United States of America

Financial Crisis Inquiry Commission

INTERVIEW OF

MICKEY BHATIA

Tuesday, March 16, 2010

2:30 p.m. EST

***** Confidential *****

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MS. NORMAN: Hi. I'm Donna Norman of the Financial Crisis Inquiry Commission. And today's date is March 16, 2010, and it's approximately 2:30 in the afternoon.

And with me today is Victor Cunicelli of the FCIC. We're in the Washington, D.C., offices of the FCIC.

And do you want to introduce yourself on your end, Susan -- Susanna? I'm sorry.

MS. BUERGEL: We're in two places. You have Susanna Buergel and Michael Berger from Paul Weiss.

And, Mimi, I'll go ahead and let you give your introduction.

MS. REISERT: Right. And it's Mickey Bhatia and Mary Reifert from Citi.

MS. NORMAN: Okay, and could you spell your name, please, for the tape recorder?

MS. REISERT: Sure. It's R-E-I-S-E-R-T.

MS. NORMAN: Oh, I'm sorry, I meant Mr. Bhatia.

MR. BHATIA: Sure. It's -- my first is Mickey. My last name is Bhatia, it's B, as in "boy,"

H-A- “T” as in ”toy,” I-A.

MS. NORMAN: Okay, then, Mr. Bhatia, with your consent, in lieu of a formal transcription or extensive note-taking today, we’re tape-recording your interview this afternoon.

Do you consent to that tape-recording?

MR. BHATIA: Yes, I do.

MS. NORMAN: Thank you.

And, Mr. Bhatia, are you represented by counsel today?

MR. BHATIA: Yes, I am.

MS. NORMAN: Okay, and could you just identify which individuals are representing you?

And counsel can speak.

MR. BHATIA: Paul Weiss’s representatives.

MS. NORMAN: Okay.

MS. REISERT: As well as in-house counsel.

MS. NORMAN: Perfect.

And other than the folks that have identified themselves, are there any other individuals present on the call?

MR. BHATIA: No.

MS. BUERGEL: And not at Paul Weiss.

UNIDENTIFIED VOICE: *[Inaudible.]*

MS. NORMAN: Okay, if additional people join

during the course of the interview, if you could just state their names and affiliations as they join, we would appreciate that. Okay?

MR. BHATIA: Okay.

MS. NORMAN: And we'll do the same.

Mr. Bhatia, the FCIC was established by statute, and it was signed into law by the President. It's a bipartisan commission of ten, and it's charged with examining the causes of the financial crisis and the collapse or near-collapse of major domestic financial institutions. The Commission is charged with composing a report of its findings to the President and Congress by December 15, 2010.

Some of the things that we investigate will become public at some point. Our investigation, however, is confidential, and we ask that you keep the fact of and substance of today's conversation confidential as well.

MR. BHATIA: Okay.

MS. NORMAN: The Commission can compel attendance and testimony of witnesses in the production of records.

And your counsel can provide you a copy of the statute, if it's helpful.

For our purposes today, we need to let you

know that the FCIC is an agency of the United States, and FCIC staff are federal employees under the U.S. code. And section 1001 concerning false statements applies today. Consequently, it's a crime not to be truthful in your interview with us today.

Is there any reason you can't tell the truth today?

MR. BHATIA: No.

MS. NORMAN: Perfect.

A few housekeeping items.

If a question is unclear, please ask and we'll clarify it.

Please respond audibly. Since the interview is being conducted over the phone, we cannot see your gestures and your head nods.

And additionally, if you could use "yes" and "no" rather than "uh-huh" and "uh-uh," it will be a little easier for us if we need to go back to the tape-recording.

MR. BHATIA: Sure.

MS. NORMAN: Thank you.

Today, we're going to focus on the securitization and CDO business of Citigroup and Citi entities. And we're trying to understand, in particular, the structuring, valuation, trading, risk,

and risk-management practices on the CDO desk at Citi.

But before we dive into that, if you could answer a few background questions, just so Vic and I know who you are, that would help us.

Could you briefly articulate your post-secondary education and employment and --

MR. BHATIA: Yes. My -- I have a degree in radiology from -- that's a Ph.D. -- from MIT, but it's a joint program between MIT and Harvard. I graduated with my Ph.D. in 1994. I joined J.P. Morgan in risk management in 1994. I worked there between 1994 and 2003 in a variety of roles.

And then I left J.P. Morgan to join Deutsche Bank in 2003. I was there through 2006, when I was hired by Citigroup in London. And I've been with Citigroup since then.

MS. NORMAN: When in 2006 did you join Citi?

MR. BHATIA: I joined -- I started on the 1st of -- I think around the 1st of August of 2006.

MS. NORMAN: Okay. Did you come over with Michael Raynes?

MR. BHATIA: Yes, I did.

MS. NORMAN: Is -- so did he also start in August?

MR. BHATIA: He started, I believe, before

that. I don't remember the exact date.

MS. NORMAN: Okay.

MR. BHATIA: I do remember when I joined Citi, he was already in place.

MS. NORMAN: Okay. And what were you doing at Deutsche Bank?

MR. BHATIA: I was -- I was co-head of a desk at Deutsche Bank, which was a trading desk. It was called "credit correlation trading." I was co-head of that desk with another colleague of mine at Deutsche. And I was brought over by Michael Raynes to head up the same effort, to head the credit correlation trading desk at Citigroup.

MS. NORMAN: At Deutsche Bank, did credit correlation include structuring CDOs?

MR. BHATIA: It did not -- it did not include -- well, it included -- it included structuring ABS -- I believe the question is regarding the ABS CDOs?

MS. NORMAN: It is.

MR. BHATIA: Deutsche Bank had two different businesses. There was an ABS CDO business and there was also an ABS correlation business. None of the businesses were under me. That was a separate part of the desk.

MS. NORMAN: I'm sorry, you were co-head of

a -- of the trading desk at credit correlation?

MR. BHATIA: That's -- we had separated, the credit correlation was separate from ABS correlation.

MS. NORMAN: I see, okay.

MR. BHATIA: I was not running that part of the business.

MS. NORMAN: Okay. Prior to joining Citigroup, did you have experience, historically, in ABS CDOs?

MR. BHATIA: No, I did not.

MS. NORMAN: Okay. And I hope your counsel at Paul Weiss has warned you that she promised us that somebody -- and I believe that's you -- would explain to us what the correlation desk does.

MR. BHATIA: Okay.

MS. BUERGEL: Unfortunately, Mr. Bhatia has been warned, but we also had to warn ourselves because as I've explained to you, Donna, this is complicated, so…

MS. NORMAN: Let me -- well, we'll try it this way and see how it works: Mr. Bhatia, you have much more education than I do, and I'm not a numbers person. But to the best of your ability, if you could explain what the correlation desk does to somebody that is not a securities trader, and we'll see how that goes.

MR. BHATIA: Sure. I will – I mean, let me start and obviously you can interrupt me and ask me questions.

So, you know, I'm going to compare, I think the best way to explain a correlation business is to compare it with a CDO business. So, you know, just taking the case of, you know, comparing the ABS correlation business to an ABS CDO business, I think the big -- you know, the main reason why they're different is in an ABS CDO business, the deals are arranged to be able to be distributed. So the intention when ABS CDOs are put into place is, you would essentially be putting together an ABS CDO deal. There will be different parts of the capital structure with different ratings. So you'll have, you know, anywhere between AAA to the equity, which would be issued. And the intent would be to distribute all of these tranches. And the intent would be for none of these tranches to be warehoused -- or, you know, to be part of the bank's inventory for a long period of time. That is the intent of the CDO deal when it's put together.

The ABS correlation business, if you compare it against that, is a business where, you know, you do not put together the entire capital structure; you only issue only one tranche of that which is customized for

an account, this is the way it is full tranche.

And the objective is not to issue any more tranches of that, it's not a fully distributed structure; but it's more for trading business in the sense that single tranche, which is issued, then it's risk-managed by the ABS correlation desk.

Now, the risk management would have lots of technicalities and all that; but even before going into that, that's how I would kind of look at the two business models, that's how I would distinguish a CDO business to a correlation business.

So a CDO business is more of a distribution business. In the primary space, it's not really a trading business. You know, you just arrange different notes of the same CDO with an intent to sell or distribute all of them.

The ABS correlation business, you just issue only one tranche, which is very customized for a client who is on the other side, who is taking on the risk and then essentially we hedge that.

