Mr. ATKINS. Okay, well it seems to me that the government's giving with one hand and taking with another, including now, with respect to the resolution authority that you were talking about, the Administration—and you note this in your testimony—that, "The Administration's proposals provide this resolution authority subject to strict governance and control procedures with losses absorbed, not by taxpayers, but by equity holders, unsecured creditors and, if necessary, through a fee on other major financial institutions, similar to the Financial Crisis Responsibility Fee."

So, first of all, aren't proposals like these actually putting additional costs and burdens on banks at a time when ensuring that banks are sufficiently capitalized should be priority one?

Mr. ALLISON. Well, we think that these measures are called for given the circumstances that the taxpayers have faced. We, by the way, intend as the Secretary of the Treasury has announced, to get back every penny that we have invested through TARP, and the Financial Crisis Responsibility Fee is one way of doing that.

We would also point out that many of these institutions have paid very large bonuses. They can afford, we think, to reimburse the taxpayer.

Mr. ATKINS. Well, unfortunately, they also have to run a business, as well. But, anyway, my time is up. We'll get into that later, thank you.

Chair WARREN. Thank you, Mr. Atkins.

Mr. Silvers.

Mr. SILVERS. It might be helpful, Mr. Assistant Secretary, if we try to clarify what the taxpayers' interest is, here, in light of my colleague's question.

First, let me turn to what may be a painful subject, do you agree that Citigroup today is a systemically significant institution?

Mr. ALLISON. Again, Mr. Silvers, with all respect, we cannot comment on a judgment about whether they're systemically significant.

Mr. SILVERS. But you agree that they were systemically significant in fall of 2008, though?

Mr. ALLISON. The determination was made at that time that they were systemically significant.

Mr. SILVERS. I see. Your written testimony appears—you're not going to answer that question frontally, I'm going to infer from your written testimony that you believe that. If you wish to tell me that you don't, that's fine. But let's start with that.

It would appear to me that the United States—as has been frequently noted—is a 27 percent common stockholder in Citigroup and that that's a significant financial interest of the public at this point. I assume you agree with that?

Mr. ALLISON. I do.

Mr. SILVERS. All right.

It would also appear that there was at least a significant probability, based on historical events that we are some sort of guarantor of Citigroup's obligations, in light of the fact—I think that we agree—that we did not allow Citigroup to default on those obligations multiple times in the past, and most recently a year or so ago.

You're free to disagree with me, I don't expect you to confirm what I just said.

Mr. ALLISON. Well, we did guarantee a part of their assets for a period of time and we were well-compensated for doing that.

Mr. SILVERS. Right. I'm suggesting that we have a broader, somewhat ill-defined guarantee. Certainly the credit markets, or at least credit market analysts, believe that to be the case.

So, we're not in the position, as my colleague would appear to suggest, of being simply a stockholder in Citigroup.

And then, finally, if we believe that there is, at least, a possibility that Citigroup will turn out to be systemically significant today, as it was in 2008, there's an even larger interest at play, here. Would you disagree that that's, at least, a possibility? That there is a systemic interest, here, that the taxpayer has?

Mr. ALLISON. Well, first of all, let me say again that the purpose of the regulatory reform initiative is to assure that no institution could infer, or the public can infer, that there's some type of implicit guarantee of a financial institution by the U.S. government. We want to remove that possibility.

Mr. SILVERS. But as our chair has commented, unfortunately—I think you and I agree—unfortunately, this reform has not passed, and today we live in a "reformless" world.

Mr. ALLISON. Yes.

Mr. SILVERS. And, I gather, at least one of my colleagues would prefer to keep it that way, that we live in a "reformless" world. But, that's how Treasury has to function in that arena.

It seems like the public has three interests at play at Citi. My question to you is, what strategy does Treasury pursue in the light of these three, somewhat conflicting, interests?

Mr. ALLISON. Well, again, our strategy as a shareholder in Citigroup is, first of all, to dispose of our investment as rapidly as we can in a responsible way.

Second, not to get involved in the management of the company. We don't believe that is in the shareholders' interests, or in Treasury's interests. We are casting our involvement very narrowly as a voting shareholder, and voting only on certain items in a proxy statement.

So, we think that the best thing that we can do is two-fold: one, exit that investment as rapidly as we responsibly can, and second, push hard for financial reform—let me say it again—to make sure that the U.S. taxpayer is never again put in a situation like we face today with Treasury owning 27 percent of Citigroup.

Mr. SILVERS. Can I turn to a different matter, then, as my time is about to run out?

I alluded in my opening statement to the fact that common stockholders of Citigroup have been, over time, diluted.

Mr. ALLISON. Yes.

Mr. SILVERS. And largely as a result of actions taken by this Administration over the last 12 months, although not exclusively—there was a little bit of dilution involved in the initial, suspect transaction. However, it appears to me that there's substantial differences, nonetheless, between AIG—what I find to be the inevitable comparison in terms of a systemically significant failing institution—the dilution there, and the dilution in Citigroup. And I would like to ask you to provide us with your comparative analysis of the dilution in the two scenarios, and in particular, your analysis of the effect of the difference between what happened in AIG, where the Treasury came in with debt financing, entirely, senior to the common stockholders and then took a large common position through warrants, and the Citi situation in which preferred stockholders were converted into common, and thus, essentially more cash was put in pari passu with the common? Obviously, I'm not asking you to answer that question now, but I'd like an apples-to-apples comparison of the dilution in the two firms as of today.

Mr. ALLISON. Well, first of all, AIG received assistance in the fall of 2008. The Federal Reserve actually made the bulk of that investment, and the Federal Reserve owns preferred shares, voting shares, that control about 80 percent of the voting rights, in my understanding.

And Citi, on the other hand, we made these preferred investments in Citi, as you well know, and we had an exchange last summer as part of a number of exchanges of preferred for common that were done at the time to bolster Citi's tangible common equity ratio.

So——

Chair WARREN. Let me stop you there, Mr. Allison.

Mr. ALLISON. Yes.

Chair WARREN. We'll come back to this——

Mr. ALLISON. Fine.

Chair WARREN [continuing]. And we'll permit—we'll keep the record open so that you can add more detail on this.

Mr. ALLISON. Thank you.

Chair WARREN. Thank you. I just want to be disciplined about time.

Mr. McWatters.

Mr. MCWATTERS. Thank you.

Mr. Assistant Secretary, during calendar year 2009, did TARP recipients sell any mortgage-backed securities to either the Fed, the Treasury, or Fannie or Freddie?

Mr. ALLISON. I don't have an exact answer for that, Mr. McWatters, I'd be happy to get it for you.

Mr. MCWATTERS. If you'd look into that, and also look into——

Mr. ALLISON. Sure.

Mr. MCWATTERS [continuing]. The price that was paid?

Mr. ALLISON. Alright.

Mr. MCWATTERS. Was it fair market value at the time? Was it par or something in excess of fair market value, is what I'm interested in knowing.

Mr. ALLISON. Okay.

Mr. MCWATTERS. What actions has Citi taken again, specifically, to negate the too big to fail problem? So we're not having this discussion again in five years?

Mr. ALLISON. Well, may I respectfully ask that you pose that question to Mr. Pandit, who is the CEO? I think he's in a better position than I to describe the actions they're taking internally.

Mr. MCWATTERS. I know, but I suspect that you talk with him on occasion?

Mr. ALLISON. Actually, I have not talked to Mr. Pandit about this matter, no.

Mr. MCWATTERS. Okay. How did Citi employ the $45 billion of taxpayer funds?

Mr. ALLISON. Those funds were for general corporate purposes—they were part of the capital of Citigroup. That entire program was designed to provide additional capital to banks.

Mr. MCWATTERS. Okay. Does Citi use its retail or commercial bank deposits to finance proprietary trading activity?

Mr. ALLISON. Again, I'd ask you to direct that question to Mr. Pandit. I don't have that information.

Mr. MCWATTERS. But this has been alleged as one of the causes of the financial crisis, and so it's not a question you've asked?

Mr. ALLISON. No, it's not.

Mr. MCWATTERS. Okay.

Do you have a view as to how the activity of short-sellers in the last quarter of 2008 affected the financial crisis and affected Citigroup?

Mr. ALLISON. I don't have that information, sir.

Mr. MCWATTERS. Okay.

Any views as to how the mark-to-market accounting rules, particularly how they were revised in April of 2009, affected Citigroup's financial reporting?

Mr. ALLISON. Again, I think you'd have to ask the CEO.

Mr. MCWATTERS. So, these are questions you've just not thought about or not—even though these are not obscure questions about short sellers and mark-to-market and the like?

Mr. ALLISON. Yes. The role of my area in Treasury is to manage the taxpayers' investments and to retrieve those investments as rapidly as we responsibly can.

Mr. MCWATTERS. Okay.

I can anticipate the response to this question. It has been alleged that Goldman Sachs, among others, sold collateralized debt obligations to investors, while at the same time betting against—or selling short—those same securities. Are you aware that Citi is engaged in any of that activity?

Mr. ALLISON. I'm not.

Mr. MCWATTERS. Okay.

What is your view about the effect the implicit guarantee from the taxpayers has had on the competitors of Citigroup?

Mr. ALLISON. Well, let me say, again, there is no guarantee, today, of Citigroup or any part of Citigroup on the part of the U.S. government.

Mr. MCWATTERS. Well, I said implicit guarantee, not explicit.

Mr. ALLISON. Well, I'm not sure I can comment on what "implicit guarantee" means. I'm trying to be as precise as I can.

Mr. MCWATTERS. Okay, fair enough. But, so as far as you know, it has had no effect on competitors that—let me ask you this way, is Citi, today, too big to fail? If the answer is, "No, it can fail and be liquidated," then I would say it would have no effect on competitors. But, I mean, is Citi too big to fail today?

Mr. ALLISON. Again, as I've testified and as I've said before, I can't comment on the condition of Citigroup since the U.S. Treasury is a major holder of their shares.

Mr. MCWATTERS. Okay, my time is nearing the end, so I will stop there.

Chair WARREN. Thank you, Mr. McWatters.

Superintendent Neiman.

Mr. NEIMAN. Thank you.

I intend to ask Mr. Pandit about their progress in preventing foreclosures. I'm going to be particularly interested in their modification process and particularly around conversions from trial modifications to permanent modifications. And I think this is more than just a process question. I think some people tend to forget that the reason we are in this financial crisis is because of the foreclosure crisis. And until we solve the housing and foreclosure crisis, we will never be assured of financial stability. So, I think it is an important part of this hearing, and an important part of the TARP program. Can you share with me your assessment of Citi's performance under the HAMP program?

Mr. ALLISON. Yes, sir. Like other banks, we think they got off to a pretty slow start. They have picked up speed, actually Citi has today offered trial modifications or made final modifications to about 60 percent of the eligible mortgages in its portfolio which, I believe, ranks it number one in terms of their progress. Nonetheless, they still have a long way to go. And we are actively involved with Citi and the other major banks which hold the bulk of these mortgages to make sure that they are reviewing those portfolios, identifying eligible homeowners and offering them trial modifications and final modifications as soon as possible.

I should also point out that, today there are about 1.7 million people, we estimate, who are eligible for modifications under the HAMP program, and the servicers have extended offers to about 1.3 million, there are over 1 million trial modifications in place today that are saving homeowners over $500 a month.

Mr. NEIMAN. So, thank you for raising that, because due to the Treasury's extension of that 3-month period by which borrowers have to make payments before they are converted from a trial modification to a permanent modification, that extension expired at the end of January. So, we are anxiously all awaiting the numbers that could even approach a half a million individuals who we are awaiting to see whether they were offered a permanent modification, whereas if they were denied, what is the result of that appeal process? Any expectations of what we may hear from Citi? And I certainly intend to ask Citi——

Mr. ALLISON. Yes.

Mr. NEIMAN. And if you can't answer that——

Mr. ALLISON. Yes.

Mr. NEIMAN. Can you give us some idea—we expect that this data will come out in the next week or so, if you can give us some idea of what our expectations may be with respect to that data?

Mr. ALLISON. Well, again, we're looking forward to the release of the monthly data for January—I'm sorry, February—and there was progress being made in the trial modifications, considerable progress. And this will be taking place in the weeks to come, as well, and also there are rights for homeowners who are denied to appeal their denials, as well. So, we tried to make this program as simple today, as transparent as possible. We have been working very closely with the leading servicers, especially, to assure that they are moving as expeditiously as they can, and they have the resources, also, to make decisions as rapidly as possible. We know these homeowners are waiting. In the meantime, though, they're still saving an average of over $500 a month and we are——

Mr. NEIMAN. To the extent that they are denied a permanent mortgage conversion, there's a question of whether they would have been better off pursuing another alternative, whether short-sale and looking to rent, as opposed to staying in a trial modification for three, four, five, six months.

Mr. ALLISON. Yes.

Mr. NEIMAN. I do want to—because in recognition of the challenges in converting and those low conversion rates, you have announced a new system starting June 1.

Mr. ALLISON. Yes.

Mr. NEIMAN. One that would require documentation up front. And I think there are certain benefits to that. But do we run a risk of shifting the problem? Yes, we will have higher conversions, but will we have fewer people entering the process unless we really modify those documentation requirements?

Mr. ALLISON. I think that's a good question, it's one we'd be concerned about, as well. And that's why we've tried to simplify the documentation requirements and also, we provide the documents that a homeowner may need, on our website, as well as voluminous information about how to apply, how to go through the process, how to make appeals——

Mr. NEIMAN. And March 1 was the date, I think, we were previously given about having that web portal up and running so borrowers can identify—can you give me an update on the status of expanding that? I think we were told earlier that there were going to be over 100 servicers participating by March 1?

Mr. ALLISON. I don't have the exact number of servicers that are participating, but that program has been moving ahead very rapidly, and we'll continue to make enhancements to that website going forward. And I would also point out, we've had millions of people access the website.

Also, let me mention, we're working closely with counselors around the country and holding events throughout the country to bring people in who may be eligible for this program and help them have their mortgages modified as rapidly as possible.

Mr. NEIMAN. Well, we look forward to the reports, and in your efforts at transparency, understanding clearly how those individuals were treated.

Mr. ALLISON. Right.

Mr. NEIMAN. Thank you.

Mr. ALLISON. Thank you.

Chair WARREN. Thank you, Mr. Assistant Secretary.

I have one last question on behalf of the entire panel, and that is, are you saying today that no one in Treasury monitors the financial condition of Citi and that no one in Treasury is trying to manage the systemic risk that Citi poses? Or, are you saying that's just not your job?

Mr. ALLISON. We do look at, obviously, public information about Citigroup.

Chair WARREN. You don't have any private conversations with Citi?

Mr. ALLISON. I personally have not had——

Chair WARREN. Or request additional information from them?

Mr. ALLISON. I think that there have been conversations with Citigroup over time. I, myself, have not had conversations with Citigroup management about the condition of the company and with the CEO about that subject.

Chair WARREN. So, are you telling me—that was my question.

Mr. ALLISON. Yes.

Chair WARREN. That no one in Treasury is systematically observing and monitoring the financial condition——

Mr. ALLISON. No, no, no——

Chair WARREN [continuing]. Of Citi?

Mr. ALLISON. Citi does visit with us from time to time and provide updates on their situation.

Chair WARREN. So, I'm still trying to understand.

Mr. ALLISON. Yes.

Chair WARREN. So, that means we just had the wrong witness here today? There were other people within Treasury who are engaged in these jobs? It's just not your job?

Mr. ALLISON. I participated in briefings in the past on Citigroup's situation. We do have conversations with Citigroup about their situation, yes, that is true.

Chair WARREN. All right. I appreciate it.

Thank you, Mr. Assistant Secretary. I invite you to stay for the next panel and——

Mr. ALLISON. Thank you very much.

Chair WARREN.—Hear from Mr. Pandit.

Mr. ALLISON. Thank you.

Chair WARREN. Thank you. The witness is excused.

[The responses of Assistant Secretary Allison to questions for the record from the Congressional Oversight Panel follow:]

QUESTIONS FOR THE RECORD

CONGRESSIONAL OVERSIGHT PANEL

Hearing entitled "Citigroup: TARP's Impact on Corporate Strategy"

U.S. Department of Treasury

Assistant Secretary Herbert M. Allison, Jr.

March 4, 2010

Citigroup's Participation in TARP

1. On October 14, 2008, Treasury Secretary Henry Paulson announced the creation of the Capital Purchase Program (CPP) and named nine financial institutions that had agreed to be the initial participants in the program. Citigroup was among these nine institutions and received a capital injection of $25 billion under the program. On that date, Secretary Paulson assured the public that these participants were healthy institutions and the program was meant to instill confidence in the markets in the wake of the recent financial turmoil.

   On November 23, 2008, just over a month later, Treasury announced it would provide Citigroup—and only Citigroup—with further financial assistance in the form of an additional $20 billion in capital and an agreement to guarantee a $306 billion (later reduced to $301 billion) pool of Citigroup assets. In your written testimony, you state that Treasury believed that Citigroup would not have been able to obtain sufficient funding in the market if it had not received a commitment of more government assistance in November 2008.

   - What was the nature of Citigroup's financial problems in November 2008? In the wake of Treasury's pronouncement that all the recipients were "healthy," why was additional immediate assistance necessary for Citigroup?

   - During the week of November 17, 2008, leading up to the announcement of additional assistance for Citigroup on November 23, (i) did anyone from Citigroup contact the Treasury Department to inform it that Citigroup was experiencing financial difficulties, and (ii) did Citigroup convey to Treasury at one or more such times that it would fail without another infusion of capital? Did one or more of Citigroup's banking supervisors relay any such information to Treasury? Did Treasury make any assessment of Citigroup's financial condition at any time during November 2008?

   - What was Treasury's understanding of Citigroup's financial situation on November 21, 2008 (the Friday before the announcement)? What was the basis for that understanding? How did this financial situation compare to the company's financial situation as of one month prior to November 21? What was Citigroup paying for short-term funds in the wholesale markets on November 21 compared with one month earlier? Was Citigroup insolvent on a liquidity basis on November 21?

   - To what extent were Citigroup's funding difficulties in November 2008 caused by or exacerbated by the rejection of its bid to acquire Wachovia?

   The events leading up to the announcement of the coordinated government response to support Citigroup happened during the prior Administration, under extraordinary circumstances. The people involved in the specific conversations

referenced in your questions are no longer at Treasury. It is therefore difficult to reconstruct the precise sequence of events or to answer all of your specific questions about them.

Although the October 2008 announcement of the initial investments under the Capital Purchase Program (CPP) was well received, the outlook for the U.S. economy and Citigroup continued to deteriorate in subsequent weeks. For example, while the credit default swap (CDS) spread on 10 year senior Citigroup debt fell from 354 basis points on October 13, 2008 - the day before the announcement of Treasury's CPP investment - to 161 basis points the following day, the spread was back up to 378 basis points on November 21, 2008 - the last trading day before the announcement of assistance to Citigroup under what became known as the Targeted Investment Program (TIP) and the Asset Guarantee Program (AGP) assistance. At the same time, broader measures of risk throughout the financial system were also highly unstable. The VIX Volatility Index fell from 70 on October 10, to 55 on October 14, but was back up to 73 on November 21. Due to the deterioration in confidence, there was concern that, without government assistance, Citigroup would not be able to obtain sufficient funding in the market over the following days.

We understand that during the week of November 17, 2008, as the outlook for the U.S. economy and the market's perception of Citigroup continued to deteriorate, representatives of the Federal Reserve, the FDIC, Treasury and Citigroup participated in meetings and conference calls to discuss Citigroup's financial position, as well as the logistics of a coordinated government response.

As the Federal Reserve observed in recommending a systemic risk determination regarding Citigroup's insured depositary institution subsidiaries, a failure to act to reestablish confidence in Citigroup by providing additional liquidity and an asset guarantee program would have had a significant adverse effect on U.S. and global financial markets. A further deterioration of Citigroup would have led investors to doubt the ability and willingness of U.S. policymakers to support U.S. banking institutions and financial markets, notwithstanding Treasury's prior CPP investments. As a result, funding markets would likely have frozen, and other large U.S. banking organizations would have been extremely vulnerable to a loss of confidence by wholesale suppliers of funds. Investors would have been concerned about direct exposures of other financial firms to Citigroup, and might have begun to doubt the financial strength of other large U.S. financial institutions that might have been seen as similarly situated, likely weakening overall confidence in U.S. commercial banks.