MS. NORMAN: When you say you hedge that, you hedge it for the client, so you --

MR. BHATIA: Yes.

MS. NORMAN: -- engage in an additional trade for your client, which gives them some hedging on the

first trade you did with them?

MR. BHATIA: The client would come to us -- as an example, a client would can come to an ABS correlation desk, for example; and the client would say that, you know, "I like this particular portfolio," which is either selected by our client, or the client would say that, "I have engaged, you know, a manager who is, you know, so-and-so manager, who would take the portfolio on my behalf." And the client would say that, you know, "I want an exposure to, let's say, a tranche which is attaching, you know, at 20 percent and detaching at 25 percent. That's the tranche I want an exposure to."

The ABS correlation desk then would issue a note which gives the client exposure to that tranche.

Now, the client then has a tranche, the client is fine, the client does not want to hedge because the client wanted the risk exposure that the client got.

So, now, the desk has the opposite exposure to the client; and the trading desk, since it's not a prop desk, it's now a market-making desk, would need to go out and hedge that risk.

So when I talk about "hedging the risk," I'm talking about the ABS correlation.

MS. NORMAN: All right, so you're hedging for

Citi, not for the client?

MR. BHATIA: That's right.

MS. NORMAN: That was my misunderstanding, I'm sorry. That's why I was trying to clarify in my own head.

How would you get the bespoke tranche? Who would you purchase that from? Would that be a purchase you would make from another CDO?

MR. BHATIA: No, these are -- typically, the trades were -- there were some trades which were done with other CDOs. But the bulk of the activities was done with investors. So you would typically have an insurance company or a bank who wanted to take exposure to this structure, you know, as an investment. So it typically was an investment for a bank or for insurance companies. It was an investment product.

Now, so typically, the way -- if you look at where the different deals were, what kind of clients participated in different parts of the capital structure, in the senior parts of the capital structure, you would typically see, you know, banks and insurance companies because, you know, they were -- you know, they like the highly -- you know, the higher ratings. Because, you know, in the lower ratings, their own regulatory capital consumption was much higher, so they

would go for the higher tranche of the capital structure.

Then you would see some, you know, bank investment arms, like prop desks going for more junior parts of the capital structure. By "junior," meaning the BBB type of capital structure, and that's where you would also see some CDOs buy this as an investment property on the BBB part of the capital structure.

And on the equity part of the capital structure, you would typically find, you know, *[inaudible]* security hedge funds of who participated in that.

MS. NORMAN: Did the ABS, I'll call them bespoke trades that, the ABS correlation desk bespoke trades -- and please correct me if my -- if the way I'm describing this is not correct -- would there be -- would these be RMBS subprime-backed products?

MR. BHATIA: I mean, I think at this stage, it's -- you know, I think it's good to -- I mean, if you think this is a good time to also talk about the progression of the ABS correlation business, at least at Citigroup. I'm not aware of whether the same thing happened in other forums.

MS. NORMAN: Okay.

MR. BHATIA: But I think that would probably

give you a better perspective of, you know, what kind of collateral was used and at what kind.

If you're okay with that, should I actually just describe that now?

MS. NORMAN: That would be perfect.

MR. BHATIA: So, you know, the business that Citi started around -- you know, the ABS correlation business in Citi started around 2003, 2004. I think towards the end of 2003 and the beginning of 2004 is when one of the first deals were done.

And, I mean, I would also like to emphasize, this is all from memory. So, you know, the dates could be off by a few months. But that's when the -- that's when the business started.

And originally, when the business was done, you know, there were no synthetics, there was no CDS market on ABS, so it was all -- the collateral was all bonds or cash.

So on the back of the cash collateral, you know, the desk did some transactions to start off the book.

And if you look at the collateral which was done then, it was a pretty diverse collateral. I mean, at least the deals I remember, were deals where the collateral was, you know, both European and U.S. And

if you look at the U.S. collateral, some of the earlier deals I remember would have subprime of, you know, anywhere between 5 to 15 percent and the rest was non-subprime collateral. And --

MS. NORMAN: Can I stop you there for one second, Mr. Bhatia?

MR. BHATIA: Sure.

MS. NORMAN: You're saying you recall the subprime content in the 2003 and 2004 was 5 to 15 percent.

Is that across the industry? Because you weren't with Citi at that point.

MR. BHATIA: I'm sorry, I'm talking about Citi's trades in particular. I'm not aware of the industry because, you know, as we just said, I was not working -- my background was not in ABS before I came to Citi.

MS. NORMAN: So is this something that you've been did -- you've learned about from others; but you are speaking about Citi's ABS correlation desk?

MR. BHATIA: No, I'm just speaking in particular the facts regarding Citi's ABS correlation business.

MS. NORMAN: Okay, but these are Citi-specific facts?

MR. BHATIA: Yes, these are Citi-specific facts.

MS. NORMAN: Okay, thank you. I'm sorry to interrupt.

MR. BHATIA: That's fine.

So, you know, in 2003, 2004, you know, the deals started with cash collateral. And these were deals which were, as we discussed, bespoke transactions. The subprime component in the deals I remember, one of the initial deals were 5 to 15 percent. And the reason, I mean, this is because, again, obviously, I was not at Citi when the deals were done, but looking at the books since I started getting involved in the books, that's what I remember of it.

And then the big change in the market for ABS synthetics happened towards the end of 2005 and the beginning of 2006 when the CDS on ABS market, you know -- I think the CDS market -- the CDS market became active -- started becoming active towards the end of 2005. The ABS index in particular, you know, came about in January of, I think, 2006.

So the business model of the desk changed from the end of 2005 to the beginning of 2006. To do those -- you know, fully distribute it, ABS CDO transactions, you know, like what a typical ABS CDO desk

would do, but do it with collateral which is synthetic, which is not cash bonds.

So essentially, the business model was to take advantage of the CDS market to essentially provide exposure to the CDO through the synthetics rather than through cash.

So in 2006, if you look at the main transactions which were done, were done as fully distributed -- or intended to be -- the transactions were done were intended to be fully distributed transactions.

Now, in 2006, you know, I think the desk did do some single bespoke transactions. But the bulk of the exposure which the desk put on was for these intended full capital, fully distributed capital structure trades.

FEMALE VOICE: *[Inaudible]*

MS. NORMAN: I'm sorry?

Did we lose you?

MS. BUERGEL: No, we're still here. I think somebody hadn't -- we heard somebody mention something, but we couldn't make it out. But I think -- I think Mr. Bhatia had finished his answer.

MS. NORMAN: Okay.

A couple questions here.

I think you mentioned then by the 2006 time period when you got to Citi, the business model on -- of the ABS correlation desk was to do fully distributed cap -- and fully --

MR. CUNICELLI: It was synthetic.

MR. BHATIA: That was a big part of the business model. As I mentioned, there were some bespoke deals which the desk was also doing.

MS. NORMAN: Right.

MR. BHATIA: But the big part of the exposure was the fully distributed transactions.

MS. NORMAN: Okay.

MR. BHATIA: I mean, just for the record, I don't know whether that came out here or not or whether you're aware of it. My involvement on the desk, you know, started in 2007.

MS. NORMAN: Well, I wanted to table it -- and thank you for the background explanation. But if we could table that --

MR. BHATIA: Sure.

MS. NORMAN: -- and talk about what you were doing when you were hired at Citi in August of 2006.

MR. BHATIA: Sure. So I was hired in 2006 to -- I mean, as I mentioned, to run Citi's credit correlation business.

MS. NORMAN: Uh-huh. Was that -- you were hired to work in London from the get-go?

MR. BHATIA: My job, it was a global role. So I was running the business globally. I was then located in London. So I was hired out of -- you know, I was hired into the London office.

MS. NORMAN: Okay. And who did you report to at that time?

MR. BHATIA: I reported to Michael Raynes.

MS. NORMAN: Were you a direct report?

MR. BHATIA: Yes.

MS. NORMAN: Okay. And did you have interaction with the CDO desk at that time?

MR. BHATIA: Well, not officially. I was -- you know, we had our risk meetings where, you know, I was -- I would be there presenting -- you know, presenting the risks in the credit correlation business while the CDO folks and ABS correlation folks would do that for their own businesses.

MS. NORMAN: Okay. When we talk about -- when we use the language "synthetic CDOs," would all synthetic CDOs be done on the ABS correlation desk?

MR. BHATIA: I'm not -- I'm not sure about the answer to that question. You know, I think the -- I mean, as we discussed, the ABS -- the ABS correlation

desk was definitely using synthetic collateral as the crux of their transaction. But it could be, I think, that for some of the cash deals we have done could be synthetic packets as well. It was more like hybrid deals.

But to be honest, I'm not 100 percent positive on the cash side of the business as to, you know, what side of the market were these hybrid transactions. But I believe some of the synthetic collateral could have been used in the cash deals, in these hybrid cash deals.

MS. NORMAN: But is it the correct terminology to say that the correlation desk that you ran in 2006 and 2007 was doing synthetic CDOs?

MR. BHATIA: Yes, so the desk which I ran in 2006 was the credit correlation desk, which was doing, you know -- also we were doing trades, which are called synthetic CDOs with credit underlying as collateral, yes.

MS. NORMAN: Okay.

MR. BHATIA: And in '07, you know, I continued on in my responsibility for the credit correlation business, which was just doing similar deals in '07 as well.

MS. NORMAN: Okay it. Are you at Citi now?

MR. BHATIA: Yes, I am.

MS. NORMAN: Okay. And do you have the same role?

MR. BHATIA: I actually am running a group right now called "Portfolio and Exotics Credit Derivatives," which is, you know, effectively the remaining parts of the old business, the original business, which we referred to then as "Global Structure Credit Products."

MS. NORMAN: Does that mean you effectively have the responsibilities that Michael Raynes had in 2007?

MR. BHATIA: Yes. So what we -- what we had done in 2007 was, we had taken our business which, you know, the structured credit business, which we did not deem to be the core business. We had moved that business to our holding company. And whatever the core business that remained is what I'm heading right now.

MS. NORMAN: Okay. You remained the head of the correlation -- the global correlation desk until when?

MR. BHATIA: This is -- all these changes, in terms of when I started running this new group called Portfolio and Exotic Credit Derivatives, these changes came about when Michael Raynes left.

I should remember this, but I don't remember

the exact date. I think it was November of that '07.

MS. NORMAN: Okay. But up until the time that Michael Raynes left Citi, you remained the head of the global correlation desk?

MR. BHATIA: Yes.

MS. NORMAN: Okay. What percentage -- well, let me start with, what was the volume of synthetic CDOs that Citigroup was doing through your desk in 2006 and 2007?

MR. BHATIA: Is your question specific to ABS correlation or…

MS. NORMAN: Yes, thank you.

MR. BHATIA: The ABS correlation -- I mean, in 2006 -- again, this is from memory -- I recall us probably looking at around five or six fully distributed transactions. So essentially, you know, setting us up, you know, and wrapping up the collateral for around five and six fully distributed deals. That's 2006.

I think in addition what we probably would have done, are a few, I would say, five, six -- again, from memory, around five, six single tranche, bespoke transactions, as well.

MS. NORMAN: And in 2007?

MR. BHATIA: In 2007, you know -- you know, I think what we did was we might have -- we probably would

have done one or two fully distributed deals. But I think those were the deals where we already had the collateral. So -- and, again, this is from memory, you can go back and check that, the risk report, I think the collateral was already around in 2006, but I think it's converting them into CDOs is probably what we did in early 2007 for, at most, two transactions.

Then what I remember is in the -- and then, you know, the liquidity in the market was, when my role -- the reason why we were engaged in ABS correlation is when the liquidity -- and this is in January '07 when I started looking at the risk of that -- it's when the liquidity in the market dropped; when, you know, the ABS correlation was coming into being, and it kind of changed the dynamics of the market. That's when I got involved. And since then, I remember that in the summer of -- around towards the spring, early summer, you know, we probably did, like, three or four more bespoke transactions. But after that, I don't recall us being -- and besides that, I don't recall us being active just because the liquidity in the market was not there.

Now, we did continue to hedge the book, hedge the long risk positions we had through the summer.

MS. NORMAN: Sorry, if you can bear with me.

I'm writing down a few notes so I can keep my place here.

On a synthetic CDO, if you could walk me through how that worked at Citigroup, it would be helpful.

We've had -- we've spoken to a number of people at Citigroup about how the cash CDO business works and how investors are solicited and an asset manager gets involved.

How does a synthetic deal compare with that?

MR. BHATIA: I mean, essentially, it's a -- I think it's good to separate the two different side of the businesses.

Are you talking about the bespoke side of the business or fully distributed side of the business?

MS. NORMAN: Can we start with the fully distributed side of the business?

MR. BHATIA: The fully distributed side of the business is, you know, pretty much works the same way as the cash ABS CDO works. The only -- the only difference is that, you know, rather than the CDO buying cash assets as collateral, what happens here is that the exposure in the CDO comes from CDO, you know, selling protection to effectively the different dealer desks in the street.

So, you know, you view it as the same process except that the collateral is synthetic rather than cash.

MS. NORMAN: Would that be done -- would Citi be purchasing the protection and identifying the counterparties, or would that be done through an asset manager?

MR. BHATIA: It's -- for the deals -- the fully distributed deals which were put into place, again, from memory, I think the majority of them were managed. So in a managed deal, the manager would be the one who would be directing, you know, the CDO and/or Citigroup what to do.

MS. NORMAN: And how would a deal start? Would Citi find investors? Would investors come to Citi? Or would an asset manager come to Citi? Again, on a synthetic, fully distributed CDO.

MR. BHATIA: You know, typically, again, since I was not there in 2006, I can only talk from memory. I think -- and this is was at least for a couple of deals we had, where the deal would start typically with an equity investor, a lead equity investor, who would come in and want to take exposure to the equity tranche.

You know, traditionally, equity tranche is the -- since being the most risky, is the most difficult

to customize and to place. So the equity investor would be the lead investor. And, you know, typically Citi would work with the equity investor to basically, you know, bring a manager to the deal which the equity investor is comfortable with.

MS. NORMAN: And if we could take a step back, how big was the correlation desk?

MR. BHATIA: Big? I'm sorry, in terms of the…

MS. NORMAN: How many people at Citi worked on the correlation desk?

MR. BHATIA: I think at its peak, it was around six people.

MS. NORMAN: I'm sorry, six?

MR. BHATIA: Yes.

MS. NORMAN: Okay.

MR. BHATIA: I mean, I'm not 100 percent sure. I mean, that's what I remember.

MS. NORMAN: And once a lead equity investor came to Citi and identified the type of risk and return that they wanted to undertake, at that point, would the correlation desk engage in modeling and trying to figure out the ratings and the tranche sizes?

MR. BHATIA: Yes, that's right.

MS. NORMAN: And who on the correlation desk would do that?

MR. BHATIA: On the correlation desk, there would be -- there were traders and there were structurers. So the structuring part of the correlation, ABS correlation business would then work with rating agencies to look at the rating agency tranching.

MS. NORMAN: And would that be done prior to or relatively simultaneous to choosing an asset manager?

MR. BHATIA: Typically, no. Typically, an asset manager comes first because, you know, asset managers have their own view on what kind of exposure they like, what kind of exposures they don't like. So some asset managers are comfortable trading, you know, certain exposure, certain names, and others are not.

So what would happen particularly is that, you know, the asset manager is chosen first, and then the asset manager comes up with a model portfolio, which is what is used to get to the ratings of the tranches.

MS. NORMAN: If -- you've been very helpful on this so far. But for the balance of this interview, if we could continue to talk about product -- ABS products, which have some RMBS subprime component, that would be helpful.

MR. BHATIA: Okay.

MS. NORMAN: Were there asset managers that

were comfortable in trading certain RMBS names and not others, in your experience?

MR. BHATIA: No, actually, that was not the case. I mean, I guess what I meant was, you know, the ratings of portfolios -- the ratings of the portfolio were very specific to the portfolio that is chosen. And if you go to, you know, different managers to ask them to choose a portfolio, you know, they would only come up with different portfolios just because they would view the risk return trade-off differently, with different names. And since the rating process is so portfolio-specific, that's why the first task is choosing -- choosing of a manager, then getting from them a portfolio that they intend to wrap up.

MS. NORMAN: Were the conversations with the -- the rating conversations with the rating agencies, did those happen between the Citi structuring desk and the asset manager or just the Citi structuring desk and the credit-rating agencies?

MR. BHATIA: I'm sorry, I cannot answer that question because, you know, when those conversations happened, I think the bulk of them happened in 2006. I am -- so I was not involved in the business then.