More generally, given Citigroup's substantial international presence, global liquidity pressures would likely have increased and confidence in U.S. assets more broadly could have declined. Moreover, in the event that Citigroup would have been unable to obtain sufficient funding in the market in that period, losses on Citigroup paper could have led some money market mutual funds to "break the buck." All of these effects would likely have caused investors to raise sharply their

assessment of the risks of investing in U.S. banking organizations, making it much less likely that such institutions would be able to raise capital and other funding despite the efforts of Treasury under the CPP.

The worsening of the financial turmoil that would likely have resulted would have further undermined business and household confidence. In addition, with the liquidity of banking organizations further reduced and their funding costs increased, banking organizations would likely have become even less willing to lend to businesses and households. Beyond the much greater severity of the financial crisis that would have ensued, these effects would have contributed to weaker economic performance, higher unemployment, and reduced wealth, in each case materially.

As a result of these conversations, and , in consultation with the Federal Reserve and the FDIC, Treasury concluded that given the state of the U.S. markets, the economy, and the size, importance and inter-connectedness of Citigroup, additional action was necessary to promote financial stability, and that failure to act would have severe repercussions on global financial markets and the economy.

2. In his testimony, Mr. Pandit identified the primary reason for Citigroup's difficulties in the fall of 2008 as the falling value of its common stock due to short-selling. Do you agree? Please identify any other factors that you believe were at work at this time.

   Treasury is not in a position to confirm or dispute Mr. Pandit's characterization of the reasons for Citigroup's difficulties. Treasury was aware of the factors described in the answer to question 1.

3. Citigroup's difficulties were primarily caused by the steep drop in the value of its common stock due to short-selling, please explain why it was appropriate for Treasury to provide Citigroup with $45 billion to buttress its stock price. If this was not the reason for Treasury's support, then please explain the basis for the provision of $45 billion of assistance to Citigroup.

   Please refer to the answer to question 1.

<u>Citigroup's Exit from TARP</u>

4. A December 18, 2009 Wall Street Journal article reported that officials at the Federal Reserve and the FDIC "privately complained that Treasury officials pushed them to allow banks [Citigroup and Wells Fargo] to quickly leave TARP."

   - Is that statement accurate? Was there any disagreement within Treasury, or between Treasury and one or more of the Federal Reserve, the OCC, and the FDIC on this matter?

- Did Treasury participate in discussions about or otherwise attempt to influence one or more of the Federal Reserve, the OCC, and the FDIC as the regulatory agencies evaluated the readiness of Citigroup and/or Wells Fargo to exit TARP?

- The same article reported that Citigroup was "fearful of becoming the last major bank still under TARP" and at the time "urged the Treasury to sell some of its shares" of Citigroup. Did Citigroup urge Treasury to sell its Citigroup shares in order to expedite its exit from TARP?

Under EESA, as amended by the American Recovery and Reinvestment Act of 2009, subject to consultation with the appropriate Federal banking agency, Treasury is required to permit a TARP recipient to repay any assistance previously provided under the TARP to such financial institution.

Treasury has ongoing communication with the federal banking regulators on a variety of subjects. As part of that dialog, there were many conversations about TARP matters including how to unwind TARP and other programs of federal governmental assistance to the financial sector. After the stress test results were announced on May 7, 2009, Treasury officials encouraged the Federal Reserve, the FDIC and the OCC to develop and articulate the conditions that a bank would have to satisfy in order to be permitted to repay TARP assistance. Treasury urged the regulators to develop and communicate any such conditions or standards, so that banks wishing to repay could decide whether, how and when they could meet the standards. It was clear that a component of such standards would be the ability to raise private capital, and at that time the capital markets were still somewhat unstable and unpredictable. The conditions of the markets made it difficult for a bank to determine when there might be a window to raise capital. Treasury felt that it was particularly important, in light of these conditions, for banks to be able to know in advance what the standards they would need to meet to repay TARP capital were so that they could, if they wished, make plans to take advantage of any opportunities to raise private capital that might arise. Although in the course of the discussions Treasury was asked for and offered its opinions on proposed standards, the standards were determined by the regulators and Treasury deferred to their judgment as to what should be required.

Treasury had several conversations with the Federal Reserve and the FDIC regarding the desire of Citigroup to exit TARP. This was necessary in light of the fact that the assistance to Citigroup included the AGP, which could be terminated only by negotiation among the three federal entities and Citigroup. While the conditions that Citigroup had to meet to repay the $20 billion in TARP assistance under the TIP were determined by the Federal Reserve and the FDIC, the terms under which the AGP was terminated were negotiated between Citigroup on the one hand and the three federal entities over the course of several conversations.

With respect to the sale of Citigroup shares, Treasury had made it clear prior to December of 2009 that it did not wish to be a shareholder in any private company

longer than is necessary. The exchange agreement between Citigroup and Treasury requires Citigroup to offer Treasury the opportunity to sell common shares whenever Citigroup is selling common shares in the public markets. Consistent with its obligations, Citigroup asked Treasury whether it wished to sell shares in the December offering as Citigroup initially expected there would be sufficient demand. Please also see our response to question 5.

5. You testified that "in December Treasury announced that it expected to sell the Citigroup common shares it holds over the following 12 months."

   - Why and how did Treasury settle on this time frame?

   - To what extent does this statement reflect Treasury's estimate of the time it will take for the price of the institution's common shares to rise to a level that would maximize value for taxpayers? To what extent does it reflect the desire to avoid the effect of a market overhang on the price Treasury will receive?

Treasury is a reluctant shareholder in private companies and does not wish to own positions in companies longer than is necessary to fulfill its obligations under EESA. Treasury determined that, in light of market conditions and its statutory obligations under EESA, it was appropriate to target a twelve month period to dispose of its Citigroup common shares. These obligations include maximizing value to the taxpayer, minimizing any potential long-term negative impact on the taxpayer of the program and continuing at all times to promote financial stability. Treasury has testified on numerous occasions that the replacement of public capital with private capital was very much desirable and in the interest of broad financial stability. Treasury's assessment is that proceeding on this course in this timeframe is the most responsible way to achieve these goals.

6. The December 2009 share offering by Citigroup was one of the largest offerings in U.S. history.

   - Considering the huge number of outstanding shares of Citigroup and its low price (under $5 per share), how much demand do you believe is left among institutions for Citigroup stock?

   - What was the cover ratio of the offering in December? Do you plan to encourage management to address the number of outstanding shares? If so, how?

Please see our answer to question 5 as to how we determined the period over which we expect to sell Citigroup common shares. With respect to questions pertaining to the number of Citigroup shares, we note that at the **Citigroup Annual Meeting on April 20, 2010, the authority previously given to the board of directors to implement a reverse stock split was extended.**

Treasury as a Shareholder

7. You testified that Treasury has taken a limited role as an investor in Citigroup. You stated that while Treasury does not get involved in the day-to-day management, it is active in voting for directors, in voting on major corporate events, in voting on issuance of significant new shareholdings, in approving major asset sales, and in voting on changes in by-laws or charter.

    - Can you describe each of the votes that Treasury has taken as a shareholder of Citigroup? Specifically, on what major corporate events, major asset sales and changes in Citigroup's by-laws and charter has Treasury voted? How did Treasury vote? What person or persons at Treasury made these decisions? Are these votes made public? How? If they are not made public, how does the decision not to do so comport with Treasury's obligations of transparency and accountability under EESA?

    - With respect to Citigroup's board of directors, for which directors has Treasury voted? What person or persons at Treasury made these decisions? Did Treasury recommend or nominate any of Citigroup's current board of directors? Are these votes made public? How? If they are not made public, how does the decision not to do so comport with Treasury's obligations of transparency and accountability under EESA?

    - Has Treasury asked Citigroup to replace any of its directors? Has Treasury asked Citigroup to replace any of its senior management? Are these decisions made public? How? If they are not made public, how does the decision not to do so comport with Treasury's obligations of transparency and accountability under EESA?

Treasury agreed to acquire Citigroup common shares in exchange for its preferred shares in June 2009 as part of Citigroup's efforts to strengthen its capital base. Pursuant to the Exchange Agreement that was entered into between Treasury and Citigroup at that time Treasury chose to limit its discretion to exercise its common stock voting rights in order to follow the U.S. Government's guiding principles with respect to the management of financial interests in private firms. Pursuant to the agreement, Treasury has the right to vote in its sole discretion on certain matters consisting of: (i) the election or removal of directors, (ii) the approval of any merger, consolidation, statutory share exchange or similar transaction that requires the approval of Citigroup's stockholders, a sale of all or substantially all of the assets or property of the company, and a dissolution of the company, (iii) the approval of any issuance of securities of the company on which holders of common stock are entitled to vote and (vi) the approval of any amendment to the charter or bylaws of the company on which holders of common stock are entitled to vote. On all other matters, Treasury has agreed with Citigroup that it will vote its shares in the same

proportion (for, against or abstain) as all other shares of the company's stock are voted with respect to each such matter.

Since that time, there have been no votes of common stockholders of Citigroup prior to the annual meeting on April 20, 2010. At that meeting, Treasury voted as described in a press release posted that same day copied below in its entirety[1]. The

[1] April 20, 2010
TG-647

Treasury Announces Voting of Its Shares at Citigroup Annual Meeting

WASHINGTON – The U.S. Department of the Treasury today announced that it has voted its approximately 7.7 billion shares of Citigroup Inc. common stock at the Citigroup Annual Meeting on held today. As part of the effort by Citigroup last year to strengthen its capital base, Treasury received common shares in exchange for preferred shares that Treasury had purchased when it invested in Citigroup pursuant to the Capital Purchase Program under the Troubled Assets Relief Program (TARP) in October 2008.

As we have previously stated, Treasury is a reluctant shareholder in private companies and intends to dispose of its TARP investments as quickly as practicable. When it acquired the Citigroup common shares, Treasury announced that it would retain the discretion to vote only on core shareholder issues, including the election of directors; amendments to corporate charters or bylaws; mergers, liquidations and substantial asset sales; and significant common stock issuances. At the time of the exchange, Treasury agreed with Citigroup that it would vote on all other matters proportionately–that is, in the same proportion (for, against or abstain) as all other shares of the company's stock are voted with respect to each such matter. Treasury is abiding by the same principles in the few other companies in which it owns common shares, which are very few, as most TARP investments were in the form of nonvoting preferred stock.

Treasury has exercised its discretionary voting power by voting only on matters that directly pertain to its responsibility under EESA to manage its investments in a manner that protects the taxpayer.

Treasury voted in favor of all 15 director nominees at the annual meeting. Since Treasury invested in Citigroup in the fall of 2008 through TARP, there has been a substantial change in the composition of the board. In the spring of 2009, when Treasury was considering whether to convert its CPP investment into common shares, Citigroup's Chairman assured Treasury that a majority of the board would be comprised of new, independent directors. Citigroup has now accomplished that task, as eight out of the fifteen directors have joined the board since that time.

Treasury also voted in favor of two Citigroup proposals that fall within its discretionary voting rights. One is to permit the company to issue common shares to settle $1.7 billion of "common stock equivalent" awards to employees in lieu of cash incentive compensation. Citigroup committed to the Federal Reserve that it would issue such shares as part of the terms under which it was permitted to repay a portion of its TARP assistance last December. The second proposal is to permit a reverse stock split which will address the fact that the company has a much larger number of shares outstanding than is necessary to ensure adequate trading liquidity.

Treasury voted its shares proportionately with respect to all other issues on the ballot. These included two proposals to amend the charter and by-laws on matters of broader corporate governance. These proposals raise important issues of corporate governance that deserve careful consideration as a matter of public policy. Indeed, the Securities and Exchange Commission has promulgated a rule on proxy access and Treasury has expressed and will continue to express its views on many issues of corporate governance in connection with regulatory reform. However, Treasury believes that it would be inappropriate to use its power as a shareholder to advance a position on matters of public policy and believes such issues should be decided by Congress, the SEC or through other proper governmental forums in a manner that applies generally to companies. For this reason, and because voting on such matters was not necessary in order to fulfill its EESA responsibilities, Treasury refrained from exercising a discretionary vote.

Treasury also voted proportionately on the "say on pay" resolution, under which shareholders may cast an advisory vote as to whether they approve of Citigroup's 2009 executive compensation. The Treasury strongly supports the

press release also provides an answer to your question about the board of directors. The Secretary approved the decisions with respect to the voting of Citigroup common shares.

8. It is our understanding that the consulting firm McKinsey and Company produced an organizational study for Citigroup's Board of Directors in 2007.

    - Has Treasury seen this study? Has Treasury expressed an opinion (formally or informally) to Citigroup personnel about any aspects of the report or its recommendations?

    Treasury has not received a copy of this study or expressed any opinion about this study.

Managing the Systemic Risk Posed by Citigroup

9. In response to questions regarding your role in monitoring Citigroup's financial health and systemic significance, you testified that your responsibilities were limited to managing the taxpayers' investments and recovering those investments as rapidly as possible. Notwithstanding ongoing legislative efforts to create a resolution authority for systemically significant failing institutions, you were unable to identify any efforts that the Treasury Department was currently engaged in to ensure that Citigroup does not once again threaten the stability of the financial system in a way that requires another taxpayer rescue.

    - Please clarify for the record what, if any, efforts the Office of Financial Stability, or any other office within Treasury, is making to monitor or control the risks created by the activities of Citigroup, or any other systemically significant financial institution, in order to ensure financial stability and to protect taxpayers? Please describe those efforts, and in particular, discuss the unique challenges and potential remedies for unwinding a foreign financial institution with significant U.S operations or a U.S. financial institution with significant overseas operations.

    - Is Treasury coordinating with financial authorities and central banks from other countries to manage the global systemic risk posed by Citigroup and other

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concept that shareholders should have the ability to vote on executive compensation, and included the "say on pay" requirement in its regulatory reform legislative proposal. Treasury has the responsibility to oversee compensation for the highest paid employees at companies that received exceptional assistance under TARP, and the Office of the Special Master set the compensation (or the compensation structures) for the highest-paid 100 employees of Citigroup in 2009. Treasury's proportional vote enabled other Citigroup shareholders to have a more meaningful opportunity to vote on the say on pay resolution. Executive compensation matters are also outside of the core areas on which Treasury retained discretionary voting rights.

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institutions of comparable size and scope (as contemplated in section 112 of EESA)?

- Credit rating agencies continue to cite the potential for government support as a source of strength for maintaining a higher credit rating for Citigroup and other systemically significant firms than they would otherwise earn. What can the government do to add credibility to its contention that there is no implicit guarantee for these too-big-to-fail institutions? What metrics (e.g., comparison of debt spreads) best indicate the absence or reduced level of implied government support assigned by investors to too-big-to-fail institutions?

The Office of Financial Stability (OFS) is responsible for implementing EESA. EESA provides to Treasury certain authorities that are to be used to promote the liquidity and stability of the U.S. financial system. Specifically, it authorizes Treasury to purchase and guarantee troubled assets held by financial institutions. Treasury has purchased securities of Citigroup pursuant to that authority where a determination was made, in consultation with the Chairman of the Federal Reserve, that such purchases were necessary to promote financial stability. EESA also gives Treasury the authority to manage any troubled assets so purchased, including in particular the authority to sell them.

EESA does not provide the OFS with authority to regulate Citigroup or any other institution. As a bank holding company, Citigroup is regulated and supervised by the Federal Reserve Bank of New York. Its nationally chartered subsidiary banks, such as Citibank, are regulated and supervised by the Office of the Comptroller of the Currency and the FDIC. Overseas branches of Citibank are regulated and supervised by the Federal Reserve and OCC and overseas subsidiary banks by the Federal Reserve. Such overseas branches and subsidiary banks are also regulated and supervised by regulatory authorities in the host countries.

EESA did not, nor was it meant to, change the structure of regulation of banking institutions. OFS's responsibility is to manage the investments it has made in Citigroup and other financial institutions. The responsibility for regulating Citigroup continues to rest with the federal banking regulators.

In exercising its duty to promote economic prosperity and ensure the financial security of the United States, including by protecting the critical infrastructure of the financial services sector, Treasury is in frequent contact with the federal banking regulators with respect to their activities to regulate the nation's financial institutions and such contact does and may include from time to time discussions pertaining to particular institutions. This is separate and apart from the execution of OFS's responsibilities under EESA.

Reform of our financial system is critical to ending the perception that some firms are "too big to fail." The Administration's proposal would make clear that no firm is "too big to fail" by constraining the size of the largest financial firms; and would

enhance the stability of our system by imposing higher capital and liquidity requirements on the largest, most interconnected firms; by prohibiting or restricting many of the riskiest financial activities; and by creating a mechanism for the government to unwind and breakup failing non-bank financial firms whose failure could threaten financial stability without precipitating a financial panic. These authorities would allow the FDIC to put a firm into receivership, would require that culpable management be fired, that equity holders are wiped out, and that creditors and the financial industry – not taxpayers – bear the cost. This provides a robust mechanism for resolving large, interconnected financial firms without jeopardizing the U.S. financial system. Moreover, the Administration has proposed a Financial Crisis Responsibility Fee to make sure that TARP does not cost the taxpayers, and to implement the principle that Wall Street – not taxpayers – must be on the hook for the cost of financial crises.

The actions taken to combat the financial crisis were, in part, the result of a fundamental failure of the structure of financial regulation. Regulators did not have the authority to properly monitor or constrain risk-taking at the largest firms. They did not have the tools to break apart or wind down a failing financial firm without putting the entire financial system at risk. We should not wait for the next crisis before enacting the obvious, common sense reforms we need. And in mitigating the risk to U.S. financial stability the same mechanism will also significantly mitigate the contagion risk associated with the failed firm's cross-border contractual obligations.

Section 112 of EESA requires the Secretary of the Treasury "to coordinate, as appropriate, with foreign financial authorities and central banks to work toward the establishment of similar programs by such authorities and central banks."

The Administration is working through multilateral institutions and through direct bilateral engagement to promote financial regulatory reform and to encourage programs to improve the stability of world financial markets and institutions.

The G20 Leaders process is the key channel for international cooperation to strengthen the framework for supervising and regulating the financial markets. Through this process, G-20 leaders have agreed to the substantial work program being undertaken by international standard setting bodies and regulatory and supervisory authorities.

The G20 Leaders at the London Summit established the Financial Stability Board (FSB) with a broad mandate to coordinate at the international level the work of national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. In collaboration with the international financial institutions, the FSB is addressing vulnerabilities affecting financial systems in the interest of global financial stability. Treasury, the Federal Reserve and the SEC are members of the FSB.

At the direction of the G20 Leaders, the Basel Committee on Banking Supervision (BCBS) is working urgently to strengthen international standards for supervision, capital, liquidity and leverage that will support the banking system and constrain the procyclical build-up of leverage in the system. Currently the BCBS is conducting a quantitative impact study and a calibration exercise to adjust and refine international standards by end of 2010 that will increase the quantity and quality of bank capital.

Additionally, two international initiatives are underway to improve multinational bank resolution frameworks, namely the Cross-Border Bank Resolution Group (CBRG) of the BCBS and the initiative by the International Monetary Fund (IMF) and the World Bank on the legal, institutional and regulatory framework for national bank insolvency regimes. The CBRG has proposed improvement of national systems and convergence of national laws as the most effective way forward. Accordingly, a number of countries are assessing their systems and the European Commission has proposed a framework of reforms based on the recommendations of the IMF and the CBRG.

In sum, efforts are being made to strengthen regulatory capital and liquidity requirements; improve risk management; heighten disclosure and accountability; raise accounting standards; regulate previously unregulated financial markets, products and institutions; and establish international core principles on deposit insurance. The Administration continues to work with its international counterparts to strengthen their national systems for resolution, and to strengthen mechanisms for international coordination.