Just my -- my, you know, gut feeling would be that if we had it would be done between the desk and the

rating agencies. But it was rating separately with the asset managers.

MS. NORMAN: I'm sorry, what would happen separately with the asset managers?

MR. BHATIA: It is rating separately with the asset managers.

MS. NORMAN: So is it correct that the asset manager would have a conversation with the Citi's --

MR. BHATIA: Yes.

MS. NORMAN: -- structuring desk --

MR. BHATIA: Yes.

MS. NORMAN: -- about what the asset manager wanted, and then the Citi structuring desk would take that information and have separate conversations with the rating agencies?

MR. BHATIA: Yes.

MS. NORMAN: And who at Citi would have the conversations with the rating agencies?

MR. BHATIA: As I said, there were structures in the ABS correlation business --

MS. NORMAN: And who --

MR. BHATIA: -- who would have this conversation. I think the structuring team, you know, three people. I don't know out of the three exactly who had the conversation.

MS. NORMAN: Who was on the --

MR. BHATIA: But I could always get that information and come back to you.

MS. NORMAN: Sure.

Do you know who was on the structuring desk in 2006?

MR. BHATIA: Yes. I mean, I know who was running the desk, and I know one or two of the members of the desk. There's some members whose names I don't remember.

MS. NORMAN: Who was running the desk?

MR. BHATIA: Chris Carman was running the desk.

MS. NORMAN: Okay, and what other names do you remember from the structuring desk?

MR. BHATIA: I might not be pronouncing their name correctly, but one of the persons -- key persons on the desk was Jaime, I think Aldama was his first name. I think it's A-L-D-A-M-A, was his last name.

Then there was another person who left probably around 2006, who went to, I think, Lehman Bank -- Lehman. So I think his name is Juan Quintas, Q-U-I-N-T-A-S. Those are the two names I remember.

MS. NORMAN: And, I'm sorry, who were the traders on the correlation desk in 2006?

MR. BHATIA: I mean, these are all -- these are all traders and structurers, so they could both. I think some are focusing more on structuring, some are focusing more on trading.

MS. NORMAN: Okay.

MR. BHATIA: I'm not, you know, 100 percent sure as to, you know, who was in charge of the rating agencies and who was doing, you know, the transactions.

MS. NORMAN: Okay, did you ever have conversations with the rating agencies during this process?

MR. BHATIA: No.

MS. NORMAN: Okay, so a lead equity investor would come to Citi, Citi would obtain an asset manager for the deal, and then conversations would ensue between the asset manager and the structuring group and at some point the rating agencies?

MR. BHATIA: Yes.

MS. NORMAN: Is that accurate? Okay.

And on a synthetic CDO, how long would the process from lead equity investor interest to deal closing take, typically?

MR. BHATIA: I'm sorry, I don't know the answer to that question. I was not exposed to the full process.

MS. NORMAN: Were you exposed to a single full process?

MR. BHATIA: No. Because by the time I -- you know, by the time I started looking at the ABS correlation desk, you know, we already were in a place where, you know, the market wasn't liquid, and we were not able to, you know, sell most of our inventory. So most of those discussions, you know, probably happened in 2006.

MS. NORMAN: So from August of 2006 to January of 2007, do I understand you to say that you were overseeing the completion of deals that had already been begun?

MR. BHATIA: No, I was not involved -- I was not involved in the ABS correlation business until January of 2007. So since the time I joined Citi, which is in August 2006 to January 2007, I was focusing only on the credit collateral -- credit correlation transactions.

MS. NORMAN: And what is a credit correlation process as opposed to the synthetic CDOs? I'm sorry, you've probably explained this. But if you could make that distinction for me, it would be useful.

MR. BHATIA: So can you repeat the question, please?

MS. NORMAN: Sure. From August of 2006 --

MR. BHATIA: Yes.

MS. NORMAN: -- until January of 2007, I believe you said you were working on the credit correlation process --

MR. BHATIA: Yes.

MS. NORMAN: -- and not the synthetic CDO process, right?

MR. BHATIA: Yes.

MS. NORMAN: Okay, so the credit correlation process --

MR. BHATIA: Yes.

MS. NORMAN: -- what is that?

MR. BHATIA: Well, the credit correlation is just -- it's a different -- you know, it's a different product area as what was said. I mean, there is no --

MS. NORMAN: Let me -- let me ask a very basic question -- I'm sorry, Mr. Bhatia. Mr. Bhatia, I don't mean to interrupt you, but I might be able to simplify this.

Does it have anything to do with subprime exposure?

MR. BHATIA: No.

MS. NORMAN: Okay, that's good for purposes of this call because I do want to stay focused on that.

Okay, so until January of 2007, is it fair to say you weren't involved in any product line at Citi that related to any subprime RMBS exposure?

MR. BHATIA: That's correct.

MS. NORMAN: Okay. That's useful; and I honestly don't mean to interrupt, but I want to be respectful of your time. And we do have a specific focus, so I won't torture you with my questions about credit correlation.

MR. BHATIA: Sure.

MS. NORMAN: Okay, why were you asked to look at the synthetic CDO business in January of 2007?

MR. BHATIA: The primary reason was the fact that, you know, the ABX index was -- it came about in January 2007. And the market, you know, also soon after that started creating tranches of the ABX index. So what generally happens when an index starts trading on the tranches, the rating index starts trading is that, you know, that adds implications on how you would risk-manage your synthetic CDOs.

And, you know, Michael Raynes hired me for my expertise and effectively on the credit collateral side of the business because, you know, we went through a parallel phase when the, you know, corporate indices started trading in tranches. When that started trading,

it had an impact on the credit correlation market. So to tap into -- he wanted to tap into my expertise on the credit side to be able to lend that to the ABS side. That is the primary reason why, you know, he asked me to look at the risks -- started looking at the risks of the synthetics CDOs, the ABS correlation business in January of 2007.

The second reason also was -- which is the market had become illiquid then and, obviously, there was general concerns about the market risks we had.

MS. NORMAN: So by January 2007, there was a concern about illiquidity in the CDO market?

MR. BHATIA: Yes.

MR. CUNICELLI: And is that the first time that you became aware of any liquidity concern in the CDO market?

MR. BHATIA: Yes, I was not following the ABS CDO market. So that was when I first started getting exposure to that, yes.

MS. NORMAN: Okay. But is it fair to say it was in the context of some concern by Michael Raynes and/or others of a liquidity concern in that market, that you were asked to take a closer look at that market?

MR. BHATIA: Yes. I mean, I understand the

liquidity concern was the secondary reason. The primary reason was more about new product development happening in the marketplace, which was related to the ABX index.

MS. NORMAN: So the new -- the new products related to the ABX index, would that be -- I don't want to mischaracterize this, but from a laymen's term, is that an increase in secondary trading in synthetic CDO tranches?

MR. BHATIA: It's trading -- it's trading of synthetic CDOs with ABX as the collateral rather than bespokes.

And generally, when ABX starts trading, you know, the liquidity there is eventually higher than the bespokes.

MS. NORMAN: When you say ABX as the collateral, do you mean in reference to ABX?

MR. BHATIA: Yes, exactly.

MS. NORMAN: Okay, that's helpful.

And so it would be a -- would it be -- at this point, would we be talking about a credit default swap referencing the ABX?

MR. BHATIA: No, we'd be talking about -- so that's the ABX index. We are talking about a synthetic CDO, that's why I'm saying ABX.

MS. NORMAN: Okay, so it would be a CDO

structured to have the same cash flows as whatever the ABX was doing?

MR. BHATIA: Yes. The underlying collateral would be ABX on the CDO.

MS. NORMAN: Okay. And the ABX would be an index of how -- can you explain to me what -- the ABX was an index; yes?

MR. BHATIA: Yes, ABX was an index.

MS. NORMAN: And what was it tracking?

MR. BHATIA: The ABX was tracking, you know -- there's different rating buckets in the ABX index, but it was tracking the subprime housing sector, and it was tracking -- you know, basically, it was mimicking or it was indexed, meant to get the performance of the different tranches of subprime securitizations.

MS. NORMAN: And a synthetic -- a new synthetic product at this point would be just referencing the ABX, not actually purchasing equities from the ABX; is that accurate?

MR. BHATIA: Yes, it was just a -- it was just a synthetic CDO with ABX as the collateral. So we talked about in the bespoke, in the bespoke we'll put together transactions where you -- you know, you ran the collateral synthetically. And here, you know, the collateral would be those names which are part of the

index. That's the only difference.

MS. NORMAN: Is it accurate to say, though, in a synthetic world, that you're merely referencing collateral? There is no underlying collateral?

MR. BHATIA: Yes, you are referencing the collateral. You are right.

MS. NORMAN: So in the event of default, for instance, there is no home to foreclose on, as far as the synthetic vehicle?

MR. BHATIA: Well, no -- well, you do wrap the collateral synthetically, so the CDO will sell a protection. So there are two ways to wrap a collateral. On the cash bonds, you know, you purchase the bonds.

MS. NORMAN: So is it --

MR. BHATIA: And synthetically, the way the CDO will wrap a collateral, it will sell protection.

MS. NORMAN: Okay, so you're --

MR. BHATIA: So -- in one synthetic rate, and obviously there is a cash rate.

MS. NORMAN: So in the synthetic arena, you're relying on the credit of your CDS counterparty --

MR. BHATIA: That's right.

MS. NORMAN: -- again, not foreclosing on a house, for instance?

MR. BHATIA: Well, you're relying on the --

you're relying on the counterparty risk, because it's a swap rate, you have counterparty -- you have risks to your counterparty.

MS. NORMAN: Okay.

MR. BHATIA: But the risk to your counterparty is that -- whether, you know, if it there is payment demanded on the synthetic swap between the CDO and the counterparty, whether the counterparty would be prepared to honor those payments.

MS. NORMAN: Okay. So what's -- when you were asked to look at the risks -- I think you said you got involved in January of 2007 to evaluate the new market and the risks therein. What did you do to evaluate the risks of the market?

MR. BHATIA: So, you know, my main objective was to start working with our quantitative structurer about a model that would help us -- that we would calibrate using the ABX, you know, tranche prices. And then we can apply that model to pricing of our rest of our ABS correlation book. That was my main objective or my main focus.

So the first focus was to calibrate our book to the ABX -- you know, whatever price discovery we were seeing -- or the risk discovery we were seeing in the ABX market. And the second objective was after the

calibration of the model, to look at, you know, what other risk -- what was the risk profile of the book. So that was kind of the main focus.

MS. NORMAN: And did your group devise such a model?

MR. BHATIA: Well, the model was -- we started looking at the model. But, you know, unfortunately, the money exercise here is quite complex. And before the model actually was completed -- we made progress on that; but before the model was completed, you know, that's when during the summer the ABS market became even more illiquid and price discovery or transparency became even a bigger issue.

And then, you know, any model that basically the premise of the model is liquid transparent markets. The model was not really -- the need for the model was not there anymore.

MS. NORMAN: So you never actually did a fully distributed synthetic ABX, referencing the ABX; is that fair?

MR. BHATIA: I'm sorry, do you mean transactions or the model?

MS. NORMAN: Like, did you do any trades prior to the model being completed?

MR. BHATIA: So prior to the model being

completed, we did trades. But that was 2006.

MS. NORMAN: Okay.

MR. BHATIA: And in 2007, we did not do any ramp-ups and new trades on that.

MS. NORMAN: But the trades that were done in 2006, that was prior to you being involved?

MR. BHATIA: Yes.

MS. NORMAN: Okay, and who was involved at that point?

MR. BHATIA: That was Chris Carman.

MS. NORMAN: Okay.

MR. BHATIA: He was the one that was running the desk then.

MS. NORMAN: Okay. Did you have any conversations during this period that you were involved in the ABS correlation, from January of 2007 onward, with anyone in independent risk?

MR. BHATIA: Yes, I did have conversations. And, you know, the bulk of the conversation was on the -- was on the model, you know, on the model I discussed regarding ABX, the calibration of the model.

MS. NORMAN: And who from independent risk were you discussing the modeling with?

MR. BHATIA: It was -- it was someone named -- the main person in charge of risk was Dominic Wallace.

The person who was involved on the desk -- and I'm not 100 percent sure, but I think his name was Ravi Savur, S-A-V-U-R.

MS. NORMAN: S-A-B-U-R?

MR. BHATIA: "V," as in "Victor," U-R.

MS. NORMAN: S-A-V-U-R? Okay.

And his first name? I'm sorry?

MR. BHATIA: Ravi, R-A-V-I.

MS. NORMAN: And did Dominic Wallace actually work in independent risk?

MR. BHATIA: Yes.

MS. NORMAN: Okay. And did he have a view on this particular modeling?

MR. BHATIA: No. I think we all -- we all agreed that that was the right direction for us to go in. But besides that, you know, we didn't really discuss any policy or views. I mean, I think the policy we're taking to make up the model was the right time, it made sense to everyone, and that's where we were on that.

MS. NORMAN: Okay. Does the ABX still trade? I'm sorry, you're going to -- I don't mean to ask you such a rudimentary question, but I think it will help me ask my next question.

MR. BHATIA: It does. It does trade, yes.

MS. NORMAN: Okay, and the market did take a turn, you mentioned, with the liquidity in the summer of 2007.

Has Citi, since that time, done any synthetic CDO deals?

MR. BHATIA: Since 2007?

MS. NORMAN: Yes.

MR. BHATIA: I believe not; but I'm not 100 percent sure because, you know, when we were discussing in 2007, when Michael Raynes left, you know, the book -- the ABS correlation book was designated to our holding company so I was not involved in that after that time.

MS. NORMAN: I see. Okay.

In the conversations that you had in 2007 regarding the modeling of synthetic CDOs, did you have any conversations regarding cash CDOs?

MR. BHATIA: No. My -- my focus was on the ABS correlation.

MS. NORMAN: Did you have any conversations at Citigroup with Nestor Dominguez?

MR. BHATIA: Yes, I mean, I think we -- you know, we had, as part of the risk cause we were in, you know, we were both involved in that. And then I was involved together with Nestor Dominguez in terms of

doing, you know -- after Chris Carman left, which was around July of 2007, then I started running the ABS correlation book. Then Nestor and I and Michael had a conversation on making sure that the valuation we apply to the two books were consistent. So, in fact, we did have conversations.

MS. NORMAN: You used the date July 2007.

Did you have conversations with Nestor Dominguez prior to July 2007?

MR. BHATIA: No. I mean, not in regards to anything on -- any details on cash CDOs, no.

MS. NORMAN: Did you have any conversations with regard to cash CDOs with anyone at Citi prior to July 2007?

MR. BHATIA: Not outside the risk calls, you know, I talked about.

MS. NORMAN: Okay. Who is on the risk calls?

MR. BHATIA: All the desk -- all the desks, all the three, all of the desk heads were part of the risk also. My "desk heads" I mean, you know, everyone who reported to Michael Raynes. Then Dominic Wallace from the risk side was invited to those calls.

I believe -- I'm not 100 percent sure -- that Murray Barnes, who was independent risk manager in New York -- I think he used to report to Dominic -- I'm not

100 percent sure he was involved in that as well.

And then, you know -- and then Michael's bosses, which were Chad Leat and Mark -- I'm forgetting his last name -- he was in London, they were invited. They were there for some calls but not for all the calls.

And in some calls, also had Randy and Geoff who were Chad's and Mark's bosses, they would sometimes come in but not that much.

Mark's name, by the way, is Mark Watson. He was -- he was running the -- you know, the business with Chad Leat, but he was based in London.

MS. NORMAN: Was Chad Leat in London or New York?

MR. BHATIA: Chad Leat was in New York.

MS. NORMAN: Okay.

MR. BHATIA: Mark Watson, his counterpart, was in London.

MS. NORMAN: And how frequently were these risk calls?

MR. BHATIA: I think there will be three. Again, I'm not 100 percent sure whether there will be three or five weekly, but they were definitely regular calls.

MS. NORMAN: Okay. And are these the -- you

mentioned sometimes Randy Barker and Geoff Coley would be on these calls.

Were these all the desk heads within fixed income?

MR. BHATIA: No, this was specific to what was then called global structured credit products. That was the business Michael Raynes ran, the business plan.

MS. NORMAN: So these were just the desk heads under Michael Raynes at that time?

MR. BHATIA: That's right.

MS. NORMAN: Okay. And did you participate in these from August 2006 onward?

MR. BHATIA: Yes, I did.

MS. NORMAN: And were they that frequent? Weekly or bi-weekly?

MR. BHATIA: Yes, I mean, I believe they were. I know that Michael Raynes had started those meetings. I don't remember 100 percent when they started, which month in '06. But I believe they started in '06. I'm not 100 percent sure.