<u>Mortgage-Backed Securities</u>

10. During the calendar year 2009, did TARP recipients sell any mortgage-backed securities to the Federal Reserve, the Treasury, or Fannie Mae or Freddie Mac?

    - Did the price the sellers received for the securities approximate the fair market value at the time of the sale? Did those recipients use such securities as collateral for loans from the Federal Reserve? At what value?

    - What "haircut" was required for such loans? Have the amounts of the relevant sales and loans been made public? How?

    - If they have not been made public, how does the decision not to do so comport with Treasury's obligations of transparency and accountability under EESA?

Although EESA authorizes the purchase of mortgage-backed securities (MBS), Treasury decided not to directly purchase MBS under that authority. Pursuant to the Legacy Securities Public-Private Investment Program ("PPIP"), Treasury makes equity investments in, and provides term debt financing to, limited liability

partnerships that invest in non-agency residential MBS (i.e., MBS that are not guaranteed by Fannie Mae or Freddie Mac) and commercial MBS that are purchased from the market, often through a bid wanted in competition or "BWIC" process. Eligible sellers of these securities to the partnerships may include TARP recipients as well as other financial institutions as defined in EESA. Treasury receives reports from the PPIP fund managers of these partnerships (including details of securities transactions) and has published information on aggregate portfolio holdings in the program, including a range of market prices of MBS, on financialstability.gov. Treasury has determined that identifying the individual purchase prices paid by the partnerships for particular MBS might, among other things, allow other sophisticated market participants to reverse engineer each of our partnership's investment strategies and "front run" investments made by PPIP fund managers, negatively impacting not only the investment returns to the American taxpayer, but also the goals of the program more generally. Therefore, Treasury has not reported such details on an asset by asset basis at this time, but may do so in the future if it determines that doing so won't harm the program.

In addition, Congress granted Treasury authority to purchase obligations and securities issued by Fannie Mae and Freddie Mac, which includes GSE-guaranteed MBS, in the Housing and Economic Recovery Act of 2008 (HERA). The authority expired on December 31, 2009. The purpose of the GSE MBS purchase program was to promote liquidity in the mortgage market and, thereby, affordable homeownership by stabilizing the interest rate spreads between mortgage rates and Treasury issuances. Treasury purchased $225 billion in GSE MBS under its HERA authority through December 31, 2009. It is not the practice of Treasury to publicly disclose the identity of the sellers.

Treasury does not have information regarding MBS purchases by the Federal Reserve, Fannie Mae or Freddie Mac.

<u>Citigroup's Financial Position</u>

11. Has the Administration considered what effects the "Volcker Rule" would have on Citigroup's business and prospects? If so, then what are these effects?

The Administration does not publicly discuss the impacts of particular proposed reforms on specific financial institutions.

Chair WARREN. Mr. Pandit? Mr. Pandit? Gentlemen, if you could excuse us.

Mr. Pandit, thank you for coming today, the Chair recognizes you for five minutes if you'd like to make an opening statement. I'd ask you to hold it to five minutes, we will put your written statement in the record, whatever its length.

Mr. Pandit, please.

STATEMENT OF VIKRAM PANDIT, CHIEF EXECUTIVE OFFICER, CITIGROUP INC.

Mr. PANDIT. Thank you, Chair Warren and members of the Panel. Thank you for inviting me here.

Citigroup today is a fundamentally different company from what we inherited two years ago. Citigroup is now operating on a very strong foundation to generate sustained profitability for the benefit of all our stakeholders.

For us, as for many other institutions, the bridge to the other side to a sound footing came from the American people, and I want to thank our country for providing Citi with TARP funding.

Last year, we repaid $20 billion of the TARP investment. In addition, we paid the government $3 billion in dividends and another $5.3 billion in premiums on the Asset Guarantee Program that we have now exited.

Taxpayers still hold 27 percent of Citi's common stock, and we look forward to helping them make money on that investment. Citi owes a large debt of gratitude to the American taxpayers.

We have renewed our financial strength, we have overhauled risk management, reduced our risk exposures, defined a clear strategy and we have made Citi a more focused enterprise. At the end of 2009, we were one of the best-capitalized banks in the world, with a Tier One ratio of 11.7 percent, a Tier One Common ratio of 9.6 percent and $36 billion of reserves. Our leverage is 12 to 1, down from 18 to 1 when I became CEO. We have cut the size of our balance sheet by 21 percent from its peak, by half a trillion dollars, and our riskiest assets have been substantially reduced. Citi's cash liquidity is now a strong $193 billion, and we have reduced operating costs by more than $13 billion per year.

Perhaps the most important strategic action that we've taken is to mandate a return to basics, return to banking as the core of our business, and as a result we've sold more than 30 businesses and substantially scaled back proprietary trading. Citi is a better bank today, but for Citi, being better is not good enough. Our customers and America's taxpayers need a different road map.

First, a lot still needs to be done to promote economic recovery, particularly in the housing area. Since 2007, Citi has helped 824,000 families in their efforts to avoid foreclosure, total loss mitigation solutions increased by 50 percent versus 2008, and we remain number one in active HAMP modifications.

In 2009, Citi originated $80 billion in mortgages and provided $80 billion of credit card lending. And in addition, our company used TARP funds specifically to support new lending to individuals, to families, to communities and businesses. Taxpayers have a right to know how we put that money to use, and we were the only bank to publish regular reports on the use of TARP capital.

Second, Citi supports reform of the financial regulatory system. America and our trading partners need smart, common-sense regulation to reduce the risk of bank failures, mortgages foreclosures, lost GDP and taxpayer bailouts.

And I know these are issues that are being debated right now, but let me share with you three areas that I think are important.

First, financial institution reform. Let's address too big to fail once and for all through the creation of a systemic risk regulator and a resolution authority, by making sure banks are banks, focused on clients.

Second, market reforms. Let's level the playing field with common standards across the entire financial sector. Let's create transparency, particularly in the derivatives markets with the use of standardization and clearing houses.

And third, consumer reforms. We support the need for a strong consumer authority that is part of the regulatory system to promote greater transparency, sound practices, growth and stability in the consumer credit market. Banks, and non-banks, need to be more responsible.

These are reforms that could be costly for the industry, but Citi believes they are necessary.

Thank you, Chair Warren, and members of the panel, for this opportunity to review Citi's progress.

[The prepared statement of Mr. Pandit follows:]

PREPARED TESTIMONY OF

VIKRAM S. PANDIT

CHIEF EXECUTIVE OFFICER, CITIGROUP INC.

CONGRESSIONAL OVERSIGHT PANEL

MARCH 4, 2010

Introduction

Chair Warren and members of the Panel, I am Vikram Pandit. I appreciate this opportunity to appear today as the Chief Executive Officer of Citigroup.

Citi today is fundamentally different from the company we inherited when I became CEO two years ago. The writedowns Citi took during the financial crisis – together with concerns about the quality of some of our assets – led to questions about the Bank's financial condition. Now, as a result of the government's response to the crisis, our new team's focused strategy and the commitment of all our employees, I am pleased to say we are in a far different and much healthier position. Today, Citi is operating on a very strong foundation and is positioned to contribute to the economic recovery and generate sustained profitability for the benefit of all our stakeholders.

We have bolstered our financial strength, overhauled our risk management, reduced our risk exposures, defined a clear strategy and made Citi a more focused enterprise by returning to banking as the core of our business. As a result:

- We are now one of the best-capitalized banks in the world, with a Tier One Capital ratio of 11.7%, a Tier One Common ratio of 9.6% and loan loss reserves of $36 billion.
- Our leverage is 12 to 1, down from 18 to 1 when I became CEO.
- We have cut the size of our balance sheet by half a trillion dollars, or 21% from peak levels in the third quarter of 2007, and substantially reduced our exposure to risky assets.
- Our cash liquidity is strong at $193 billion, and we have reduced operating costs by more than $13 billion annually.

These achievements reflect the lessons we have learned from the financial crisis and acted upon at Citi, and I will expand further on these and other issues you have asked me to address in my testimony.

First, however, I want to thank our Government for providing Citi with TARP funds. For Citi, as for many other institutions, this investment built a bridge over the crisis to a sound footing on the other side, and it came from the American people. As the result of a successful public securities offering, in December 2009 we repaid $20 billion of the Government's TARP investment in Citi in consultation with our regulators and the Department of the Treasury. The Government has earned $3.0 billion in dividends and interest on its investment and asset-guarantee program for Citi. In addition, we have paid the Government $5.3 billion in premiums on on the asset-guarantee program, which we exited without the Government incurring any losses or making any payments. American taxpayers still hold 27% of Citi's common stock, and we look forward to helping them realize value on that investment. Citi owes a large debt of gratitude to American taxpayers.

The Lessons of the Last Five Years for the Financial System

Citi's financial condition, like that of every other major financial services company, was dramatically affected in late 2007 and throughout 2008 by the collapse in the residential real estate market, which led to an unprecedented global credit crisis and 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 premised on the assumption of stable and, indeed, ever-increasing residential real estate prices based on decades of precedent; the Federal Reserve'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.

The lessons we have learned from the many and complex causes of the financial crisis include the following:

- That the entire financial system can systematically underestimate risk – and that an entire system can show hubris;
- That diversification does not always work as anticipated because risk exposures can be more concentrated and correlations more closely intertwined than believed;
- That in general we allowed ourselves too much leverage – too many people borrowed too much.
- That regulation must encompass all of those who are significant players in the financial markets so that we have a level playing field;
- That we must enhance transparency and protections for the consumer; and
- That to wind down major financial institutions in times of stress, regulators must have the right tools.

Consistent with those lessons, Citi supports prudent and effective reform of the financial regulatory system. America – and our trading partners – need smart, common-sense government regulation to reduce the risk of more bank failures, mortgage foreclosures, lost GDP and taxpayer bailouts. Citi embraces effective, efficient and fair regulation as an essential element in continued economic stability. Such regulation should have three points of emphasis: financial institution reform, market structure reform and consumer market reform.

- With regard to financial institution reform, we at Citi believe that banks should operate as banks, focused completely on serving their clients. Our internal reforms have been totally consistent with these principles, and we have publicly endorsed the general direction of financial regulatory reform under consideration by Congress. A systemic regulator with an overall view of the financial system and the ability to impose enhanced capital requirements and other prudential regulation is critical. I also strongly support the creation of an effective resolution authority that can resolve large, complex institutions in an orderly way.

- Regarding market reform, we support regulations that promote transparency, particularly in the derivatives markets, with the use of standardization and clearinghouses. It is also important that regulation is coordinated globally and applied uniformly to all participants in the financial sector. We need a level playing field on which market participants can compete, subject to uniform standards that protect investors and the marketplace as a whole.

- With regard to consumer market reform, a key lesson of the financial crisis is that what starts as an issue that affects consumers can become an issue for the entire financial system. Recent experience reinforces the truism that what is best for consumers is also best for the financial system and the economy. I strongly believe that consumer protection can and should be strengthened at the federal regulatory level. While a number of architectural frameworks could work to strengthen consumer protection, I believe any consumer authority should be centered on five principles:

> There should be enhanced authority in place with a focused responsibility for the well-being of consumers; there should be uniform national standards that apply to all market participants who provide financial products to consumers and a level playing field, irrespective of the entity; there should be transparency in disclosure so that product disclosures are simple, readable, and understandable; there should be a link to the safety and soundness regulator; and issues of market structure and collective action should be examined by the consumer regulator.

While some reform measures could have a significant cost impact on our industry, Citi believes they are necessary. Carefully considered reforms agreed upon by Government, business and consumers would lead to a healthier, more stable system. We commit to work with the Administration, with Congress and within our industry toward this goal.

How Citi is Embracing the New Reality

Given Citi's size and global reach, and its exposure to subprime-related asset classes, the systemic factors at the root of the financial crisis, and their confluence, combined to impact Citi's financial performance dramatically.

In response, we have taken responsibility for putting our own house in order. As a result, Citi is now a smaller institution that is focused on being a bank – not a financial supermarket. We are building on our distinctiveness as a global bank where everything is ultimately centered on helping our clients and customers connect with the world and facilitating the flow of capital that we believe is a catalyst to a U.S. economic recovery through manufacturing, exports and trade. And, we have developed a culture of responsible finance, including through a different approach to risk management, asset liability management and risk return.

- First, we have raised capital, sold businesses to generate additional capital and reduced assets. The actions we took in 2009 included exchanging certain preferred securities and trust preferred securities held by the U.S. Government, private investors and public investors for common stock and raising new capital from the public markets in December as part of our agreement to repay TARP. As a result of our actions, Citi's capital ratios are among the strongest in the financial industry. At the end of 2009, our Tier 1 Common Capital was $104.5 billion, up almost $82 billion from the end of 2008. Our Tier 1 Capital ratio – a key measure of capital strength – was 11.7%, while our Tier 1 Common ratio was 9.6%, up from 2.3% a year earlier.

- Second, we have rebuilt our senior management team. In particular, we have focused on strengthening risk management through regular stress testing and scenario analyses. Our Chief Risk Officer has not only changed the way we look at risk but he has made sure that we have risk managers assigned to oversee businesses, regions, and important product areas. At the same time, our Board of

Directors has installed seven new members, all of whom have significant experience in financial services, and our Board has established a separate Risk and Finance Committee, comprised entirely of independent directors, to focus on risk oversight issues. We have also structured our compensation programs to ensure they further incentivize performance that contributes to the long-term success of the company and do not encourage excessive risk taking.

- And third, we have returned to the basics of banking as the core of our business. The company is now reorganized as Citicorp – our core, client-driven business – and Citi Holdings – which contains businesses that are not core to Citi, as well as a special asset pool whose assets we are selling or managing down over time. In the past two years, we have sold more than 30 businesses that are not core to our strategy and we have scaled back proprietary trading substantially. Citicorp contains a global consumer bank, one of the largest institutional securities and banking businesses in the world and a unique transaction services business, all supported by a significant deposit base. We are positioned around all of the drivers of global growth, including emerging markets and increases in global trade and capital flows. We are targeting a balanced business mix in our core Citicorp businesses of one-third institutional, one-third consumer and one-third services. Citi Holdings contains businesses that are not core to our future, with assets in three segments – brokerage and asset management, local consumer lending and the special asset pool. These businesses are generally more asset-intensive or reliant on wholesale funding and product- rather than client-driven.

We have aggressively and successfully reduced these assets, both through dispositions and run-offs, and our focus is to manage Holdings down, over time, in a manner that optimizes value. Overall, we reduced assets in Citi Holdings by $168 billion during 2009 and by $351 billion from the peak at the end of the first quarter of 2008.

Our revenues have also changed since 2007, driven by our reorganization. In 2009, Citicorp represented 76% of Citigroup's adjusted revenues (excluding revenue marks and other large one-time items like the sale of Smith Barney or the TARP repayment), compared to 61% in 2007. Citi Holdings represents 29% of Citi's total assets, compared to 41% at the beginning of 2008. The Transaction Services and Regional and Consumer Banking businesses represented 40% of Citigroup's adjusted revenues in 2009, compared to 36% in 2007. As the assets in Citi Holdings continue to be divested or wound down, Citicorp's revenue contribution will continue to increase. We believe that the increasing proportion of stable revenues from Citicorp will provide additional stability during future economic slowdowns.

As we move forward, we believe we have positioned our business to perform as well as possible through the credit cycle and to gain strength as the U.S. and global economies improve. Some credit fundamentals appear to be stabilizing, particularly internationally. It is still early days but on a managed basis, Citi had its second consecutive quarter of declining credit losses in the fourth quarter of 2009 and non-accrual loans declined slightly for the first time in this cycle. However, U.S. consumer credit remains an issue, particularly with respect to mortgages. Credit costs will likely remain a significant driver of Citi's results in 2010, particularly in North America, where credit trends will be driven by broader macroeconomic factors as well as the impact of industry factors such as CARD Act implementation and the outcome of the Government's Home Affordable Modification Program (HAMP) and other loss mitigation efforts.

We are confident that the measures Citi has taken to strengthen its capital position, build our reserves and maintain ample liquidity will allow us mitigate the risks as we work through the cycle. Our allowance for loan losses at year-end was among the highest in the industry at $36 billion, or 6.1% of total loans, and our cash liquidity was $193 billion. Firm-wide deposits were $836 billion at December 31, 2009, up 8% from the prior year and $3 billion from the prior quarter. Citi currently anticipates issuing less than $15 billion of Citigroup-level long-term debt in 2010 (down from $85 billion in 2009) due to our current strong liquidity position and anticipated asset reductions within Citi Holdings. In addition, Citi has a smaller percentage of its assets in later cycle-sensitive asset classes such as adjustable rate mortgages (ARMs) and commercial real estate loans than any of the other major U.S. banks.

I believe that as economic growth begins to take hold, Citi and the financial sector are on course for a sustainable recovery. Citi will continue to focus on our core business of serving our clients, and on managing risk. We also intend to continue to support our nation's economic recovery through responsible lending to consumers and small businesses, working with homeowners to modify their mortgages where appropriate, and lending to state and local governments, universities, and non-profits alongside our corporate clients.

- Since the start of the housing crisis in 2007, Citi has helped approximately 824,000 homeowners and their families in their effort to avoid potential foreclosure on mortgages totaling nearly $98 billion. In 2009 alone, Citi provided support for approximately 388,000 borrowers with mortgage loans totaling $58 billion, and we helped approximately 270,000 borrowers to refinance their primary mortgages. In the fourth quarter of 2009, Citi kept 15 families in their homes for every foreclosure. Total loss mitigation solutions in 2009 increased by 50 percent versus 2008, and Citi remains #1 in active HAMP modifications. As of January 31, 2010, CitiMortgage, Inc. had active trials or permanent modifications for 50 percent of its eligible mortgage borrowers under HAMP, the highest proportion of any of the major U.S. mortgage servicers in percentage terms.

- In the credit card area, Citi is working with approximately 1.6 million credit card customers to help them manage their card debt through a variety of programs. This number includes 490,000 card members who entered these programs in the fourth quarter of 2009.

- And, in 2009, we provided $439.8 billion of new credit in the U.S., including approximately $80.5 billion in new mortgages and $80.1 billion in new credit card lending. We have carefully tracked and accounted for our use of TARP capital, which we used specifically to support new lending to individuals, families, communities and businesses in the U.S. This week, we published our fifth quarterly TARP report providing transparency on how we have used TARP capital to help support new U.S. lending initiatives. Taxpayers have a right to know how their investment was put to use, and we were the only bank to publish regular reports on the use of TARP money.

Conclusion

Chair Warren and members of the panel, at Citi we are confident in the business strategy that I have outlined. In short, everything we have been doing is to ensure that Citi never again needs the assistance of the American taxpayer.

I also would like to take this opportunity to thank Citi's 265,000 employees, who are among the best in the industry. They distinguish Citi in their service to our clients and are unstinting in their volunteer support for the communities where they live and work. They are the backbone of our organization and fundamental to our future success.

Thank you.

Chair WARREN: Thank you very much, Mr. Pandit. Again, we appreciate your being here today.

I'd like to start with a little quote from the Emergency Economic Stabilization Act, or TARP, as we've all come to know it, where Treasury is to assure that its authority is, quote, "Used in the manner that protects home values, college funds, retirement accounts and life savings, and preserves home ownership and promotes jobs and economic growth." That was Congress' statement about why TARP was done and what Treasury is authorized to use money to advance those specific goals.

In a June 22nd, 2009 Reuters article, you are quoted as saying, "We'll be playing the two growth themes very clearly. One is globalization, the other is growth in emerging markets." Wilbur Ross, this morning, referred to Citi as, essentially, a foreign bank. So, the question is, why should the U.S. taxpayer alone, carry Citi?

Mr. PANDIT. Madame Chair, we're not a foreign bank, we're a global bank. We're actually America's global bank. We started in business years ago helping America's businesses export their products and that's what we've been doing. And this particular time, as we need growth, as we need jobs, it's even more important that we help small businesses, medium businesses and large business make those exports.

As we do that, we need operations on the ground and in many of these operations we raise deposits to help large companies in the U.S. get the loans on the ground they need, and as well, some of those deposits help us facilitate loans in the U.S. market.