MS. NORMAN: Were there any risk reports generated in conjunction with these meetings?

MR. BHATIA: Yes, there were.

MS. NORMAN: And what did those look like? I mean, what would be in a risk report?

MR. BHATIA: With each -- you know, each desk head had given all the risks in the business. So each desk head had its -- had their own version of the risk report. But the objective was to show, you know, the open risks which the desk had.

MS. NORMAN: Were the reports just numerical or did they also have narrative descriptions of risks and concerns?

MR. BHATIA: I think it was mostly -- it was mostly tables and charts and numbers, but there were also some comments on some of the line items. That's what I recall.

MS. NORMAN: And did all of the desk heads circulate the risk reports to each other?

MR. BHATIA: No, I think what happened was someone in business management, you know, put it together for Michael Raynes, so we all submitted our reports to that one centralized person.

MS. NORMAN: Do you know who that was?

MR. BHATIA: I'm sorry, I don't know. I know the business management was -- the person responsible for business management was Nancy Paulson. But I'm not sure, I think the report went to someone who works for Nancy. I don't know who -- who put it all together.

MS. NORMAN: I mean, you used the

term “business” what? I’m sorry.

MR. BHATIA: Business manager.

MS. NORMAN: Okay, but the report wasn’t generated through independent risk management? It was generated on the business side, not on the Barnes-Wallace side?

MR. BHATIA: No -- yes, so this was a -- this was a business meeting. So this was in a business meeting. This was not an independent market risk management meeting. So this was business meetings, the risk reports were generated by the business. But as I mentioned, you know, the risk -- the risk folks, I think, went right into that.

MS. NORMAN: Okay.

MR. BHATIA: Again, a lot of these things are from memory, from ‘06. So we’d have to obviously check that.

MS. NORMAN: And I appreciate you helping us understand the structure and internal workings, which is a challenge for us.

Do you recall any conversations in two thousand and -- prior to July of 2007 on these risk -- in these risk meetings or calls regarding cash CDOs?

MR. BHATIA: Yes, I mean, when we went through the risk reports and cash CDOs, you know, we did talk

about the -- you know, the inventory we had. We did talk about the risks which were there, where, you know, Nestor and Janice kind of give an overview on -- you know, on the risk positions in the business. So, you know, we did have conversation on that during the risk calls.

MS. NORMAN: What are your earliest recollections of the risks in the cash CDO business?

MR. BHATIA: I mean, we clearly were a long risk, you know, in '06 and, you know, we were -- so the discussions essentially were centered around the nature of the risk, you know, what was the size of the risk, if you were long, and the strategy to basically, you know, effectively, you know, place those positions.

You know, the risk -- as I mentioned, the risk calls didn't go into a lot of details off of every book because, you know, the businesses under Michael Raynes -- there were multiple businesses under Michael Raynes. Even on the cash CDO side, there was a primary business and there was a secondary trading business. So -- and then, as I mentioned, I was running the credit correlation part of the business.

In '06, there was Chris Carman running the ABS correlation side of the business. And then we also had, you know, another business called illiquids trading,

where we had both folks in New York and London.

So the risk meetings, I believe, were an hour, an hour and a half, and there were all these different books were covered. So I think it was just an overview of the position and some brief discussion on strategy.

MS. NORMAN: I'm sorry, did you say the "illiquids trading"?

MR. BHATIA: Yes.

MS. NORMAN: What is that?

MR. BHATIA: That is essentially, you know, any deal which we -- which is not really -- which you have by proxy. It's not directly visible. So, you know, you might put on a trade which is, I don't know, financing, let's say, some ship builders, that's an example. I don't know whether Citi did that really or not, but it's more financing type trades which were done. And that's done using the illiquids desk.

MS. NORMAN: Do you specifically recall, in 2006 -- by 2006 being aware that Citigroup was, as you mentioned, long on risk in its cash CDO business?

MR. BHATIA: Yes.

MS. NORMAN: And what can you tell me about those conversations in 2006, on being long in the cash CDO business? What was Citi doing in 2006 about that fact?

MR. BHATIA: I think the bulk of the conversations were in terms of, you know, monitoring the positions and, you know, making sure that, you know, what -- and discussing the positions we were long in inventory, so all the CDOs we were issued we were long inventory, talking about the progress we had made in distributing any of that risk.

MS. NORMAN: In the course of any of these meetings, do you recall any conversations about -- were there any conversations about positions or risks or trading strategies the business side wanted to undertake that independent risk disagreed with?

MR. BHATIA: You know, I don't remember any of that happening. But also a function of, since I was not really -- I did not have exposure, I did not understand the ABS market. So even when I was looking at the positions, I did not have a full understanding of, you know, what the risks were all about. But I don't remember any meeting that there was any disagreement there.

MS. NORMAN: Do you recall conversations about the super-senior tranches that Citi had on its balance sheet?

MR. BHATIA: Not from '06, no.

MS. NORMAN: When do you first recall those

conversations?

MR. BHATIA: I mostly got involved in those and recall those conversations starting -- you know, starting the end of July, when Chris Carman left. And *[inaudible]* came from the ABS correlation side because in ABS correlation business, there were some super-senior exposures also. So the nature of the conversations were, you know, working together with a cash business, to make sure that when we look at the super-senior risks and the other inventory risks, we look at consistent to how the cash business did that.

MS. NORMAN: I'd like to talk a little bit about your involvement from July 2007 through --

MR. BHATIA: Sure.

MS. NORMAN: -- November 2007.

But before I do, if I could utilize your knowledge again and ask some more basic questions that might help me.

MR. BHATIA: Sure.

MS. NORMAN: When Citi did a cash CDO and was working -- we understand Citi offered up its balance sheet in a warehousing agreement with the asset manager.

At the point of deal-close, is it accurate that all of the assets were transferred into a special-purpose vehicle?

MR. BHATIA: I mean, I'm sorry, I was not involved in the cash business, so --

MS. NORMAN: I'm just trying to understand the logistics of it.

MR. BHATIA: Yes, that would make sense. But, you know, I don't -- I don't know for sure. I would assume that would be the case, yes.

MS. NORMAN: What I'm not clear on -- and I think we've been, unfortunately, in some of the conversations I've been involved in, I think, I've been guilty of using the wrong language of Citi retaining the super-senior tranches.

What I'm trying to understand is, in fact, did the assets go into a special-purpose vehicle from which Citi actually purchased the super-senior bonds?

MR. BHATIA: Yes, typically -- typically in a CDO issuance, I mean, I don't -- since I was not in the cash business, I don't have experience with any specific transaction.

MS. NORMAN: Okay.

MR. BHATIA: But particularly in the cash business, what happens is, you know, that all the different tranches are issued, ranging from equity to super-senior. And then if you don't place any tranches as a dealer, then you put -- you retain those in your

warehouse book, obviously with the intention of selling them.

MS. NORMAN: I guess that's what I don't understand. And if you can't speak to it, maybe we can find somebody else who can. But it's this language of retaining that I don't understand.

Are they -- because, technically, the asset manager purchased them on Citi's balance sheet. But I guess I don't understand who owns them at that point.

MS. BUERGEL: Donna, I'm happy to walk you through it later. It's just an institutional investment grade, underwriting of bonds. There is really no difference.

MS. NORMAN: Well, I guess you're probably assuming I know more about that than I do. And I can have that conversation with you, Susanna.

I just want to make sure I'm not misspeaking when I use the terminology that Citi retained if, in fact, what they did is purchase them from a special-purpose vehicle that was set up. That's where we're just confused about describing it accurately. But we --

MS. BUERGEL: Yes, I think it makes absolutes no difference, but I'm happy to talk about it.

MS. NORMAN: Excellent.

Then let's -- Mr. Bhatia, if we go back to the distinctions between the cash CDOs --

MR. BHATIA: Yes.

MS. NORMAN: -- and the synthetic CDOs.

MR. BHATIA: Yes.

MS. NORMAN: -- would the coupons on the bonds of the cash CDOs be comparable to the coupons on the bonds of the synthetic CDOs? Or would one be --

MR. BHATIA: I think they would not be exactly the same, but they would be comparable

MS. NORMAN: Okay. And how would you compare the returns on a cash CDO with the returns on a synthetic CDO? Would one be higher or lower than the other?

MR. BHATIA: It's -- I mean, it would be very comparable because, you know, the returns are -- overall, the returns on the different liabilities that are issued on a CDO are a function of the underlying collateral.

So if you take exposure -- if the CDO takes exposure to that collateral using cash instruments or using synthetic instruments, you know, I think the returns will be fairly comparable because the between cash and synthetic, you know, there's obviously a linkage, because one cannot become more cheaper risk

than the other.

MS. NORMAN: What I'm trying to understand is, would there be a higher return on the synthetic CDO because of the counterparty risk as opposed to, again, the underlying collateral risk?

MR. BHATIA: No, I don't think so. I mean, I think, you know, in hindsight there were other counterparty risks, which should be priced then, which we know now. But at that point in time, you know, counterparty risk was not really on top of people's mind, at least on large dealers.

MS. NORMAN: So is it fair to say that in 2006 time frame, they were priced similarly; but looking back, you might not make that judgment?

MR. BHATIA: Yes, I mean, obviously, the counterparty risk issues, you know, are -- we know they're pretty significant, and, you know, so you would look at those differently. But at that point in time, the counterparty risk was not on the forefront of anybody's mind or the market's mind.

So I think the returns in terms of the CDOs, what the different liability tranche paid were pretty comparable.

MS. NORMAN: Okay. And that leads me to -- my first question was to compare the returns of a cash CDO

with a synthetic CDO -- and my second question was going to ask you to compare the risks of a cash CDO with the risks of a synthetic CDO.

And if you could do that, again, with sort of the comparable risks in a -- as best you can, a 2006 conversation, and then maybe how, looking back, that would --

MR. BHATIA: I think the risks --

MS. BUERGEL: And, actually, maybe before you respond, I think, Donna, I should have spoke up when you asked your last question.

Returns to whom and risks to whom? What is the question you're asking?

MS. NORMAN: Thank you. The -- that's an excellent question.

And maybe if you could break that down, the returns -- well, with the returns, I was thinking of the returns to the investor on the coupons.

And is that what you spoke to, Mr. Batista [sic]]?

MR. BHATIA: Yes, I was talking about the to the investor and --

MS. NORMAN: And can I ask the second question?

And thank you, Ms. Buergel, for leading me in

that direction.

Would the returns to Citi be the same on a cash CDO and synthetic CDO? Meaning, the profit?

MR. BHATIA: Sure. No, I mean, the CDO business is a fee business. So for every CDO you put together, you get a certain, you know, points or fees on the size of the portfolio.

So, you know, I don't remember exactly what the fee terms were, whether they were different for cash CDOs or for synthetic CDOs. But the fee firms comes from, you know, the fee you make. And I don't know exactly what the different fees were. I think we need to go and look at that.

MS. NORMAN: Okay. And is that something that, with assistance from counsel, that you could -- you said, you're still at Citi in that business line?

MR. BHATIA: Yes.

MS. NORMAN: Is that something you could, with assistance from counsel, look at and provide back to us?

MR. BHATIA: Yes, I mean, we can take a look at some samples as to what the fee arrangement was in those days.

MS. NORMAN: I can --

MS. BUERGEL: And, Donna, we can just provide you with the documents and you can see for yourself what

the fees were. We're happy to give you a few sets of documents for synthetic deals and a few sets for the cash deals. And you can review the documents and then assess the fee.

MS. NORMAN: Well, and I guess what I would like in addition, would be some guidance from Mr. Batista [sic] or someone from Citi as to just a fairly generic representation that, you know, Citi made similar profit margins on a cash CD -- or didn't. I don't know if it was more or less profitable.

MS. BUERGEL: Yes.

MS. NORMAN: But that's what I'm trying to figure out.

MS. BUERGEL: Yes, I think that we should maybe also put this in -- and it's "Mr. Bhatia," not "Batista."

MS. NORMAN: I'm sorry.

MS. BUERGEL: I think we should perhaps add that to our agenda for discussion at the end of the call.

MS. NORMAN: Okay.

MS. BUERGEL: The fee firms for each deal are set forth in each agreement to the deal.

MS. NORMAN: Yes.

MS. BUERGEL: And we'd be happy to provide you

with those agreements, and you can evaluate the respective terms and compare them.

MS. NORMAN: Okay. And, Mr. Bhatia, I am very sorry for mispronouncing your name.

MR. BHATIA: That’s all right.

MS. NORMAN: It’s a challenge to conduct an interview over the telephone with someone I’ve never met. And I’m sorry for the inconvenience to you as well.

MR. BHATIA: That’s fine.

MS. NORMAN: But I certainly appreciate your helpfulness on this call.

But let me ask my question in a different way again -- and I appreciate counsel’s helpful comments as well -- but, Mr. Bhatia, in your mind, in 2006, do you have any reason to believe one way or the other than the synthetic CDO business was more or less profitable than the cash CDO business?

And if you can take volume out of that, just whether it would be more profitable to do a synthetic deal than to do a cash deal, or not?

MR. BHATIA: No, I don’t know for sure. I mean, one thing I think you would want to probably also take into account, that the cash business was a business which was a very established business and the synthetic

was kind of a new product. So I'm sure whenever a new products and there were new details you need to work out from a structuring perspective and from a documentation perspective.

So I don't know whether that would imply a synthetic would have a higher fee or not, I'm not sure. But, you know, that would be the only thing I would think as to how the deals are different.

One was a new market emerging at that time and the other was a relatively established business.

MS. NORMAN: In general, do new products carry a slightly higher premium?

MR. BHATIA: Yes. I mean, as I mentioned, you know, the CDO business, you know, was viewed as a fee business. It was a volume business. So, you know, the way the business would be looked at is, you know, how many -- how much -- how much structures are involved in the transaction. How many hours, right? It's more of a management-consultant type, like a pricing you would look at.

So a new product like CDS, ABS CDO, I could imagine that, you know, kinks would need to work out on the document. You would need to, you know, essentially work more with the rating agencies.

And since everything -- everyone is looking at

this from a new perspective, I'm sure it takes more time than a regular cash deal. But would that cost fee be a higher or lower fee, I'm not sure. I have not seen those agreements. I'm not sure about that.

MS. NORMAN: Okay. I appreciate that, your helpful response.

Some of the things I was going to ask you, because I'd like to get to July 2007, but I want to think somewhat orderly here.

Is there any concept of CDO-squareds in the synthetic world?

MR. BHATIA: Yes, there's a concept of that, yes.

MS. NORMAN: I'm sorry, that was a very poorly worded question, but I appreciate you helping me with that. And if you could give me any explanation that would walk me through that, it would be helpful, too.

MR. BHATIA: Sure. I mean, your question was, did CDO-squared transactions did they get on synthetics space. And, you know, I know that, you know, at Citi we did at least two trades which I remember. In '07, you know, I'm not sure whether we have any other transaction there. I don't remember the book to know if there was anything which was done, apart from these two.

MS. NORMAN: Can you explain to me what a

synthetic CDO-squared would look like?

MR. BHATIA: Yes. What it would be, it would be a CDO where the underlyings are not, you know, single-name RMBS, but the underlyings are CDOs themselves.

MS. NORMAN: Are all CDO-squareds considered synthetic?

MR. BHATIA: No, because you can have a cash CDO, you know, which buys other cash CDOs within the actual financial pool, the financial pool, a small or big part of a financial pool. So synthetic CDOs could be with cash as well synthetic.

MS. NORMAN: Okay. So if you could walk me through the -- well, the two trades that you did in 2007 that were synthetic CDO-squareds.

MR. BHATIA: Sure. The trades -- I think both trades are very similar. What the trades were, we, I think, packaged, I think, the junior -- I'm sorry, we packaged the junior AAA -- we packaged the AAA risk. I think we took -- I don't know how many bonds. From memory, probably around ten to 20 bonds. You know, I'm not 100 percent sure.

When we took ten or 20 AAA bonds and we packaged them into a CDO and bought protection on a senior tranche of that from a client.

MS. BUERGEL: And making a policy -- this is Susanna -- were these -- these are trades you're speaking of, out of the London area, just to be clear?

MR. BHATIA: Yes, these are the areas for *[inaudible]* trades.

MS. BUERGEL: And were those bespoke trades that you're describing? Not fully-ramped trades?

MR. BHATIA: Bespoke trades, yes.

MS. BUERGEL: Okay.

MR. BHATIA: I am not -- don't know what cash CDOs, whether there were any trades or not on that side.