Chair WARREN. But you describe your growth as globalization and growth in emerging markets. These are your words about where you plan to expand your activities.

Mr. PANDIT. We are completely focused on making sure that we continue our lending to U.S. customers, making sure we're helping our clients and our customers through the issues they are facing.

Now, it's also very clear that our clients are coming to us—small clients, middle-sized clients—they want to tap foreign consumer bases. The growth is coming from the foreign consumer, they believe that's how they will grow, that's how they create jobs, and that's what I meant. We want to make sure we support the businesses in America to get to the other side.

Chair WARREN. Well, good. So let me get some data, then, on what's happening. How much does Citi lend to U.S. enterprises for U.S. operations?

Mr. PANDIT. Our total loans outstanding for all U.S. business is about $450 billion.

Chair WARREN. Can I shrink that up? It's not all U.S. businesses. The question I wanted to ask about is U.S. enterprises for U.S. operations—jobs in America.

Mr. PANDIT. I think the number is $450 billion lent in the U.S.

Chair WARREN. Can you divide that into how much you lend to businesses that don't have any foreign operations?

Mr. PANDIT. Madame Chair, I can't do that, but I can get back to you with that information.

Chair WARREN. Okay, that's fair.

So, can I ask one other question about just the lending that you do. What lending and other transactions has Citi participated in, involving the government of Greece?

Mr. PANDIT. We do business with a lot of sovereign countries who need our global expertise, including coming to the U.S. markets, and so I know we've been doing business with Greece, but I don't have the details with me.

Chair WARREN. Do you know how much debt from the government of Greece that Citi holds?

Mr. PANDIT. I don't know the exact number, but I know it's not a large amount, not a meaningful amount in our entire operations.

Chair WARREN. Okay, not a meaningful amount?

Mr. PANDIT. Yes.

Chair WARREN. Okay, good. That's fine.

Mr. Atkins.

Mr. ATKINS. Well, thank you, Madame Chair.

Thank you very much, Mr. Pandit, for being here today, it's a pleasure to have you take time out from your busy schedule to be here.

I asked this of Assistant Secretary Allison last time, but I also want to explore it with you, and it has to do with the offering back in December. It seems that the timing and experience of that particular offering is something that we'd not like to repeat, and obviously the taxpayer, now, is the largest single shareholder of Citigroup.

So, as an executive with a background in equity markets and experience with the capital markets, I was wondering if you could share with us your reflections on how the Treasury Department should think about monetizing its position in Citigroup common stock, going forward.

Mr. PANDIT. Mr. Atkins, of course, I mean, that's the Treasury's decision in terms of how they want to do it. We do know that they would be able to sell stock after March 16th, and they've announced publicly they do want to sell stock over the next 12 months or so and there are lots of different methodologies of doing it, right from selling it into the market every day, but also, we believe there's substantial demand for this stock.

It is not a secret that the government wants to sell. It's not a secret that the stock price in the markets today reflects the fact that they're a seller in a large amount, and that we believe there are investors, here in the U.S., who are getting ready for that offering.

As to how they do it, when they do, with whom they do it, those are all the Treasury's decisions.

Mr. ATKINS. Well, when you look back at the offering in December, clearly it was a primary offering and then, trying to be coordinated with a potential large secondary offering by the government. So, as far as the interest goes in the marketplace, was there a large cover issue for that offering at the time? Or what exactly was the problem that we saw in December?

Mr. PANDIT. Mr. Atkins, that was the largest common stock offering ever done in the U.S.

Mr. ATKINS. Right.

Mr. PANDIT. And particularly when you consider that as the percentage of Citi's common stock outstanding, it was extremely large.

And don't forget, that was done in the face of the market knowing the government was going to sell its 27 percent in the not-too-distant future. So, they had a choice—do I buy now? Do I buy later? That's the background—it was late in the year in doing that offering, and, by the way, when we did that offering, unfortunately another bank decided they wanted to do a large offering right in the middle of what we were doing.

But we got it done. And we got it done as the largest offering, and we were able to pay back the taxpayers, and we were able to exit the guarantee program; I consider that to be a success.

Mr. ATKINS. Okay, now looking forward to, you have those stock prices, about $3 a share, or so, which puts it in a special zone as far as some institutions and the way the market views them. What are your plans to address the price of the stock in relation to the huge amount—I mean you now have the the largest number of shares outstanding of any New York Stock Exchange-listed company?

Mr. PANDIT. And therefore, we're also the most traded stock, on many days in the New York Stock Exchange. By the way, the stock, last I checked was $3.44.

Mr. ATKINS. Okay, sorry about that.

Mr. PANDIT. I think, at the end of the day stock prices are important, but what's really important is performance. What do you earn? Sustained profitability—which is really what I'm focused on. My biggest job is to make sure we make money on a sustained basis, and therefore, help the government make money.

Mr. ATKINS. Well, in your testimony, you mention that you've sold out of Citi Holdings after having restructured your firm versus the non-core businesses of about 30-some-odd businesses in here, I think it said more than 20. So, how did you decide as far as what is core versus what's not core?

Mr. PANDIT. And that was job number one for me, coming into Citi, looking at the businesses, trying to figure out, "What business are we in? What clients do we serve? What are we good at?" And you put all of those things together, it turned out at the end of the day, we are a great bank that is basically in the business of helping people manage their accounts—providing them loans, providing them capital, providing them investment services.

And it became very clear that we were in a lot of businesses that were not directly related to being a bank. And so, the fundamental decision that I made is that, we're going to be a bank. We're going to be the global bank for America's companies, serving them here, but also wherever they want to go, but not only for companies, but the same capability should be available to individuals, as well. So, that's the decision we made. And on the basis of that, it became very clear what was not core—and it was a large part of the company and that's what I've been selling, very systematically, over the last two years.

Mr. ATKINS. I see.

My time is up, thank you.

Chair WARREN. Mr. Silvers.

Mr. SILVERS. Yes, thank you, Chair.

Again, Mr. Pandit, I want to thank you for being here and express my appreciation both for your presence and your testimony.

You said a moment or so ago that in trying to focus on what Citigroup is good at that you viewed a return to core banking as the primary direction you were headed. And you mentioned some numbers on loans.

I have here a report I'm sure you're familiar with from Standard & Poor's from last month that shows—and the numbers don't match, so I wonder if you could explain it to me.

It shows that commercial and corporate loans by Citigroup have fallen dramatically over the last two years: From a level, according to S&P, of $206 billion at the year-end 2007, to $127 billion today, or the end of third quarter, I believe, 2009, I don't think they had the fourth quarter numbers at that time.

In view of my understanding that your divestitures have been largely unrelated to commercial loans, can you explain to me what's happening, here?

Mr. PANDIT. Sure, Mr. Silvers. When we decided what was core and what's not, there were also assets that were part of what was not core to us, as well. There were either clients that we shouldn't be serving, or they didn't need us, or there were businesses that were not core to us, there were assets that were gathered through core businesses. And so, those numbers reflect selling businesses that are not core to us, selling assets that were not core to us, taking any marks on assets that were not core to us. Let me reassure you, as well——

Mr. SILVERS. But, Mr. Pandit, I don't understand how you can reconcile the scale of that retreat from business lending which is, after all, in my view, just absolutely central to whether or not TARP is succeeding—the scale of that retreat from business lending with your characterization of a re-focusing on core banking. Because I look at other numbers, I don't see that type of retreat from other types of activity, other than obviously things that you're totally divesting from.

Mr. PANDIT. Let me assure you, we will make any good loan that we see to a client. The regulators want us to make prudent loans, we are doing that. Some of those were leveraged loans. They were part of practices that we shouldn't have been a part of because they are not core to the banking mission. So, it's very easy to look at those numbers and think that they actually represent our lending appetite, or our appetite to serve clients, but that isn't so. That reflects the narrowing and focusing of our businesses to what we should be as a bank.

Mr. SILVERS. Second question about this type of issue. In the area of commercial real estate, which has been a concern of this panel, again, the data suggests a kind of flatline, in terms of the total assets in commercial real estate at the holding company level portfolio—of around $75–$80 billion. My question about that is, have you taken any write-downs in commercial real estate? And how do I understand this flat level and are write-downs coming?

Mr. PANDIT. A number of things. One, a lot of that portfolio is mark-to-market, we have taken write-downs. Much of that portfolio is community lending, and that's money good, as well. There are some accrual loans that we've made and those loans are well-reserved against.

Let me also say that most of our loans are for office buildings, against leases in some of the major metropolitan areas, so that is a very well-scrubbed over portfolio.

I'll make one more point on this, which is that commercial real estate is less of an issue for Citi.

Mr. SILVERS. Okay.

Can I turn to another question about your core strategy and I think my time is going to expire. As I understand it, correct me if I'm wrong, you've been telling the world that you are going to be focused on, in addition to what might be described as really old-fashioned banking, and two other areas, that you're going to have a significant capital market with a broad exposure to global markets, derivative currencies, and the like, and that you're going to be continuing to put focus on your global transactions services business, which has been the sort of consistent profit driver over the last year. Am I reading back to you correctly?

Mr. PANDIT. That's correct, Mr. Silvers.

Mr. SILVERS. We heard, I think, a fair amount about the extent to which the GTS (Global Transaction Services) business makes Citi particularly systemically significant, and it's my understanding from press accounts that this was a core argument Citi made to the government during November of 2008, that Citi could not be allowed to fail because of the importance of that business to the global capital markets. My question to you is, can you justify having that business connected to the type of capital markets desk you intend to keep connecting it to in light of what appears to be taking something so systemically important, and then tying it to something so relatively risky?

Mr. PANDIT. Let me start by saying, I don't recall making that statement to anybody, nor does any—nor do I recall anybody who directly works for me making that statement.

Mr. SILVERS. Which statement, sir?

Mr. PANDIT. The statement you said about the fact that this was the argument that we made to the government, about systemic safety.

Mr. SILVERS. Okay, well then, let me ask you this, would you commit here that as long as you're at Citigroup that you will not come to the government in the future and make the argument that the GTS business requires being bailed out, should your other businesses go south?

Mr. PANDIT. Yes.

Mr. SILVERS. Let me commend you for giving me a straight answer. It's a rare experience in my role.

Mr. PANDIT. Well, I think that's why we're here, Mr. Silvers, for straight answers. I want you to hear from me what we're doing at Citi and why we're doing the right things.

Mr. SILVERS. But, if my colleagues will indulge me, please explain, nonetheless, how those two businesses are compatible, in your view?

Mr. PANDIT. Let me explain this to you. We do business for Coke and Pepsi. Coke is in 450 countries around the world. They need to manage their operations, we do everything for them from cash management, to custody, to clearing and settling for them. They need foreign exchange management, they need liability management, they need interest rate management, so we have to have those operations to serve them in that particular way.

The fundamental shift that I made was to make sure that our clearing operations and our cash management operations and all of our banking operations are geared towards doing those things that our clients need. And, by the way, if you do that correctly—having been in the business for as long as I have—those are the kind of businesses that generate good value for clients without creating the risk that has been created in the system, historically.

Mr. SILVERS. My time is way over.

Thank you.

Chair WARREN. Oh my goodness. Thank you, I apologize.

Mr. McWatters.

Mr. MCWATTERS. Thank you.

And thank you, Mr. Pandit, for appearing today. I appreciate it very much. Do you have any reason to anticipate that Citigroup will need additional TARP funds?

Mr. PANDIT. No.

Mr. MCWATTERS. Great.

On a fair market value basis, after considering contingent liabilities, is Citigroup solvent?

Mr. PANDIT. Yes.

Mr. MCWATTERS. Are any material divisions or subsidiaries of Citigroup insolvent?

Mr. PANDIT. No.

Mr. MCWATTERS. Let me be very clear——

Mr. PANDIT [continuing]. We look at the entire company.

Mr. MCWATTERS. I understand.

Mr. PANDIT. What matters is that we're well-capitalized, we have the reserves, we have the liquidity and by the way, we stress test ourselves very often to make sure that's always the case.

Mr. MCWATTERS. Okay, speaking of stress testing, if the stress tests were conducted again today under current economic conditions, would Citigroup be required to raise additional capital? And, if so, how much do you think?

Mr. PANDIT. No, no.

Mr. MCWATTERS. Okay.

Could you tell us why, specifically, Citigroup needed a TARP-funded bailout? What happened, what went wrong?

Mr. PANDIT. Mr. McWatters, we came into this market—Citi came into this market with assets on which it took substantial losses in 2008. Now, we addressed that by raising $48 billion of capital in the market in early 2008, we sold another set of businesses to raise $10 billion in capital and we got $25 billion from the government in the first TARP round.

And, the result of all of that was that we have 10.7 percent Tier 1 and at the same time, we had reduced our assets, we had reduced risks—fundamentally, we were in the right place, and in any rational market, that would be a solid balance sheet for the future, but we were not in a rational market. Post Lehman Brothers, post-Wachovia breakup, the capital markets froze, there was a general sense of concern about where the economies might go, about where unemployment might go and different stocks of different banks started reacting to that, our stocks started going down in late 2008.

And so on that Friday, in late November, our stock was at $3.37. Now, in a market of that sort, unfortunately sometimes stock prices can have an impact on confidence on all sorts of stakeholders that are out there, and rather than taking the risk, as we talked to the Federal Reserve, as we talked to the Treasury, the view was, "Let's take that issue off the table." That's what happened.

Mr. MCWATTERS. Okay.

What actions have you taken to negate your status as "too big to fail"? I mean, how can we get to a point, realistically, or if this happens again, where Citi is simply broken up, sold off or recapitalized by the private sector without government intervention?

Mr. PANDIT. We have taken a number of steps, Mr. McWatters to, first of all, it starts with capital. We have a very strong capital base, very strong liquidity, very strong reserves. That's the starting point on this.

The second part is, create earnings, which is why we took $13 billion of cost out of there.

The third part of that is change your risk profile, and we've done that. Now, we still have some legacy assets, so you came in with a group of assets into this environment, but we have changed that, as well. We manage our regional businesses on the basis of cash on the ground, liquidity on the ground, we work with our global regulators, so we've made significant changes in the financial health of the company, we've made significant changes in the risk management of the company, but we've also targeted the company towards those businesses that have clients, and really don't, necessarily, create the risk that has been created in the past.

But, let me also say, I do think we need regulation, which is why I said in my opening statement, let's get to that resolution authority, so that this never happens again.

Mr. MCWATTERS. Okay, one more quick question. You are a veteran of the Capital Purchase Program. What advice can you give for how that program can be improved? It's ongoing, I mean, there's money out the door, not every institution has repaid TARP funds. How can it be improved?

Mr. PANDIT. The TARP funds were, from what I understand, put in place—a lot of the reason was to inject capital into the banks, not only so they could lend, and they could do the right thing for the American people, but it was to create a sense of confidence, so we took the confidence in the financial system off the table, that was the point on that.

For those people who still have TARP funds, I don't have any other advice but to say, step in and make sure that you manage your business, to take the costs out of that, you need to manage it as efficiently as possible and start creating a story and a business model that can translate into earnings. Because that's the best way in which the capital markets can give you equity, which you can then use to repay the government.

Mr. MCWATTERS. Okay, thank you.

Chair WARREN. Thank you, Mr. McWatters.

Superintendent Neiman.

Mr. NEIMAN. If you were here—and I believe you were, in the back—when I was questioning Mr. Allison, I highlighted that the mortgage crisis really gave rise to the financial crisis, and for that reason I was very pleased to see in your written testimony, as well as in your oral testimony, you referenced your efforts toward foreclosures mitigation, and in your written testimony highlighted the fact that Citi has the highest percentage of eligible loans in active modification, mortgage modifications, at 50 percent trial and permanents, percentage of eligible mortgages.

And though you can be applauded for that outreach effort, I think a more important metric is the actual conversion of trial modifications to permanent, sustainable mortgages. I believe the last report from Treasury has 110,000 mortgages that are in active trial modifications.

With the extension of Treasury through January 31, we are now awaiting results from all institutions but, I think, anxiously awaiting your results, as well, as to how those individuals were treated. And I think the important part is, these are individuals who have been willing and able to make these reduced payments and are awaiting final determination, we know that there have been problems at servicers, we know there are problems in the appeal process, so can you give us any information about what we may expect to see in the decision-making with respect to those trial modifications?

Mr. PANDIT. Mr. Neiman, I completely agree with you that attacking the issue of housing is important for the economy, but particularly for our customers, our clients, as well.

We, as the Assistant Secretary said, we're number one in active HAMP modifications right now, I think he stated 60 percent as the number. Right now, the ratio of completion is about 18 percent of that.

Mr. NEIMAN. Right.

Mr. PANDIT. We think that number is going to go up to 40 percent, maybe, pretty soon, that's where we think it's going to go. And not everybody who's gotten into that program is necessarily going to qualify because they may not have the documentation, they may not have the information that's necessary to do that.

Which is why what we've done is create a Citi modification plan on the other side—if you don't qualify, and you don't meet every standard, we still have modification programs and plans available for these people who are going through this particular change.

Mr. NEIMAN. Do you see documentation? Because this has been an issue I've heard from other servicers. Partly, I think it's, we've heard concerns on the resources and processes of the servicers losing documentation, we've heard of instances of borrowers reluctant in producing their own documentation, but I'm also very concerned that the Treasury has not given enough discretion to servicers and lenders to make those decisions. Have you found that? Or would make any recommendations or changes in the HAMP documentation process?

Mr. PANDIT. Let me say, by the way, the Treasury already has made changes, and they're all positive changes, and these are the kind of changes that, I think, are going to have a positive impact on modifications, as well.

Let me also say, we have 4,000 people that are doing this for us, I have hired 1,400 people in the last year to make sure we can help people get through these documentation issues. These are case-by-case issues.

Mr. NEIMAN. In your modification process, are you utilizing principal reductions, and could you share with us the percentage of modifications that use principal reductions?

Mr. PANDIT. So, the number one goal for us to keep people in their homes is to make those homes affordable.

Mr. NEIMAN. Right.

Mr. PANDIT. You've got to do that.

Mr. NEIMAN. And you can do so through a combination of interest rates and extensions or principal reduction?

Mr. PANDIT. Absolutely. It is interest rates, it is extensions on mortgages, it is delaying amortizations of mortgages, it is changing——

Mr. NEIMAN. And would you agree that reducing the principal would increase the likelihood of reducing the re-default rate, keeping more skin in the game for that borrower? Have you experienced, to the extent that, coming down to the same affordable payment, but including principal reduction and not just interest reduction has long-term benefit?

Mr. PANDIT. You know, what we've found is the most important thing that's driving a re-default is unemployment rates. Don't forget, over the last year——

Mr. NEIMAN. I agree with you on that.

Mr. PANDIT [continuing]. Going in an increasing unemployment rate. So, last year is not necessarily an indicator of re-default, going forward.

Mr. NEIMAN. And one question before my time expires on this subject is the issue of second liens because this has been a real disincentive that we are hearing from lenders on making, particularly, principal reductions. Only one institution, and it was not yours, has signed on for the Treasury's second lien program. Can you share with us whether you intend to join that program?

Mr. PANDIT. So, first let me tell you we are modifying second liens, actively. We've been part of the FDIC program, we've been part of our own programs to do exactly what you want, we've said to the Treasury that we're all willing to work with them as to what this program is, we have just seen the details, I think it's prudent for us to go through that before we sign on.

Mr. NEIMAN. All right. It's been out for awhile, I'd look for it and hope that it is a positive response, and we'll keep track of that.

Mr. PANDIT. Thank you.

Mr. NEIMAN. My time is expired.

Chair WARREN. Mr. Pandit, you started your testimony by saying that Citi is a fundamentally different company from the company of two years ago, but nonetheless, Citi continues to pose significant systemic risk. In fact, Citi is often cited as the poster child for "too big to fail." Citi is this combination of a commercial bank, an investment bank, and an insurance company for which Glass-Steagall had to be repealed so you could follow your business model.

I understand your response to Mr. McWatters was that we are dealing with the problem of systemic risk and too big to fail by making Citi a stronger company. There may be those who agree, there may be those who disagree, but I want to focus on a different part. Instead of that, why don't you concentrate on breaking Citi into more pieces, so that no one piece is too big to fail?

Why not break it up? The markets are calm, this can be done in an orderly fashion, not in crisis, your shareholders will get all of the value, you won't have as big a company to run, but we will at least reduce systemic risk.

Mr. PANDIT. And we have the same objective—shareholder value is really important, and that's where I'm going, so let me tell you, we are doing that. We're selling about 40 percent of the company. We're breaking it up, and that's a huge piece. We're not an insurance bank anymore, at all, we are primarily in the commercial, corporate banking, individual banking businesses and the business of providing those with account management and creating services our clients need. We're only as big as what is required to serve our clients in a competitive market. That's really important.

But I completely agree with you that we, or no other institution, should be in a place where we get to a too big to fail situation and there are two ways of going at it. One, make sure these banks are strong, because there are going to be a handful of systemically important institutions, sometimes size is important, sometimes just what they do is important. And for that you need a strong risk regulator that prescribes capital requirements, stress tests, liquidity requirements. Let's make sure we game out every scenario and make sure we put these institutions through that test. That is really important, by the way. Sometimes things do go wrong, so let's have a resolution authority, and we ask the Congress to act fast on these.

Chair WARREN. Thank you, Mr. Pandit. I just want to make sure I understand your response. When John Reed, who built Citi, says that he now believes it should be broken up, you're saying yes, that is what I'm doing.

Mr. PANDIT. What I'm saying to you, first of all, I've got to go back and see what he said. I've been busy managing the company, and I've been managing the company with the same objective, which is, what is the company that best serves our clients, what business am I in, and I have been selling pieces of the company and breaking it up, to say, this is my core business. That core business is the business that I think is going to create the maximum value for our shareholders and therefore the government.

Chair WARREN. Thank you very much.

If I could ask another question, taking you back to September of 2008. You wrote to your colleagues at Citigroup in which you said, "Our capital and liquidity positions are strong and we have tremendous capacity to make commitments to our clients." We all know that within a matter of weeks Citi and another large financial institution were taking tens of billions of dollars under TARP. I understand there are those who believe that this crisis was not obvious in advance.

The part I'm still trying to understand is the second hard bump for Citi, when the Secretary of the Treasury announced on September 15th, in effect, that your were healthy. Mr. Allison says he doesn't know if you were healthy or not, but by the time four weeks had passed, it is clear that Citi needed another $20 billion, and then shortly after that, more than $300 billion in guarantees. What happened between healthy and $20 billion and $300 billion in such a short span of time?

Mr. PANDIT. And you're absolutely right on any fundamental basis, we had 10.7 percent tier one capital. When you looked at the entire portfolio of the assets we were carrying, the earnings power, this was not a rational or fundamental issue, but we were in very dysfunctional markets at that point. This was post-Lehman Brothers——

Chair WARREN. I'm sorry, Mr. Pandit, but everyone was in a dysfunctional market, but it was only Citi that needed an additional $20 billion after having been pronounced healthy.

Mr. PANDIT. And Madam Chair, the capital markets looked at every financial institution, and for a period of time, when after the stock prices of every financial institution, that happened to us too. Our stock price started dropping, and on that Friday when it was $3.37, the issue was not the fundamentals as much as an issue of confidence, not only in Citi, but all the other financial markets.

Chair WARREN. But why Citi, Citi was the target and Citi was the only one that took the money.

Mr. PANDIT. And we weren't the last one necessarily, either. And so, the perspective—we weren't the first, we weren't the last, different banks, different institutions got their own thing. Some broker dealers became bank holding companies overnight, so everybody got a——

Chair WARREN. But of the original nine that needed money within weeks of the original TARP infusion—you got $25 billion, someone said you—the Secretary of the Treasury said you were financially healthy, and within weeks you needed another $20 billion. I just want to understand why Citi is special.

Mr. PANDIT. Again, what I would say to you is that you're right, this was not a fundamental situation, it was not about the capital we had, not about the funding we had at that time, but with the stock price where it was—and by the way, a lot of that was driven by short-sellers, and the short-sellers started selling stock, the stock started going down, and when that gets to that point, perceptions become reality.

Chair WARREN. Okay.

Mr. PANDIT. And that's exactly the reason why it was important for all of us to take that issue off the table, and the package that we got was a package that the Federal Reserve and the Treasury and all the regulators thought was the right package to insure that confidence.

Chair WARREN. So this is not Citi was special, just Citi had bad luck?

Mr. PANDIT. You know, I don't mind being special and I think we were in the sense that we came in—Citi came into this market with assets on which we took a lot of losses. In this particular case, the market dynamics were really important and that caused us to get to that point.

Chair WARREN. Right. Thank you, Mr. Pandit.

I apologize to my fellow panelists for running over.

Mr. ATKINS.

Mr. ATKINS. Thank you, Madam Chair.

I wanted to explore a little bit about Citigroup's relationships with the government, its major shareholder. To what extent—and we explored this a little bit with Assistant Secretary Allison—to what extent is Treasury in contact with either your office or other parts of Citigroup—on a daily, weekly, monthly, periodic basis?

Mr. PANDIT. Treasury is a very critical shareholder, very important shareholder for us, and we do what we can to reach out to them like we reach out to a number of our shareholders as well. And we have those conversations with them at a variety of different levels in the company. And they, as a shareholder, have every right to call us to ask for the same public information every other shareholder gets. We do that all the time.

Mr. ATKINS. Do they get any special information?

Mr. PANDIT. Mr. Atkins, as you know, under securities laws, especially given the fact that they have to sell stock, there are limitations on what we can tell them.

Mr. ATKINS. You know where I was going. Okay. So, as far as the levels within Treasury, you're saying it's at various levels within the——

Mr. PANDIT. We are completely open on whatever information they want, whenever they want, the same information that would be available to any other shareholders.

Mr. ATKINS. Okay. Now, it's been reported that Citibank, or Citigroup, has the largest lobbying budget of any financial services firm in Washington, and so I was wondering, as far as your activities on the Hill and with the White House, and your obvious support for, it sounds like a number of the Administration's proposals, how you are spending your lobbying dollars in Washington.

Mr. PANDIT. I can't comment on where that budget is or not versus anybody else. Let me just tell you that we do have points of view on financial reform. We have points of view on global markets, and we believe it's important to get those points of views across to lawmakers and Congressman, and/or people who are interested in our perspective as well. And we do it, but this is an effort that's driven by what we think is right for the financial system and, you know, I think it's the right thing for us to express our points of view.

Mr. ATKINS. Well, do you agree with the so-called Volker Rule the President referred to—and apparently they've sent formal language up to the Hill today.

Mr. PANDIT. You know, I haven't seen the language, so I can't comment on the details. But as a company, we've sold a lot of proprietary trading businesses, we've sold a lot of hedge funds, we've sold a lot of the private equity funds, and we're completely focused on clients, and I do think that banks should be banks. So now, you know, we're moving in that direction.

Mr. ATKINS. Okay, I made this point a little bit earlier, but, you know, when it comes to systemic risk resolution, cram-down authority, the Volker Rule, mortgage contractual enforcement forbearance, these sorts of things—how do you protect them against a sycophantic type of appearance, where we have perhaps government motors and its allied bank, and now maybe a government bank.

I mentioned that when I was in a Citi branch last year that at every teller station there was a Barack Obama authored book and they were giving it away to people that opened new accounts. How do you protect against that?

Mr. PANDIT. Well, first of all, I can't speak for my branch manager who wanted to do that, that's their decision, that's not my decision and I don't make those decisions as well. But let me say, this is a tough position for me. Because if I say what I believe and it happens to be in line with what somebody else believes in the Administration, it looks like, hey, you know, I'm doing this because the Treasury is a 27 percent shareholder. It is a no win situation for us——

Mr. Atkins. Because you're not——

Mr. PANDIT [continuing]. For somebody like me, but I believe these things, that's why I'm here telling you that these are the right things to do. And by the way, who better to really share with you a systemic perspective other than a CEO who's gone through a very interesting two years.

Mr. ATKINS. I agree. Well, then going back to your experience in the capital markets, what is now your strategy with respect to your brokerage operations, if you think an idea like the Volker Rule is good, you've gotten rid of Smith Barney now, you have compensation things that might really harm your investment banking business. Going forward, how do you perceive that?

Mr. PANDIT. What do we do? We commit capital on behalf of our clients. That's number one. Number two, we make markets and provide liquidity to the markets. Number three, we use capital market instruments to hedge our risk, occasionally. Number four, we do use our capital occasionally to create new ideas and new products and test them before we take them out to our clients. Those are the activities we're involved in, in our brokerage businesses.

And again, when you look the full gamut of them, the maximum value to our clients comes from performing those functions, which, by the way, then translates into maximum value for our shareholders.

Mr. Atkins. Would you take a short position that is contrary to one of your client's positions?

Mr. PANDIT. This is a hypothetical question.

Mr. ATKINS. Yeah, exactly. It's just in general.

Mr. PANDIT. Mr. Atkins, you know what it means to make markets, you have to be a principal agent to make markets. And, I would do what is right to manage a book on that basis, but I'm not—if the question is, am I going to use some information, the answer is no.

Mr. ATKINS. All right. Okay. So proprietary trading and other things are still an integral part of your view of how you think your business should be run on the institutional side.

Mr. PANDIT. Let me be very clear, we have to commit capital on behalf of clients, that's what banks do. We have to make markets, that's what banks do. And credit, as an example, we have to do these things. Proprietary trading is when you have people who actually don't interact with clients and they are actually covered as a client by other people on the street. They treat them as a client. Well, you're using the company's capital, and I don't believe you should use—banks should use capital to speculate that way.

Mr. ATKINS. I agree, and I thank you, because that is the rub, I think, is the definitional aspect of that, so, perfect. Thank you.

Chair WARREN. Mr. Silvers?

Mr. SILVERS. Mr. Pandit, this may seem repetitive, but I'm afraid that I can't resist this. In October of 2008, say October 1st, was Citigroup a healthy financial institution? Yes or no?

Mr. PANDIT. Yes.

Mr. SILVERS. On November 21, 2008, was Citigroup a healthy financial institution? Yes or no?

Mr. PANDIT. Yes.

Mr. SILVERS. Why do you think that Mr. Allison was so unable to answer those questions?

Mr. PANDIT. You would have to ask Mr. ALLISON.

Mr. SILVERS. You know, clarity is one thing, Mr. Pandit, credibility is something entirely different. I think you've given clear answers, but I don't believe you've given credible ones, frankly. And I think it's easy to give those answers having weathered the storm with the public's money.

Now, let me ask you this, did you speak to anyone in the Treasury Department during the week from November 18th to November 25th, 2008?

Mr. PANDIT. Mr. Silvers, let me first say that I appreciate——

Mr. SILVERS. Nope, I'm asking you to answer that question. Did you speak to anyone in the Treasury Department during that week?

Mr. PANDIT. I don't recall if I did.

Mr. SILVERS. You don't recall.

Mr. PANDIT. I don't recall if I did.

Mr. SILVERS. Did anyone in Citigroup, to your knowledge, speak to anyone in the Treasury Department during that week, and I remind you that a few moments ago, you stated that, "We," some we, "agreed that it would be a good idea to back up Citigroup during that week." Who's the we?

Mr. PANDIT. That was over the weekend, the Federal Reserve and the regulators talked to us and we also had conversations with the Treasury and other regulators at that time.

Mr. SILVERS. Okay, who's the we? What human being spoke to what human being?

Mr. PANDIT. At that point in time, there were numerous conversations between the people of the New York Fed, people in the Washington Fed, people at some of the other——

Mr. SILVERS. Did you open that conversation by saying, "We're a healthy bank and we're calling you because we would just enjoy having another $20 billion of government money and a $300 billion asset guarantee?"

Mr. PANDIT. No.

Mr. SILVERS. What—how did the conversation go?

Mr. PANDIT. The conversation, again, was very simple. The stock price was at $3.37, which was an exceptionally low level of stock at that point. It was a result of short-selling, and it was at a point in time where the stock itself could have caused an issue of confidence, and therefore, the conversations were around how to restore confidence——

Mr. SILVERS. And what did you represent would have occurred had Treasury and the Fed declined to act? Did you represent that anything in particular might happen?

Mr. PANDIT. You know, I do not recall any conversations where I represented anything. These were issues about what——

Mr. SILVERS. Well then——

Mr. PANDIT [continuing]. Would happen—what——

Mr. SILVERS. Did anyone who was representing Citigroup speak to anyone—to your knowledge—speak to anyone in the Treasury or the Fed about what would happen if there wasn't additional aid forthcoming?

Mr. PANDIT. Not to my recollection.

Mr. SILVERS. Who do you—what is your knowledge as to who spoke to either Treasury or the Fed on behalf of Citigroup during that period?

Mr. PANDIT. I can get back to you.

Mr. SILVERS. Mr. Pandit, do I recall correctly that you were the Chief Executive Officer of Citigroup during that week?

Mr. PANDIT. Yes, I was.

Mr. SILVERS. All right. I find it rather difficult to believe that someone in your position cannot recall who—who you spoke to or who spoke on your behalf to the Government of the United States about the extraordinary aid that the government provided to Citigroup during that period.

Mr. PANDIT. You know, I want to give you——

Mr. SILVERS. And you memory seems pretty good otherwise.

Mr. PANDIT I want to give you a very complete answer, you asked specific questions, I——

Mr. SILVERS. Well, I don't mind getting an incomplete answer. Share with me your fragmentary memories of that weekend.

Mr. PANDIT. Well, I'll tell you again, a number of people at Citi talked to a number of people at the regulators, a number of people at the Treasury, a number of people at the Fed, the New York Fed, and that could be a large list. Let me come back to you with specifics.

Mr. SILVERS. Okay. Let me turn to a different matter before my time expires. Mr. Pandit, you were hired in early 2007, I don't recall the exact date, to be the CEO of Citigroup. At that time, what were your performance goals?

Mr. PANDIT. I was not hired in early 2007, I became CEO in December, towards the middle of December 2007.

Mr. SILVERS. Okay, well I misremembered.

Mr. PANDIT. I came in there and the Board decided they needed to make a change.

Mr. SILVERS. Right.

Mr. PANDIT. And we entered this market with the assets we entered this market.

Mr. SILVERS. And what were your goals at the time you were hired?

Mr. PANDIT. My goals were relatively simple, examine the strategy of Citigroup, what is the right strategy for the company, examine the capitalization and the financials of Citigroup, put the two together and translate that into the right culture for the organization on a long-term basis.

Mr. SILVERS. Examine a few things. I mean, I would ask you—and my time is up—but I would ask you in writing to explain the answers to the following questions. I would give you the opportunity to further expand on what the goals that the board assigned to you at that time were, I would ask you to assess whether you met them or not, and I would I ask you to disclose the amount of money you were paid for meeting those goals, between that date and the end of 2008, during the time when—at least by press accounts, although not by your account—Citigroup necessitated a bailout, absent which Citigroup would have had to file for bankruptcy.

Chair WARREN. Thank you.

Mr. McWatters.

Mr. MCWATTERS. Thank you.

Mr. PANDIT., in your written testimony, you say that Citigroup no longer has a goal of being a financial supermarket. I remembered the merger with Travelers, I guess it was Citicorp a few years ago, Sandy Weil, this was a much-touted goal, it was the future, it was the only way to really compete on a global stage. Your goals are different now, why are they different, why has the business model failed? Or if it hasn't failed, why are you no longer interested in it?

Mr. PANDIT. Mr. McWatters, markets are different, the environment is different, the way competition is happening is different. If we see what's happened over the last couple of years, a lot of the places where funding was received, like securitizations, and/or other areas, are largely not there. And so, when you look at the changes that have occurred, that has had an influence on that strategy.

But more fundamentally, as I looked at the company—and by the way, it was a completely dispassionate review, a dispassionate review of what we needed to be, and we did it with complete integrity as a company. We concluded, by the way, that that was an interesting model, but did not add sufficient value to our clients and therefore did not necessarily create sufficient value to our shareholders. But the biggest part of the value came from the core businesses we had, which was the banks, which is why we made the change.

Mr. MCWATTERS. Okay. What aspects of your compensation structure, not yours personally, but of your managers, let's say, two years ago or so, when the securitization bubble was inflating, do you think may have led to that? In other words, you have people who are compensated on closing deals, but then the deals leave their area, rather become a problem of the institution itself, if they're retained, or they become a problem with third-party investors. Can you explain how your compensation structure has changed, and has it changed in a way where you can still encourage innovation?

Mr. PANDIT. Absolutely, I think that is a critical part of how we changed culture, how you manage risks going forward in the right way. Compensation structure changes we've made have been those that say you get more stock as compensation. You have to be around for a long time in order for them to vest as compensation. We have claw-backs so that if something does go wrong, we have an ability to recover compensation. We have say-on pay as a company. As importantly, we take explicit risk taking and risk management criteria into account when we pay compensation, and we actually put some of that down on our 10K that we just filed. And, one of the entities that looks at these things looked at it, and I just saw something this morning—they call it, sort of, the Cadillac version—of how you take risk and compensation and blend them together.

So this is, to me, a very important cultural issue, and it's actually at the heart of how you change a company into a client-oriented company.

Mr. MCWATTERS. Thank you. Last month we issued a report on the commercial real estate market that did not have a particularly favorable outlook. What is Citigroup's exposure today?

Mr. PANDIT. We do have exposure to the commercial real estate market, however I would tell you that it is a smaller exposure than many of our peers who are in this business, and as well, it is to a big portion of the market, and so we have taken the marks. And as importantly, a lot of that exposure is in large cities, office buildings, leased buildings, et cetera. So, when I look at the whole exposure we have, it is exposure on the balance sheet, but that is less of a concern to me as a CEO.

Mr. MCWATTERS. Okay, thank you. Could you comment on the activity of the short-sellers in the last quarter of 2008?

Mr. PANDIT. You know, again, as I was talking about this, there were a number of instances, post the Lehman Brothers collapse, and in our case, post Wachovia break up as well, where the markets were not really functioning in a rational way, they were frozen. In those markets, there's always this battle between fear and confidence. And, that there are ways in which fear overtakes it, and particularly, that's the tool that short-sellers need to make money. And so that was a very dominant activity, and there were no real circuit breakers to stop the short-selling, and that's one of the things that took our stock down.

Mr. MCWATTERS. Okay, thank you, my time is up.

Chair WARREN. Thank you, Mr. McWatters.

Superintendent Neiman.

Mr. NEIMAN. Mr. Pandit, I'd like to come back to your comments regarding looking forward and financial institution reform. And you were very clear in saying Citi believes that banks should operate as banks, focus completely on serving their clients. I could not agree with you more. I think if there's one lesson learned from the American public, it is what do we want our banks to be. I think the lexicon of the federal safety net is a new term that very few Americans have understood previously, but are very focused on now, and it goes well beyond FDIC insurance to the other forms of implicit and explicit support that are provided to institutions, and that can certainly subsidize bank and non-bank activities.

So, can I read your statement to also imply support for the Volker Rule as you understand it?

Mr. PANDIT. Again, Mr. Neiman, I haven't read the rule. It just came out, so I don't know what it is.

Mr. NEIMAN. Understanding that separating out proprietary trading, private equity and hedge fund trading.

Mr. PANDIT. So, let me be very clear, proprietary trading is not a significant—is not a big part of our business at all, and I don't think banks should be speculating using bank's capital. I completely believe that.

Mr. NEIMAN. So, can I—because this is important, because Citi, as we all well know, really was the poster child and the impetus for Gramm-Leach-Bliley and really dramatically changing the Glass-Steagall Act. So, when we hear CEOs say that this is a step backward, that it could never be implemented, that it would have disastrous results for banks business models, can you say that it is unfounded and what is your perspective?

Mr. PANDIT. My perspective is proprietary trading is not a meaningful part of what I do as a bank. It's not a big part at all of the business and I don't think banks should be using capital to speculate. As well, banks should be using capital to commit on the behalf of clients, they should be using capital to make markets, provide liquidity to markets, and they should be doing what it takes to manage that risk.

And, you know, that's fine, and occasionally if you want to use small amounts of capital to create new products and new ideas, you can do that, but outside of that, we don't see the rest of the activities as core to banking.

Mr. NEIMAN. So do you think it is reasonable that rules, whether drafted by Congress or by regulators, to distinguish pure proprietary trading, using capital to support proprietary trading, versus market making or hedging to support client-oriented businesses is a practical solution?

Mr. PANDIT. Well, I think the regulators are best positioned to look at what everybody is doing, and we are in constant consultation with them, and they are really quite equipped to say, you know, this is not necessarily related to core banking.

Mr. NEIMAN. Well, I look forward—because this is extremely important, and not in the sense that proprietary trading contributed to the crisis, but it really goes to the issue of the federal safety net and how do you prevent the next crisis.

I'd like to now shift over to consumer protection, because the scope of the foreclosure crisis painfully highlights that we must do a better job of consumer protection. And you make specific comments in your written testimony about the need, seemingly in support of a consumer protection agency that would adopt standardized rules across the country, and to provide a level playing field.

National banks, including yourself, have often claimed that complying with State consumer protection laws is uniquely burdensome. I think another lesson that we all have learned from this crisis, is that States were the first to sound the alarm on predatory lending. And in fact, had many of those laws been applied to national banks, we would not have been in the crisis that we have today.

Mr. PANDIT. And, Mr. Neiman, I think we should have a race to the top on these things, but we should have national standards.

Mr. NEIMAN. I think that is always what we hear from national banks and I spend a lot of time, you know, working. I started my career at the Comptroller of Currency and have worked for national banks, so I certainly understand that perspective, but it is clear that there are thousands of State laws that banks comply with, whether it be enforcement of contracts, foreclosure, zoning, debt collection processes. Why is it when it comes to consumer protection that banks don't seem to be able to comply and assert that these are overly burdensome?

Mr. PANDIT. We are living in a national market whether we like it or not, and we are a national business in what's actually a global market, as well. And for consumers, we believe that if you go from one State to the other there should be some parity on how you are treated. We also believe, by the way, clearly, that these kind of rules can increase the cost to us, and that can therefore, unfortunately translate into higher costs for consumers. And more importantly, whenever you have different rules in different States, you create the possibility for regulatory arbitrage, which is almost a race to the bottom. So, we'd rather have a race to the top with common standards—the highest standards, you pick them.

Mr. NEIMAN. My time has expired, maybe we'll come back to this. Thank you.

Chair WARREN. Mr. Pandit, if you can bear with us for just a bit longer. We appreciate your being here. We're going to do just some short questions. We're going to get through this last part quickly.

So, I just want to ask, since it seemed to be a problem for Mr. Allison. Does Citi get a ratings bump from the market perception that it is too big to fail?

Mr. PANDIT. I didn't hear that part.

Chair WARREN. Does Citi get a ratings bump, for the market perception that it is too big to fail?

Mr. PANDIT. Madam Chair, the rating agencies—and I heard earlier—and the rating agencies have put out reports where it's their opinion that there are different standards, and not only for us, but other banks out there. But it is their opinion as we've seen over the last so many quarters, it is only their opinion.

Chair WARREN. Only their opinion. Is it valuable to have a higher credit rating?

Mr. PANDIT. Now, let me take you through where the markets are on this. The markets look at capitalization, the markets look at reserves, the markets look at liquidity, they look at core earnings power. In our own case, by the way, we've issued debt that is substantially longer in maturity than any presumption of necessary government assistance or how long it might take to get——

Chair WARREN. Mr. Pandit, let me stop there. I think it would be hard to make the case that we can see some date in the immediate future when Citi will not be too big to fail.

Let me ask it differently because I really want to keep this in small pieces.

Mr. PANDIT. Right.

Chair WARREN. Is it valuable to have a higher credit rating?

Mr. PANDIT. Where the market is today, is that it is presuming very clearly that the resolution authority is going to get passed.

And despite that, we're borrowing money at longer maturities, based on our credit spreads. That's the market's reaction.

Chair WARREN. All right. But Standard & Poor's, the rating agency, is giving you a bump. The bump is valuable. Do borrowing costs differ for companies that are rated A, for example, as Citi is, and BB as Standard & Poor's says Citi would be if it did not have this too big to fail guarantee?

Mr. PANDIT. As we look through how the credit markets look at credit, ratings are one of the things they take into account. But, in this particular case, they've also taken into account the fact there will be a resolution authority.

Chair WARREN. But——

Mr. PANDIT. It's our view that we're borrowing on us being around because of our capital base, because of our earnings.

Chair WARREN. So, Mr. Pandit, it's your view, that despite your A credit rating that you are borrowing at the same cost as all of the BB companies?

Mr. PANDIT. We're borrowing at our spreads, and the markets reflect spreads that are based on our prospects, our earnings, our capitalization.

Chair WARREN. Maybe I should ask this a different way. Is there a competitive advantage for a company that has an A credit rating, as opposed to a BB?

Mr. PANDIT. In any normalized market, there can be a competitive advantage for an A rated versus a BB rated company in terms of the cost of funds.

Chair WARREN. But it's your view that Citi isn't getting that from its higher rating, it's not getting that benefit of being A rated?

Mr. PANDIT. Our view is that we're borrowing on the basis of our capital, or borrowing on the basis of the market's understanding there's going to be a resolution authority, and that we better manage our business correctly.

Chair WARREN. And that unlike other businesses, you don't get a competitive advantage by having that A rating instead of a BB rating.

Mr. PANDIT. Ratings are one of the factors that are taken into account by borrowers, or lenders, when they buy our paper. It's one factor. They have to take the whole picture into account, including, by the way, the fact that we are proposing—let's have a resolution.

Chair WARREN. I understand it's one factor, but can we both stipulate it's a very helpful factor?

Mr. PANDIT. Again, of course, how can ratings not be helpful, but it is a factor. I keep coming back to saying——

Chair WARREN. I understand.

Mr. PANDIT [continuing]. We raise money of very long maturity.

Chair WARREN. I understand, and if we had longer time, we could talk about paying for that.

Mr. Atkins.

Mr. ATKINS. Okay, thank you, Madam Chair.

I just have a quick question about looking forward and the business generating—because we all want, obviously, to see the bank happy, healthy, and paying back its TARP funds. When you look at the growth of the deposit base, it seems like some of your greatest opportunities may be abroad, rather than the U.S. Do you see any potential problem there, vis-a-vis the Treasury's interest, the U.S. taxpayers' interest in growing your business overseas?

Mr. PANDIT. Again, a big part of what we do is connect businesses in the U.S. through the world. And we conduct those operations on the ground that are necessary for us to be able to do that effectively. That, by the way, is on top of the fact that we actually are a significant factor in the U.S. market as well. We lend in the U.S., we provide credit card loans, we provide mortgage loans, we provide corporate loans. So, our full package, as a company, is we can help you in the U.S., but we can help you wherever you want to go to sell your products, to whichever consumer base you want to sell your product.

Mr. ATKINS. But on a risk management basis, isn't it good to have a broad base, a business base, a deposit base, not just in the U.S., but also in other countries?

Mr. PANDIT. I think that sources of funding are really important and having diversified sources of funding are always an advantage.

Mr. ATKINS. Now, there's a proposal for an industry liabilities tax, which would basically treat foreign sources of deposits as a tax liability in this case, and then be taxed thus. How do you view those sorts of proposals?

Mr. PANDIT. I think each of those proposals has to be looked at in the context of what's the economic impact, if not impacting the ability to serve our clients and their ability to export. What does that mean for jobs? What does that mean for GDP? I mean, those are the things that have to be looked at.

Mr. ATKINS. So, it's a bigger view than just looking at individual small questions, you have to look at the totality of it.

Mr. PANDIT. Absolutely.

Mr. ATKINS. Now, there's an organizational study that was done for you all that, I guess you didn't necessarily implement all of the recommendations. Did that have an effect in helping you decide what sorts of things went into Citi Holdings or might yet go into Citi Holdings, and what is part of your core business?

Mr. PANDIT. We actually—yes, we went through a lot, again, a very deep, very thoughtful process, markets had changed, funding markets had changed, where U.S. growth is going to come from changed, including by the way, that foreign consumers are going to consume more. So we took all of that into account, and that's how we came up with Citicorp as our future.

Mr. ATKINS. So, the rest of these recommendations, are they still potentially on the table or are you still reviewing those sorts of things, or do you view it as a closed book?

Mr. PANDIT. As you can imagine, I constantly look at what's right for Citi, what's right for shareholders, what's right for clients, but I believe a large part of our thinking is reflected in what we already talked about.

Mr. ATKINS. Okay, super. Well, again, thank you very much for being here today.

Mr. PANDIT. Thank you, Mr. ATKINS.

Chair WARREN. Thank you.

Mr. Silvers.

Mr. SILVERS. Mr. Pandit, you were just talking about what's in the interest of shareholders and obviously the United States Government is a large shareholder. But, I am concerned about what I read in analyst reports and the like about a reversion to the kinds of dynamics that led your predecessor Mr. Prince to come to Treasury and beg them to tell him to not lever up so much. Effectively, there are ways of generating shareholder value that are not sustainable, and if those values—if those ways are pursued once again, it's the United States Government that I believe will end up holding the bag, again.

In that regard, can you tell me what you're doing to ensure that those types of short-term unsustainable strategies, particularly releveraging, are resisted.

Mr. PANDIT. We have a completely new clear strategy. It's about serving clients. Why am I doing something, is it in the interest of clients, that's number one. Number two, I have a completely redone management team, lots of new people who understand what it means to run business. It's a great team we've put together. We have a new board with a lot of financial services expertise, regulators on the board, people who are asset managers, people who have run banks, run businesses, they're on the board.

In addition to that, we've changed our risk management completely. The risk management structure looks at products, regions, businesses in triplicate to understand exactly what our exposures are, and our risk profile and risk appetite has changed. So, this is a different company. That's been the goal I've been moving towards. I still have those assets that Citi came into this market with, I'm working down, but it's a different company.

Mr. SILVERS. I'm not so much talking about the assets on your balance sheet right now, just the liability side.

Mr. PANDIT. Yes.

Mr. SILVERS. And the pressures that I'm sure you are reading about and hearing, as I am, on Citi to relever, to reduce—the talk of Citi being over-capitalized and the like.

Mr. PANDIT. Well, I'm glad to hear that we're over-capitalized.

Mr. SILVERS. It depends on who's saying it, right. If people are saying it who have a clear interest who are short-term equity traders, you know, if you listen to them we could easily endanger the—we could easily, essentially put the risk of the United States in play once again.

Mr. PANDIT. You can count on me. You can count on my management. You can count on the board to run this institution prudently, in the interest, not only of our shareholders, but starting with our clients and being systemically responsible. The biggest change that I'm making at Citi is to develop a culture of responsible finance. That's the legacy I want to leave behind.

Mr. SILVERS. Mr. Pandit, I appreciate your answer. Can I just ask you one more brief question, which is, in you written statement you alluded to Citigroup's support for a consumer financial protection authority. That's a different word, and here I'm trying to protect you against my colleague, Paul Atkins' accusation that you parrot the Administration. That's a different word than the Administration uses in its white paper. They talk about an agency. Is there a meaning to that difference?

Mr. PANDIT. Well, I do believe that we need a focal point for consumers. I do believe that this area has to set national standards, has to promote clear, full disclosure, look at consumer markets, all of that. But, there are lots of different architectures that can actually create that.

Mr. SILVERS. So, I'm wrong, you do agree with the Administration's position on this? I just want to understand what position——

Mr. PANDIT. My position is that there are a set of functions this consumer authority must serve. My position is that this authority must have the ability and the authority to execute on its functions, but that the architecture of this can be looked at in a lot of different ways.

Mr. SILVERS. Okay, thank you.

Chair WARREN. Mr. McWatters.

Mr. MCWATTERS: I have no additional questions.

Thank you for appearing today, Mr. Pandit.

Mr. PANDIT. I appreciate it, Mr. McWatters.

Chair WARREN. Thank you, Mr. McWatters.

Superintendent Neiman.

Mr. NEIMAN. I'd like to come back to our discussion on consumer protection because I very much liked your characterization of a race to the top, and in fact, with your permission, I'd like to use that in future speeches. Because I think that's really where we should be going and how it should be characterized, but I would believe that the best way of getting there is that rules at the federal level be a floor and not a ceiling, if you really want to have a race to the top.

So, my question is, on this issue of preemption in that context, is it a necessity or just a preference?

Mr. PANDIT. Mr. Neiman, I can clearly see the different points of view on this. I can see, by the way, rationally I can see both points, I can just tell you what I believe. I believe it's better for the country, better for the consumer that you take the best standards and make them national.

Mr. NEIMAN. I agree with you, and to the extent that they are national standards and they are the best, States, in fact, have been very reluctant to go further. One good example is the fear from national banks that there's going to be a patchwork. Well, Gramm-Leach-Bliley and its adoption of the privacy protection rules, said "we're going to have a national standard, however States can go further to protect consumers." And only a handful of States have done that. So, I think that is the right model, and so I'd be interested in your perspective on that.

Mr. PANDIT. Again, my perspective is still the same, I believe in the highest standards for consumers, absolutely. We think what's good for the consumers is good for the U.S., it's good for the banking system. I also believe we're a national market. So, we really are a national market and shouldn't we all just get together and figure out the best standard?

Mr. NEIMAN. And we should. But we also have to recognize that events change very quickly, and one lesson that we've learned is that the States had identified early on issues around subprime lending and predatory practices.

One issue that is often lost in this debate is around duty of care owed by financial institutions. There's been a lot of focus on CFPA as to where it's located in product terms. But what I think is at the core, that is often overlooked, is what is the duty of care owed by financial institutions in offering of products. Interest-only products may certainly suitable for one level of customer, but not another. How would you address the duty of care and issues around appropriateness of products, in your retail business in particular?

Mr. PANDIT. Absolutely. And by the way, that's one of the first things that I made sure of that we changed when I came in. We've changed the underwriting standards, we made sure that our products are those that we believe are suitable for the customers we're selling these products to. I think suitability is an important issue.

Mr. NEIMAN. Well, I'm glad you raised that term because that is at the heart of it. Yeah.

Mr. PANDIT. But I also believe, by the way, that you can't be the Lone Ranger on some of these things, and that you do need collective action occasionally, and it's not going to happen by having just one bank stand up and say that's where I am. It needs a focal point, that's why we think we need a——

Mr. NEIMAN. And that's why I think we need a new federalism, a new level of cooperation between the States and the Federal Government, with respect to bank supervision——

Chair WARREN. Thank you.

Mr. NEIMAN [continuing]. And consumer protection.

Chair WARREN. Thank you.

I wish that Assistant Secretary Allison had stayed to hear your testimony and to participate in this part of the oversight process.

We appreciate your coming here today, Mr. Pandit. On behalf of the entire panel, thank you.

The record will be held open so that we may submit additional questions in writing, and you may submit additional answers.

Otherwise, this hearing is now ended.

[Whereupon, at 12:47 p.m., the panel was adjourned.]

[The responses of Mr. Pandit to questions for the record from the Congressional Oversight Panel follow:]

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June 10, 2010

By Electronic Mail and Overnight Delivery

Professor Elizabeth Warren
Chair
Congressional Oversight Panel
732 North Capitol Street, NW
Room C-320
Washington, DC 20401

March 26, 2010 Questions Posed to Mr. Vikram Pandit

Dear Professor Warren:

We write in response to the questions posed by the Congressional Oversight Panel in its letter to Mr. Pandit, dated March 26, 2010. Citi appreciates the opportunity to further expand on Mr. Pandit's testimony before the Panel. As noted, Mr. Pandit became CEO of Citi in December, 2007 – just as the financial crisis was emerging. In the months that followed – as first the collapse of Bear Stearns and then Lehman Brothers unnerved the markets – Citi reoriented itself.

As others before have learned, success depends on clear focus, understanding why customers need you and understanding what you are good at doing. To Citi, this meant going back to the basics and to a company that looked much like the one before a great deal of growth occurred.

Citi's principles today are:

- Focus on being a bank – not a financial supermarket.
- Serve client interests first.
- Lead with Citi's competitive strength: its global footprint. In particular, use that strength to take U.S. companies into growing global markets.

Citi executed on these principles as quickly as it could. Before the end of 2009, despite the deep financial crisis and the severe challenges Citi had faced, Citi:

- Cut its size by half a trillion dollars.
- Sold over 30 businesses.

- Cut its annual expenses by $13 billion.
- Rebuilt and focused its management team.
- Became one of the best-capitalized banks in the world.

Citi also repaid the TARP investment the government made in December 2008 with a substantial return for taxpayers, and the value of the equity investment the government made in Citi has increased. Citi continues to owe a large debt of gratitude to taxpayers. The effectiveness of Citi's execution was evident in its first-quarter results this year, and while there are still challenges in the economy, Citi believes it has all the elements in place for long-term profitability and success.

For your convenience, both the Panel's questions (in italics) and Citi's responses are included below.

Citigroup's Participation in TARP

1. *On October 14, 2008, Treasury Secretary Henry Paulson announced the creation of the Capital Purchase Program (CPP) and named nine financial institutions that had agreed to be the initial participants in the program. Citigroup was among these nine institutions and received a capital injection of $25 billion under the program. On that date, Secretary Paulson assured the public that these participants were healthy institutions and the program was meant to instill confidence in the markets in the wake of the recent financial turmoil.*

   On November 23, 2008, just over a month later, Treasury announced it would provide Citigroup—and only Citigroup—with further financial assistance in the form of an additional $20 billion in capital and an agreement to guarantee a $306 billion (later reduced to $301 billion) pool of Citigroup assets. In his written testimony, Assistant Secretary Herbert Allison states that, in November 2008, "[d]ue to deterioration in confidence, there was concern that, without government assistance, Citigroup would not be able to obtain sufficient funding in the market..."

   - *What was the nature of Citigroup's financial problems in November 2008? In the wake of Treasury's pronouncement that all the recipients were "healthy," why was additional immediate assistance necessary for Citigroup?*

   - *In your testimony, you stated that short-sellers had caused Citigroup's financial problems. Can you explain how short sellers contributed to a situation in which Citigroup would not be able to obtain sufficient funding in the market if it did not receive a commitment of more government funds?*

   - *During the week of November 17, 2008, leading up to the announcement of additional assistance for Citigroup on November 23, (i) did anyone from Citigroup* *inform the Treasury Department that the company was experiencing financial difficulties, and (ii) did Citigroup convey to Treasury at one or more such times that it would fail without another infusion of capital? What communications were made between Citigroup and one or more of its banking supervisors at this time and is anyone at Citigroup aware of such information being relayed from one or more of the supervisors to Treasury?*

- *What was Citigroup's financial situation on November 21, 2008 (the Friday before the announcement)? How did this financial situation compare to the company's financial situation one month prior to November 21? To what extent was Citigroup's short-term funding (availability of funding vehicles, trading counterparties and pricing) impacted by concerns in the market place? Please discuss how this short-term funding situation on November 21 compared with one month earlier? Had Citigroup formulated a projection about when it would no longer have sufficient liquidity to fund its operations? If so, what was that projection? If not, given the stress facing the bank, why not?*

- *To what extent were Citigroup's funding difficulties in November 2008 exacerbated by the rejection of its bid to acquire Wachovia?*

Response: Citi's financial condition, like that of other major financial services companies, was dramatically affected in late 2007 and throughout 2008 by the collapse of the residential real estate market and the unprecedented crisis in the world's financial systems. The interconnected factors that precipitated these macroeconomic events have been much discussed and include the following: 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'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 interconnectedness of the financial markets. These systemic factors, and their confluence, were the primary causes of Citi's losses and its financial difficulties beginning in late 2007 and continuing through 2008. Given Citi's size and global reach, and its broad exposure to subprime-related asset classes, these factors combined to impact Citi's financial performance dramatically throughout this period.

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. Investors increasingly believed that financial institutions with strong Tier 1 capital but low TCE, like Citi, would be required to raise additional common equity, imposing significant pressure on their stock price, which in turn further eroded market confidence.

By November 2008, it was clear that Citi's stock price was continuing to suffer as a result of the factors identified above as well as investor doubts regarding its access to funding and its ability to dispose of the problematic assets on its balance sheet. Citi's credit default swap spreads also began to widen significantly, particularly during the week of November 17th, suggesting that short-sellers had targeted Citi. These factors were likely exacerbated by Citi's announcement on November 17, 2008 that it would be reducing its headcount by approximately 20% and reducing its expenses by approximately $10 billion. Investors appear to have taken Citi's announcement that it was streamlining its operations and reducing its costs not as a sign of addressing past issues, but as confirmation of financial difficulties.

At the same time, however, Citi had spent the prior year taking steps to ensure its continued stability and future growth. Citi had raised approximately $85 billion in new capital, including approximately $50 billion through public and private offerings from the fourth quarter of 2007 through the end of 2008. As of November 17, 2008, Citi's reserve of cash and highly liquid securities was approximately $51 billion, more than double what it had been the year before. Citi's core businesses of consumer banking, credit cards, global wealth management and global transaction services remained stable sources of revenue.

This disconnect between the market's perception of Citi and Citi's financial reality suggested that investors were not viewing Citi in terms of its fundamentals, but rather were trading on an inaccurate perception that Citi's recent difficulties, and the aggressive steps management had taken to address those difficulties, were indicative of future dire financial difficulties. Moreover, given the deterioration of the stock prices of other financial institutions during this period, it appeared that market confidence had been eroded not just at Citi, but across the entire financial sector as well.

Doubts about Citi's financial condition were evident in the behavior of certain depositors and counterparties; thus, during the week of November 17, Citi did experience some deposit outflows and limited withdrawal of certain counterparties from various financing transactions. Nevertheless, this was not an across-the-board response; the overwhelming majority of Citi's investors expressed sustained confidence in its ability to weather its financial difficulties due to its sound fundamentals and stable business model. For example, Prince Al-Waleed bin Talal, one of Citi's largest shareholders at the time, announced on November 20, 2008, that he would increase his Citi holdings to five percent (from less than four percent), which increased Citi's Tier 1 capital ratio to more than 10%. Most of Citi's depositors and counterparties likewise maintained their confidence, and Citi was able to fund its operations from multiple sources, including short-term sources, throughout this period.

One lesson that emerged during this period of grave distress across the financial services industry, however, is that financial troubles could metastasize and spread at an alarming and seemingly uncontrollable rate. Thus, in view of the growing erosion in market confidence—as well as the continued activity of short-sellers, evident in its growing credit default swap spreads—Citi recognized that it should take steps to ensure that market confidence issues would not negatively affect its ability to access conventional funding sources.

During November 2008, Citi officers were in regular contact with officials at the United States Department of Treasury, the Federal Reserve, the Federal Deposit Insurance Commission, and the Office of the Comptroller of the Currency. Citi described its financial condition, funding status and the continued strength of its operating businesses in these frequent communications with various government officials. Citi is not aware of communications that may have been relayed from any of the banking regulators to Treasury representatives.

Citi also evaluated a number of scenarios during this time regarding its liquidity position and overall financial health. While Citi maintained sufficient liquidity throughout this period, given the concerns identified above, Citi nevertheless used risk management tools to evaluate a wide variety of possible outcomes, including several "worst case" scenarios. Citi employed these scenarios as part of its efforts to manage its business prudently and to anticipate a wide range of possible outcomes in light of unprecedented market conditions.

By November 21, 2008, Citi, in consultation with its regulators, had begun to formulate a proposal whereby it would issue certain stock to the government in exchange for a government guarantee concerning certain assets on Citi's balance sheet. Thus, Citi, in effect, would be purchasing "insurance" from the government and using preferred stock to pay the "premium" on the insurance policy. This proposal was communicated by Citi to the Federal Reserve in a term sheet that was sent early in the morning on November 22, 2008. This term sheet set forth the basic parameters of the so-called "ring fence" concerning certain Citi assets, which would require payment by Citi in exchange for a government backstop concerning approximately $306 billion of securities, loans and commitments backed by residential and commercial real estate and other assets. Citi would be responsible for the first $30 billion in losses from the ring-fenced assets, with the government guaranteeing the remainder.

This asset-guarantee proposal, including Citi's issuance of $7 billion in preferred stock to the Treasury and FDIC as payment for the program, was discussed and refined over that weekend. In addition, that same weekend, the parties agreed on a new infusion of $20 billion in TARP capital and expanded access to the Federal Reserve's Primary Dealer Credit Facility. These actions were approved by Citi's Board of Directors on the evening of November 23, and were publicly announced the following day. In addition to its preferred stock investment, the government received warrants convertible into Citi common stock at a strike price of $10.61, the 20-day average trading price of Citi's common stock. Citi also was required to reduce the dividend on its common stock to $0.01 per share on a quarterly basis for three years.

The market responded positively to the November 24, 2008 announcement. Not only did Citi's stock price begin to rise, but the stock prices of other large U.S. banks rose as well, indicating that the market viewed the government's investment in Citi as a positive step for the U.S. financial system.

Citi repaid the government's December 2008 TARP investment, providing a substantial return for taxpayers; the value of the government's equity investment in Citi likewise has increased. Citi also has exited the asset guarantee program.

Citi has since raised significant capital and further streamlined its business to focus on its core commercial and consumer-banking franchise. The Company has been divided for management purposes 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 in an economically rational manner over time. This reorganization, together with the successful reduction of assets in Citi Holdings, has made the Company a stronger, leaner, and more focused business, with markedly reduced exposure to many of the activities that contributed to the Company's recent losses. Investors have responded positively to Citi's new strategy.

2. *In your testimony at the hearing, you attributed the need for additional government assistance to market misperceptions of Citigroup's stability rather than fundamental problems with the company's financial health. You also suggested that these misperceptions were largely driven by the depreciation of Citigroup's stock price as a direct result of short-selling in the period between the announcement of the first infusion of TARP capital on October 14, 2008, and the announcement of the second infusion on November 23, 2008.*

   On the date the initial investment was announced, Citigroup stock closed at $18.35 per share. By the time the second investment and the asset guarantee were announced on November 23, the price had fallen to $3.76 per share. Yet the short interest ratio on Citigroup stock during this period actually fell from 0.63 on October 15 to 0.38 on

November 28. Short-selling of Citigroup stock did not increase sharply (e.g., to a 1.53 short interest ratio on March 13, 2009) until after Citigroup announced, on February 27, 2009, a series of exchange offers that would allow shareholders to convert preferred securities into common equity.

- *If the assertion is that short sellers drove down Citigroup's stock price thereby necessitating additional Treasury assistance, please help reconcile the apparent absence of an increase in short interest in Citigroup shares during this period. Please explain the precise relationship between Citigroup's stock price and its need for additional assistance. How did stock price impact the firm's capital position? In your view, did Citigroup's stock price alone drive the need for additional Treasury assistance?*

Response: Citi observed significant short-selling activity in its shares during the period between October 15 and November 28, 2008, corroborated by the data released by the New York Stock Exchange (NYSE). The NYSE releases bi-monthly data on the reported uncovered short positions for companies listed on the NYSE. The data are an aggregation of broker-dealer reports to the NYSE in accordance with NYSE Rule 421, and as a result exclude certain short-selling activity in the marketplace that does not conform to the requirements of NYSE Rule 421.

The following are the reported short-interest data during the relevant period:

Date	Short Interest (shares)	Average Daily Trading Volume (shares)	Short Interest Ratio
10/15/2008	116,765,920	184.22 m	0.63
10/31/2008	138,025,457	134.48 m	1.03
11/14/2008	126,409,637	146.22 m	0.86
11/28/2008	182,505,656	486.43 m	0.38

Source: Bloomberg

As shown by the data above, the reported short interest, which represents the uncovered short positions in Citi common stock on a particular date, rose from approximately 116.8 million shares on October 15, 2008, to approximately 182.5 million shares on November 28, 2008. This November 28 level of short interest was the largest reported short interest in Citi common stock ever as of that date and the largest absolute increase in short interest ever observed by Citi as of that date. The reported short interest continued to rise to 203.3 million shares by February 27, 2009 as a result of the expected technical pressure from arbitrageurs when Citi announced its exchange of preferred and trust-preferred securities for common stock. The short-interest ratio, which represents the short interest divided by the average daily trading volume in Citi common stock, declined during this period solely as a result of the dramatic increase in the average daily trading volume in Citi common stock, particularly in late November, 2008. The average daily trading volume rose from approximately 184.22 million shares on October 15, 2008, to approximately 486.43 million shares on November 28, 2008, reflecting increased short-selling activity during the period and significantly increased volatility of Citi common stock. We believe the record high level of short interest, not the volume-driven short-interest ratio, is the better indicator of investor confidence in Citi at the time.

Citi's capital position, with a strong Tier 1 capital ratio of 10.7%, remained strong throughout this period and was unaffected by the decline in Citi's share price. However, the decline in Citi's share price and the unprecedented level of short interest sharply eroded investor confidence in Citi and limited the Company's access to new equity capital in the public capital markets during this period.

- *How and to what extent did deterioration in your financial position (given the excessive risk overhang) and a corresponding inability to access sufficient funding contribute to the market's perception of Citigroup's relative instability?*

Response: As explained, during this time the market perceived that Citi's financial well-being was being pressured. This perception, which arose in the extremely sensitive market environment of the fall of 2008, was amplified by the intense short-selling of Citi's stock during this time. Nevertheless, while Citi's financial position was under stress during this period, its financial condition was stable; moreover, Citi still had the ability to access sufficient funding to maintain its liquidity.

TARP Exit

3. *The Wall Street Journal reports that officials at the Federal Reserve and the FDIC "privately complained that Treasury officials pushed them to allow banks [Citigroup and Wells Fargo] to quickly leave TARP." The same article reports that Citigroup officials were "fearful of becoming the last major bank still under TARP" and at the time "urged the Treasury" to sell some of its Citigroup shares.*

   - *Is the statement accurate? Was management concerned that Citigroup would be "the last major bank still under TARP?" Did Citigroup pressure Treasury to allow it to exit TARP? What exactly did you or other personnel of Citigroup say?*

   - *Please give an overview of what occurred during the period that led up to Citigroup's exit from TARP. Please identify the people at Treasury and at the Federal Reserve with whom Citigroup personnel spoke during this time and the subject of those conversations.*

Response: Citi intended to repay all TARP funds it received as expeditiously as possible, consistent with the goals of the program and Citi's funding requirements. From the outset of the program, Citi viewed the TARP program as providing a form of "bridge financing" that would help Citi ameliorate lingering negative market perception during a period of unprecedented market volatility and uncertainty. Citi believed, however, that prolonging repayment of the funds it received through the TARP program might itself generate negative market perception regarding Citi's financial health. Thus, Citi at all times was sensitive to repaying all TARP funds it received as promptly as reasonable and responsible, in light of relevant market conditions and other circumstances.

At no point did Citi pressure the Treasury Department or any other governmental agency to permit it to exit TARP prematurely. That said, it was important for Citi to exit the asset-guarantee program and repay the government's December 2008 TARP investment alongside key peer firms, in order to serve Citi's clients and shareholders. Indeed, the market reaction to Citi's decision demonstrates that Citi took the right course of action: following Citi's exit from the asset-guarantee program and its repayment of the December 2008 TARP investment, Citi undertook the largest ever U.S. common stock offering, the success of which would not have been possible without significant market demand.

Financial Health & Corporate Strategy

4. *Under EESA, Treasury is required to ensure that its authority is "used in a manner that protects home values, college funds, retirement accounts and life savings, and preserves homeownership and promotes jobs and economic growth" in the United States.*

   In your presentation at the Citi 2010 Financial Services Conference, you cited overexposure to U.S. consumer credit risk as the dominant cause of Citigroup's losses over the last two years and highlighted Citigroup's plans to expand its global operations and focus on emerging markets to promote new growth.

   - *Do you believe this strategic direction is consistent with the intent of EESA?*

Response: Yes. Citi's strategy builds on its distinctiveness as America's global bank focused on helping its clients and customers connect with the world and facilitating the flow of capital that we believe will catalyze a U.S. economic recovery through increased manufacturing, exports and trade.

Citi helps U.S. businesses of all sizes export their products to high-growth markets around the world where they can pursue opportunities to grow their businesses, helping to create U.S. jobs.

Citi serves its U.S. clients by providing a broad range of products and services – including custody, clearing, foreign exchange, liability and cash management services – and by providing the capital required by clients to expand their operations and increase their revenues and profits.

- *Please describe how this strategy has impacted lending to U.S. businesses and consumers since Citigroup first received TARP funds in October 2008.*

Response: As a result of actions taken over the past two years, Citi is now a smaller institution that is focused on being a bank – not a financial supermarket. Citi is operating on a strong foundation and is positioned to continue to contribute to the economic recovery and generate sustained profitability for the benefit of all its stakeholders.

Despite the difficult economic environment, Citi made approximately $600 billion in new credit available to U.S. businesses and consumers from October 2008 through March 31, 2010.

From October 2008 through March 31, 2010, Citi's new lending to U.S. consumers totaled approximately $250 billion. New U.S. commercial lending activity totaled approximately $350 billion during that period.

These efforts have helped businesses keep their doors open, spurred job creation in communities and provided families with access to capital at times when they needed it most.

5. *In your hearing testimony, you stressed the importance of your overseas operations as a bridge to help U.S. businesses export abroad, particularly to emerging markets. However, your financial results would appear to indicate that your emerging markets business is driven largely by revenues sourced from local retail and small business customers (consumer banking, credit cards) within Latin America and Asia, as opposed to multinational institutional lines of business generated by customers from within the United States or foreign customers seeking access to the U.S. market that might contribute to U.S. economic growth.*

    - *Can you clarify your remarks given that net revenue in Citigroup's Asia and Latin America Regional Consumer Banking businesses has exceeded revenue from comparable institutional-oriented businesses (Securities and Banking, Transaction Services) in these regions? Please provide the relevant data that quantifies and supports your response.*

Response: As noted, Citicorp's Regional Consumer Banking (RCB) businesses in Asia and Latin America produced $14.0 billion of revenues in 2009, compared to $12.1 billion of revenues in the same regions for our institutional businesses in our Institutional Clients

Group (ICG). However, net income in RCB in Asia and Latin America was $1.7 billion in 2009, compared to $5.2 billion in the same regions for ICG. The financial-return characteristics (balance sheet intensity, inherent scalability, operating environment and returns) are different for institutional and retail businesses and comparing one financial metric (i.e., net revenues) may not necessarily reflect that one group of businesses is more important than another.

Retail and institutional business in overseas markets frequently provide synergies to each other. Having a retail presence in a foreign market can help Citi better serve U.S. companies operating in those markets. In addition, Citi's physical presence in a foreign market gives Citi unique local knowledge and often provides a local deposit base to help finance the needs of U.S. companies operating in those markets.

Although Citi has significant presence in major international markets that are important to its U.S. corporate clients, North America remains Citi's largest single region in terms of revenues. Citicorp's North America region generated approximately $19 billion of revenues in 2009, or 28% more than the revenues generated in EMEA, 38% more than Asia and 58% more than Latin America.

- *You noted at the Citi 2010 Financial Services Conference that international loan balances in your emerging markets Regional Consumer Banking business have rebounded 13 percent versus Q1 2009. Can you please provide comparable figures for your U.S.-based business?*

Response: The 13% growth in international loan balances referred to above reflects the balances in Citicorp's RCB businesses at the time of the Citi Financial Services conference on March 11, 2010. At the end of the first quarter 2010, international average loans in RCB grew to $110 billion, a 14.3% increase over loans in the first quarter of 2009. North American loans in the RCB for the same period fell 5% to $111 billion. This disparity in growth, though not in absolute dollars, reflects the different economic conditions in the U.S. versus many international markets, which are experiencing faster economic growth and higher loan-demand levels. The growth rate in international loans is larger also because of the impact of foreign exchange translation of those loan balances back into the U.S. dollar for reporting purposes.

6. *In your presentation at the Citi 2010 Financial Services Conference, you outlined your goals for Return on Assets (ROA). You noted that higher-than-normal liquidity levels contributed to lower returns in 2009.*

   - *To what extent do your ROA goals reflect an expected reduction in current liquidity levels and perhaps less of a capital buffer than you may have today (with capital redeployed into your business and/or returned to shareholders)? What do you view* *as an appropriate capital buffer in a more normalized economic environment? Have you consulted with regulators on appropriate capital levels needed to balance a normalized outlook, while retaining sufficient capital to protect your franchise against future market dislocations or a rapid deterioration in the environment?*

Response: Citi is operating with high levels of liquidity that lower total ROA. However, Citi's stated target of producing a 1.25%-1.50% ROA over time in Citicorp (and not Citi Holdings, which is winding down) is more dependent on a shift in strategy rather than any future reduction of liquidity.

Citicorp produced an adjusted ROA (ROA excluding Loan Loss Reserve builds/releases and Net Revenue Marks) of 1.57% in 2009. That is in excess of Citi's stated targets and reflects the core profitability of the Citicorp businesses. The impact of including the Corporate/Other Segment that houses Citi's liquidity and other corporate functions with Citicorp reduced the combined ROA to 1.15% in 2009, which is just below current ROA targets.

Citi may adjust its current levels of liquidity in the future, as it deems prudent in light of the operating environment and applicable regulatory requirements. But achieving Citi's stated ROA goals will be affected more by improvements in the U.S. economy and consumer credit than by any changes in liquidity.

Citi has ongoing discussions with its regulators about the appropriate levels of capital and liquidity, and capital and liquidity standards are under consideration by regulators around the world. Citi is one of the best capitalized U.S. banks with a Tier 1 Common ratio of 9.1%, loan loss reserves of $48.7 billion, and total cash and bank deposits of $189 billion in the first quarter of 2010.

7. *Please explain the steps you have taken to reconcile cross-border regulatory challenges in the expectation of a greater emphasis by regulators both in the United States and abroad on more transparent operations, particularly with respect to demystifying linkages within particular local markets as well as across the Citigroup platform? Where possible, please reference recommendations number five and number six from the Basel Committee on Bank Supervision's March 2010 report, Report and Recommendations of the Cross-border Bank Resolution Group.*

Response: Consistent with Recommendations 5 and 6 of the Basel Committee on Bank Supervision's March 2010 report,[1] Citi has been working with its primary regulators in the

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[1] Report and Recommendations of the Cross-border Bank Resolution Group, Basel Committee on Banking Supervision, Bank for International Settlements (March 2010), pp. 29-34 ("Recommendation

U.S. and abroad to coordinate on recovery and resolution planning. In particular, Citi participated in a January, 2010 "supervisory college"; participants in the meeting included: Federal Reserve Board, Office of the Controller of the Currency, Federal Reserve Bank of New York, Federal Deposit Insurance Corporation, Securities and Exchange Commission, Financial Services Authority (United Kingdom), Bank of England, Financial Services Agency (Japan), Monetary Authority of Singapore, Hong Kong Monetary Authority, Comision Nacional Bancaria y de Valores (Mexico), Central Bank of Mexico.

This meeting focused on recovery and resolution planning in the event of market-wide or idiosyncratic adverse scenarios. In connection with the meeting, Citi provided background on its organizational structure (including major legal entities and international branches), linkages between and among legal entities (e.g., operational, financial, interconnectedness/stand-alone capacity of business units/legal entities, contingency funding plans, and continuity of operations plans.

The supervisory college offered Citi's primary U.S. regulators and a number of its other regulators the opportunity to obtain a greater and shared understanding of the Company.

In addition to the supervisory college, Citi representatives meet regularly with U.S. and international regulators to help them better understand Citi's structure, operations, and capital and liquidity planning.

8. *What efforts have you made to improve transparency for both investors and regulators to better understand the operations/exposures across Citigroup businesses?*

Response: Over the last few years, Citi has enhanced its disclosures around many key areas of interest to investors and analysts, including, among others, providing details on the following:

- subprime exposure by type, marks, credit ratings and vintages;
- monoline insurer exposure, including the type of exposure, the identity of the counterparty and the net market value and notional amount of transactions with monoline insurers;
- Alt-A mortgage exposure, including by accounting category, vintages, credit ratings and marks;

5: Reduction of complexity and interconnectedness of group structures and operations" and "Recommendation 6: Planning in advance for orderly resolution").

- commercial real estate exposure, including the type of accounting category the exposure resided in;
- highly leveraged finance commitments;
- the U.S. mortgage loan portfolio, including grids by FICO/LTV bands for first and second mortgages and the respective delinquencies for each FICO/LTV level, as well as key credit metrics by origination channel, top states, and vintages;
- credit cards and installment and other revolving loans by FICO bands;
- separate financial statements on Citicorp and Citi Holdings; and
- the Special Asset Pool, including type of assets, accounting treatment and marks or carrying value as a percentage of face value.

9. *In your written testimony, you stated that Citigroup no longer has the goal of being a financial supermarket. Several years ago, former Citigroup CEO Sandy Weil touted the financial supermarket model as Citigroup's primary goal, the future of banking, and the only way to compete on the global stage.*

    - *Why have Citigroup's goals changed?*

Response: Citigroup's restructuring was focused on three key areas: financial strength, strategic clarity and culture.

Maintaining financial strength is a core component of Citi's strategy. In addition to increasing capital and reducing expenses, Citi has shrunk the Company and exited various businesses.

Clients are at the center of Citi's strategy. To deliver maximum value to its clients, Citi restructured its businesses to meet its clients' needs.

It is critical to have a unified culture at Citi. To that end, Citi is building a culture of Responsible Finance, which is in the best interest of its clients, its employees, its communities, and its shareholders.

In summary, Citi is returning to the basics of banking.

- *Why has the financial supermarket business model failed? Or if it has not failed, why are you no longer interested in pursuing this model?*

Response: The core of Citi's strategy is to be a bank that serves clients based on Citi's distinctiveness. Citi's distinctiveness is its global network and its core capabilities in consumer banking, corporate and investment banking, capital raising, market making, and payments and transaction services. There are natural synergies among all of these businesses and refocusing the Company on these core businesses has allowed Citi to reduce complexity and increase productivity.

Changes in funding markets and smaller shadow banking activities also require a focused business strategy supported by strong and stable funding and well-managed assets and liabilities.

- *What are Citigroup's long-term plans for its U.S. consumer banking business to maintain its competitiveness and derive a good earnings stream from it?*

Response: Citi's U.S. consumer banking businesses include retail branches, credit cards, mortgages, commercial banking (for mid-sized businesses), small business banking, and wealth management.

Citi's U.S. consumer banking business provides an attractive source of stable, low-cost funding and liquidity.

As with its international consumer businesses, Citi is pursuing a focused strategy in the U.S.: Citi is targeting high-density metropolitan areas such as New York, City, Los Angeles and San Francisco. Within these urban areas, Citi targets a customer base with a higher propensity to save and invest. Historically, Citi has outperformed the market in deposit-gathering in these areas.

The specifics of Citi's U.S. consumer banking strategy are currently being refined, but Citi believes there are meaningful opportunities to improve the business in the medium- to long-term. These include optimizing the branch network, growing checking accounts and expanding core customer relationships, and developing innovative new products such as convenience-based payment solutions. Citi also plans to enhance its digital distribution channels to supplement its physical branch footprint.

10. Please provide a complete list of the performance goals set forth for you by the Citigroup board or by you personally when you became CEO of Citigroup in December 2007. Please provide an assessment of whether or not each goal has been achieved.

Response: During the process of selecting Vikram Pandit as CEO in December 2007, members of the Citi Board's CEO search committee and other Board members held a series of discussions with Mr. Pandit about Citi, its financial position, business outlook and mutual goals. These discussions centered on several principal areas – enhancing the risk management function, reducing overall risk, strengthening the balance sheet, attracting and retaining world-class talent and creating a more efficient, client-focused organization designed to return Citi to sustained profitability and growth.

Under Mr. Pandit's leadership, Citi's management, with oversight from Citi's Board, has worked steadily on achieving each of these principal goals and on building a culture of Responsible Finance.

- **Enhancing the risk management function.** Citi has redesigned its risk management function. Citi is focusing on risk from overlapping product, business and regional perspectives and has strengthened and clarified risk management reporting lines to ensure consistency and accountability across Citi. Citi has enhanced its risk capital and stress testing methodologies and instituted a new framework for market, investment and credit-risk limits. Citi is fostering a consistent cultural foundation through defined risk-management responsibilities and building a talent pipeline to provide future leadership and deeper bench strength.

- **Reducing overall risk.** Citi has made substantial progress in reducing its risk exposures by reducing its total assets. Since the fourth quarter of 2007, Citi has reduced its total GAAP assets by $185.3 billion or 8%. During that same period, assets within Citi Holdings declined by $320 billion or 39%.

- **Strengthening the balance sheet.** Citi has significantly improved its capital strength and liquidity position. Since the end of 2007, Citi has raised approximately $85 billion of capital.[2] From the fourth quarter of 2007 to the first quarter of 2010, Citi's

  - Tier 1 Common increased by $34 billion (from $63 billion to $97 billion);
  - Tier 1 Common ratio went from 5.0% to 9.1%; and
  - Tangible Common Equity increased by $57 billion (from $60 billion to $117 billion).

  In addition, Citi has grown its deposit base and improved its liquidity position. Total cash and deposits with banks increased by 76% from $108 billion (or 4.9% of assets) at the end of 2007 to $189 billion (or 9.4% of assets) in the first quarter of 2010.

- **Attracting and retaining world-class talent.** Citi has been able both to attract world-class, experienced professionals with deep industry knowledge and retain key senior talent through a period of market disruption. Citi also has redesigned its compensation programs to provide competitive compensation levels without encouraging excessive risk taking.

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[2] Includes the impact of adopting FAS 166/167 on January 1, 2010, which added $137 billion of assets to Citi's balance sheet on January 1, 2010. Between the third quarter of 2007 and the fourth quarter of 2009, Citi reduced its total GAAP assets by approximately $500 million or 21%.

- **Creating a more efficient, client-focused organization.** In 2009, Citi separated for management purposes into two separate businesses, Citicorp and Citi Holdings, to optimize the Company's global businesses for future growth and opportunities. This structure has enabled Citi to focus on its core, client-focused banking activities and to improve financial performance. This realignment also has allowed Citi to drive efficiencies by disposing of non-core businesses and risk-sensitive assets. Citi will continue to focus on reducing the overall size of Citi Holdings to redeploy capital to Citicorp, including lending activities that will help support the U.S. economy.

- **Building a culture of Responsible Finance.** Citi is committed to fostering a culture of Responsible Finance. This culture is based on actions which create economic value, align Citi's interests with our clients and direct our business activities to serve the interests of society as a whole.

11. What is the outlook for further credit losses in Citigroup's portfolio of home equity and residential mortgage loans?

Response: Citi believes that the success of the U.S. Treasury's Home Affordable Modification Program (HAMP) will be a key factor influencing net credit losses from delinquent first mortgage loans within Citi's U.S. consumer lending portfolio, at least during the first half of 2010, and the outcome of the program will largely depend on the success rates of borrowers completing the trial period and meeting the documentation requirements. By contrast, second mortgages in Citi's U.S. consumer lending portfolio have shown positive trends in both net credit losses and delinquencies, reflecting the impact of portfolio re-positioning and loss mitigation. Citi continues to manage actively this exposure by reducing the riskiest accounts, including by tightening credit requirements through higher FICOs, lower LTVs, and increased documentation and verifications. Additional information regarding Citi's consumer loan modification programs and U.S. consumer mortgage lending is available on pages 52-58 of Citi's Form 10-Q for the first quarter 2010 and in the report entitled "Citi U.S. Consumer Mortgage Lending Data and Servicing Foreclosure Prevention Efforts" available at www.citigroup.com.

12. What does Citigroup expect in terms of on- and off-balance sheet losses this year? Does Citigroup believe that its reserves are adequate in light of potential events in home mortgages, commercial real estate, or sovereign debt markets?

Response: As reported in Citi's first quarter 2010 earnings release, as of March 31, 2010, Citi's allowance for loans, leases and unfunded commitments was $49.9 billion. This allowance, or credit reserve, reflects Citi's estimate of probable losses inherent in Citi's funded loan and lease portfolio and unfunded lending commitments. (Note that this amount does not equate to Citi's loss expectations in 2010.) Citi's credit reserves are established in accordance with Citigroup's Credit Reserve Policies, as approved by the

Audit Committee of the Board of Directors. Citi's Chief Risk Officer and Chief Financial Officer review the adequacy of the credit loss reserves each quarter with representatives from the Risk Management and Finance staffs for each applicable business area. Credit reserve amounts are based on quantitative and qualitative data and are subject to numerous estimates and judgments, which can change and impact the amount of the reserve. For a further discussion of Citi's allowance and the quantitative data used in assessing the allowance, see page 107 of Citi's 2009 Form 10-K.

13. How much does Citigroup expect to sell in Citi Holdings assets this year?

Citi Holdings was created in February 2009 as a vehicle to reduce and realize value from Citi's non-core assets. Citi has been, and will remain, focused on reducing Citi Holdings' assets as quickly as possible in an economically rational manner. Last year, Citi exceeded expectations for asset reductions (posting a 23% decrease year-over-year) while strengthening Citi's capital position. During 2010, Citi intends to continue to work towards substantial asset reductions through asset sales, M&A activity and asset management. The overall level of asset reductions this year will depend on the stability of market conditions, real estate market performance, market appetite for Citi Holdings' assets and businesses, and conditions in the funding markets.

14. It is our understanding that the outside consulting firm McKinsey and Company produced an organizational study for Citigroup's Board of Directors in 2007.

- *Could you elaborate on this study? Has Treasury expressed an opinion (formally or informally) to Citigroup personnel about any aspects of the report or its recommendations? How many of the suggestions have been implemented? Which ones were not, and why not?*

Response: As discussed with the Panel's staff, Citi is not aware of any organizational study produced by McKinsey for Citi in 2007.

Executive Retention & Compensation

15. What aspects of Citigroup's compensation structure may have contributed to excessive risk-taking? Can you explain how Citigroup's executive compensation structure has changed and whether it has changed in a way that permits you to encourage innovation without providing incentives for excessive risk?

Response: Citi is committed to responsible compensation practices and structures. For 2009, Citi balanced the need to reward its employees fairly and competitively based on performance, while assuring that compensation reflected principles of risk management and performance metrics, including long-term contributions to sustained profitability and fidelity to the values and rules of conduct expected of employees. While recognizing these factors, Citi compensated executives within regulatory restrictions and implemented several important protections for stockholders and other stakeholders that focus executives on long-term performance, as described below. Citi's program is also described in its March 2010 proxy statement.

- **Voluntary compliance with the Special Master's decisions governing the amount and structure of Citi's executive compensation for 2009.** Citi agreed to comply with the compensation determination of the Office of the Special Master for TARP Executive Compensation for 2009, even though Citi was no longer a recipient of exceptional governmental assistance as of December 31, 2009, due to Citi's repayment of $20 billion of TARP funds to the U.S. government in December 2009.

- **No cash bonuses were paid to Citi's Top 25 for 2009.** While Citi has long awarded a significant percentage of incentive compensation to senior management in stock, that percentage was increased for the 2009 compensation year.

- **Citi's executive compensation structure for 2009 is aligned with risk mitigation principles through clawbacks and deferrals.** The structure of compensation for Citi's Top 100 employees emphasizes deferrals (including sale restrictions) and clawbacks. If 2009 performance turns out to have been based on materially inaccurate performance criteria, incentive compensation for 2009 will be forfeited or recovered (i.e., is subject to a "clawback"). In addition, Citi provides for deferrals or sale 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. For the 2009 compensation year, the independent consultant retained by the Board's Personnel and Compensation Committee (the P&C Committee) to advise it on compensation determinations did no other work for Citi.

- **Citi has a strong compensation governance process.** The composition of the P&C Committee reflects Citi's strong governance focus; each P&C Committee member is a non-executive independent director with CEO experience; consequently, each member has extensive experience in evaluating the amount and structure of compensation for senior executives.

- **Involvement of independent risk management function.** Citi's Chief Risk Officer and Citi's independent risk management function have important roles in evaluating the performance of senior management, including the Top 100 employees, by providing specific ratings on their risk management practices.

- **Citi has instituted a "say on pay" proposal.** As required by the Emergency Economic Security Act of 2008, as amended, Citi solicited a non-binding advisory vote from its stockholders in its 2010 proxy statement approving the compensation awarded to its executives. As disclosed on Citi's Form 8-K filed on April 23, 2010, shareholders approved Citi's executive compensation.

Citi's compensation programs are designed to attract and retain employees without encouraging excessive risk taking. Citi's executive compensation programs aim to attract and retain the best talent, motivate and reward executives to perform by linking incentive compensation to demonstrable performance-based criteria, align the long-term interests of management with those of stockholders and other stakeholders, and deliver compensation at levels that are competitive within the financial services market. Citi's compensation programs are designed to:

- Facilitate competitiveness.
- Reward performance over an appropriate period.
- Promote meritocracy by recognizing employee contributions.
- Enhance Citi franchise value.
- Discourage unnecessary or excessive risk-taking.

Citi believes that the compensation programs it currently has in place will achieve the goals described above in a manner that encourages innovation without providing incentives that encourage excessive risk taking.

16. How has Citigroup met the challenge of attracting and retaining the talent that it needs? Does Treasury's significant ownership stake help or hurt these efforts?

Response: After government investments were made, strong efforts were made to retain critical resources and reward those employees who remained with Citi. Citi began restructuring its compensation components, philosophy and standards to strengthen its competitive position. This approach supports the attraction and retention of the best talent and is in alignment with the long-term interest of shareholders. Citi introduced multiple broad-based compensation program changes to meet these goals. To compete with the salary levels of Citi's competitors, a "salary shift" was proposed and implemented in 2009. This shift in the structure of total compensation allowed Citi to increase fixed compensation and reduce the variable component without targeting an increase in total compensation. In addition, Citi awarded a broad-based, retention-oriented stock option grant in 2009 that was intended to align employee and shareholder interests as well as to promote employee retention; this award will only provide value based on the future performance of Citi stock.

During 2008 and 2009, it became clear that multiple steps would need to be taken by Citi to increase and maintain employee engagement as well as to attract and retain the best talent. Citi faced the challenge, not only in markets and banking, but also in functional areas such as operations and technology, of trying to retain employees being solicited by, or looking outside the firm at, companies without TARP obligations. Citi had several employees at the Managing Director level, some of whom were among the top 100 most highly compensated employees, leave the firm out of concern about how the government ownership would impact them and their compensation. In the functional areas, Citi found that in some cases it was unable to provide an offer at the same compensation levels that competitors were providing. However, Citi found qualified candidates within its organization who were able to fill some of the open positions created.

HAMP/Foreclosure Prevention

17. The Panel's April report will assess the progress of TARP's foreclosure mitigation efforts under the Home Affordable Modification Program (HAMP). The Panel intends to gather data on modifications performed under HAMP or independently by major loan servicers and would like to use this opportunity to request the following data from Citigroup on modifications that involve adjustments of the principal owed by the borrower:

- *Please provide the number of modifications that Citigroup has performed (both permanent and temporary) that involved the reduction of the borrower's principal. Please provide the new loan-to-value ratio produced by each such reduction. Please identify and segregate modifications performed under HAMP and modifications performed independently.*

Response: Since the beginning of the mortgage crisis in 2007 through March 2010, Citi has helped more than 900,000 homeowners in their efforts to avoid potential foreclosure on mortgages totaling approximately $105 billion, and is committed to transparency regarding its lending and foreclosure prevention efforts. As part of that commitment, Citi publishes a report entitled "Citi U.S. Consumer Mortgage Lending Data and Servicing Foreclosure Prevention Efforts." Citi believes this data is important to understanding the scope and dynamics related to the foreclosure challenges facing the U.S. Citi's most recent report, which covers Citi's experience through the fourth quarter of 2009, is available at www.citigroup.com.

Citi has also dedicated considerable resources to ensuring that its implementation of HAMP is a success. And, to date, its performance reflects this hard work. In its last several Making Home Affordable Mortgage reports, Treasury ranked CitiMortgage, Inc. (CitiMortgage) as one of the top performers among the country's largest servicers in terms of active trial and permanent modifications as a percent of estimated eligible 60+ days past due delinquencies. According to the March report, CitiMortgage had nearly 92,600 active trial plans and nearly 22,500 permanent modifications as of the end of March 2010.

Between January 2009 and April 2010, CitiMortgage reduced the principal balance of 1,112 mortgage loans. The weighted average loan-to-value ratio after modification was 98%. Of those principal reductions, 1,080 were done under non-HAMP programs and 32 were done under HAMP.

- *Please provide the number of modifications that Citigroup has performed (both permanent and temporary) that involved the increase of a borrower's payment. Please provide the new loan-to-value ratio produced by each such increase. Please identify and segregate modifications performed under HAMP and modifications performed independently.*

Response: Between January 2009 and April 2010, 7,819 of CitiMortgage's loan modifications resulted in a monthly payment increase due to the addition of escrow requirements in connection with a modification or capitalization of short-term forbearance amounts. Of those, 102 were done under HAMP; the remaining 7,717 were done under non-HAMP programs. Loan-to-value ratio does not increase due to a monthly payment increase.

18. The Panel is also interested in any available data comparing the loan modifications Citigroup makes on loans that it owns versus loans that it services but does not own. Please provide information on the number of principal reductions or increases that take place in each category, as well as the number of modifications in each category that involve reductions in interest rates.

Response: CitiMortgage modified 114,467 loans between January 2009 and April 2010. Of those, (i) 58,858 were Citi-owned loans and 55,609 were loans serviced for others and (ii) 104,758 included interest rate reductions (53,895 of which were Citi-owned and 50,863 were serviced for others). Of the 1,112 modifications with principal reductions, 1,084 were Citi-owned loans and 32 were loans serviced for others. Of the 7,819 modifications with payment increases, 3,795 were Citi-owned and 4,024 were serviced for others.

19. In your testimony before the Panel, you stated that Citigroup is actively modifying second-lien mortgages. Although Citigroup has recently announced its participation in Treasury's second-lien program, can you please describe its previous policy regarding modifications of second-lien mortgages? Please share any available data on the number of second-lien modifications Citigroup has performed and please segregate the loans it owns and the loans it services but does not own.

Response: For a second-lien mortgage loan borrower to be eligible for a modification under CitiMortgage's non-HAMP program, the property must be a primary residence and owner occupied. There is no restriction on the loan amount, but one of the following criteria must apply:

- the borrower's housing debt-to-income ratio is greater than 49%, or

- the borrower has a Citi-controlled first-lien mortgage loan that is eligible for a HAMP or non-HAMP modification, or
- the borrower is 60 days or more past due, or
- if the borrower is less than 60 days past due, the borrower demonstrates and documents a hardship that impairs the borrower's ability to continue paying the loan.

If any of these criteria is met, CitiMortgage will (i) suspend any existing Citi-controlled home equity line of credit , (ii) if applicable, convert the line or loan to amortizing over the remaining term to maturity, (iii) determine the first-lien housing payment ratio, and (iv) apply certain financial calculations, limiting the combined housing payment ratio to 42%.

Between January 2009 and April 2010, CitiMortgage modified approximately 5,200 second-lien mortgage loans, of which all were Citi-owned. CitiMortgage did not modify any second-lien loans serviced for others, but CitiMortgage services only approximately 1,000 of such loans.

20. The Panel has received anecdotal reports from housing counselors that many HAMP modifications include balloon payments, but that borrowers are not adequately informed or given sufficient notice of the increases. What is Citigroup's policy on disclosure and transparency regarding the balloon payments embedded in HAMP modifications? Please provide samples of your current disclosures.

Response: The disclosures and modification documents sent to borrowers are mandated by Treasury under HAMP and are available on Treasury's website for HAMP, www.hmpadmin.com. Those documents disclose any applicable deferred principal balance component. Any deferred principal balance does not accrue interest.

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Please let us know if you have any other questions or need additional information from Citi.

Sincerely,

cc: Mr. Vikram Pandit