MS. BUERGEL: And when you say "cash," you're using that to refer to the desk in New York? I mean, Ms. Norman's question went to synthetic, I think, intentionally. But you're saying out of the desk in New York, you're not sure what they may have done?

MR. BHATIA: That's right. That's correct.

MS. BUERGEL: Okay.

MS. NORMAN: Mr. Bhatia, you said you packaged ten to 20 junior AAA bonds into a CDO?

MR. BHATIA: Yes.

MS. NORMAN: And then there's -- where is the -- and then you bought protection against that; is that correct?

MR. BHATIA: Yes, we bought it -- we took ten

to 20 CDOs and then put them in as part of the -- made them the collateral pools and bought protection on the senior tranche side.

The collateral pools were CDOs themselves, that was the CDO-squared.

MS. NORMAN: I'm sorry, since the collateral pools were CDOs themselves? Okay.

And did you sell the junior tranches of that?

MR. BHATIA: I think we placed some tranches. I don't recall 100 percent now whether we -- we did, I think, two trades. Whether we did both trades as senior trades or we did one junior or one senior trade. But we did not place all parts of the capital structure of the CDO-squared. We placed only, you know, one or two parts -- you know, one or two parts of the capital structure.

MS. NORMAN: And the part that Citi did not place, it bought CDS protection against?

MR. BHATIA: Yes. And we only bought protection against the parts we placed. The parts we did not place, we did not buy protection. This is one of those bespoke, you know, ABS correlation trades where you only buy protection on the parts which you place a tranche.

MS. NORMAN: Okay, is one of these two trades

Ridgeway Funding II?

MR. BHATIA: I don't know.

MS. BUERGEL: No, that was out of the New York desk, not London.

MS. NORMAN: Okay. That's probably what you were establishing earlier. I appreciate that.

MS. BUERGEL: And the Ridgeway II deal was not a synthetic deal and it was not a CDO-squared. So it wouldn't be responsive to your question in the first instance.

MS. NORMAN: I didn't think it was, but the protection part started to sound a little like it, so I thought I would ask. But thank you.

So why did you buy protection against the bonds you sold?

MR. BHATIA: So, against the -- this was a bespoke transaction --

MS. NORMAN: Yes.

MR. BHATIA: -- where what the client wanted to do is take exposure to a CDO-squared on senior parts of the capital structure.

So effectively, you know, at that point in time -- and I think the trade was priced around strength. And the AAAs were trading down which, which many people thought was the liquidity reason. So that

was a way for the client to get leverage exposure on those AAAs.

MS. NORMAN: I guess I'm not clear then.

The CDS protection that Citi purchased, did you purchase it for your client or for Citi?

MR. BHATIA: Well, you know, any ABS correlation, bespoke correlation trade, we purchase from clients from the book. And then, you know, we hedge it on the book -- I think this was one of the very first things we talked about, about the ABS correlation space, about what ABS correlation meant. This is a trade, which, you know, where the leader desk, in this case Citi, trades with the client, buys protection from the client on the portfolio and the tranche which the client wants. And then that is hedged by Citi.

It is not -- it's not tranched because this is not a fully distributed deal.

MS. NORMAN: Okay, but the -- is it accurate that the collateral you're purchasing and the protection that you're purchasing are both for the client? You're not betting against the client here?

MR. BHATIA: No, it's -- by definition, when you do an ABS, when you do an ABS correlation deal, you're betting against the client, because the client is selling protection and the desk is buying protection.

But then what the desk does is goes and hedge the risk in the market to hedge themselves.

So the client -- the client and basically the leader desk is on the opposite side of the trade, by definition, because they're trading with each other and it's a synthetic trade.

So the way the client, the dealer will then hedge, is that the dealer will go in and sell protection in the market to hedge that.

Yes, so the dealer -- the dealer is effectively neutral in that case because the dealer was hedged.

MS. NORMAN: Okay. You said you did two synthetic CDO-squared, you think, in the --

MR. BHATIA: My memory, what I remember is two in '07. And you can obviously confirm that number and also see if there were any other CDO-squared trades done before that, like in '06, that are in the book, in the ABS correlation book.

MS. NORMAN: And do you know what, ballpark, the volume combined of these two deals was?

MR. BHATIA: I'm sorry, I don't remember the sizes.

MS. NORMAN: Would they be collectively over $2 billion?

MR. BHATIA: No. I think the size probably would be 250 to 500, at most.

MS. NORMAN: I'm sorry, say that again?

MR. BHATIA: 250 million to 500 million, at most. That's the range.

MS. NORMAN: Oh, 250 to 500 million?

MR. BHATIA: I would guess right now.

MS. NORMAN: And do you know if Citi lost money on those trades or -- it sounds like they were hedged.

MR. BHATIA: Yes, I mean, Citi maybe lost money on ABS correlation books. So that was kind of the end result of the goal. So, obviously, Citi was, you know, long risk at the end.

MS. NORMAN: Okay. And let me ask a very basic question.

What went wrong in Citi's hedging analysis to result in it losing money on the ABS correlation book?

MR. BHATIA: I mean, I think there were two things that went -- that went wrong. I don't know whether those two things, you know, now in hindsight, whether at that point in time you could have predicted what went wrong or not.

The first thing is that, you know, Citi, we relied a lot on the distribution. You know,

distribution of CDOs functioned really well until the crisis hit us. And I remember in '06 or something like, you know, Citi doing, you know, one CDO a week. So we relied a lot on distribution. And whenever you have a distribution business, then you start ramping a lot of transactions at the same time because you have a pipeline which you are pricing every week, going forward.

Now, what happened was, I think we were relying a bit too much on distribution as the risk management source. So then the market stops and the market becomes illiquid. When people stop buying the CDOs, then you left with a lot more inventory.

You know, Citi was pricing, you know, rather than one deal a week, it was pricing one deal a month. We would be ramping at the same time much fewer deals. And the size of the losses for us would be much smaller.

So I think that's the first thing which, you know, *[inaudible]* Citi, which is basically relying on distribution -- relying on distribution too much as a mitigation source, giving too much confidence in distribution, and not really foreseeing that the markets would stop or could stop, and then the distribution would stop.

I think that's the first risk which Citi took,

which in hindsight, you know, is a long risk to take.

The second is, you know, the super-senior positions, because the super-senior position, the intent was to keep that. And the intent was driven by the fact that, you know, these things were at that point in time trading around, you know, not even a quarter of a percent. So the idea was that these positions are relatively risk-free and, therefore, you know, the size of the position that was added on between the both cash business and the ABS correlation business, you know, the side with subprime, super-senior was approximately 6 billion.

But, you know, in hindsight, that full exposure what Citi did, it cost cash, cash and synthetic on the super-senior was quite large. But, you know, I always look back to see whether at that point in time they would have kind of predicted and this *[inaudible]* some of that would traded on, you know, whatever -- 10,000 basis -- or 10 percent, or instead of 100 percent price of zero, it's difficult to predict that, but in hindsight obviously the concentration which we had was quite large.

MS. NORMAN: Did -- you mentioned the intent was to keep them because they were considered very low risk, I think.

MR. BHATIA: Yes, the super seniors were considered as a very safe risk, yes.

MS. NORMAN: Do you recall that being the intention, to keep them? Or was it just because they were low -- as opposed to the fact that they were low-risk meant that nobody else really wanted to buy them, either, because the returns were low? Do you know one way or the other?

MR. BHATIA: No, I don't know one way or the other.

When I started looking at the ABS correlation book, we had, as I mentioned, we had 6 billion of that risk. And, you know, the discussions were there in terms of whether we would hedge those or not. So I think there was a comfort in that risk, given the fact that it was a very senior risk.

MS. NORMAN: I'm sorry, you said you had 6 billion of super-senior exposure on the ABS correlation desk?

MR. BHATIA: Yes.

MS. NORMAN: And did you ever try to sell it?

MR. BHATIA: I don't recall -- I don't recall trying to sell it because, you know, by the time, you know, I started looking at the book, the liquidity was very *[inaudible]* and so there were no buyers of --

liquid buyers of structure risk.

MS. NORMAN: Did you ever have conversations with any of your predecessors as to how that much was amassed in one place or why it was sitting on the books?

MR. BHATIA: No.

MS. NORMAN: Did you ever have a feeling or understanding as to whether other major market participants were exposed in the same way to super-senior positions?

MR. BHATIA: I mean, I didn't know for a fact as to how much super-senior other dealers had. But my understanding was, you know, people, dealers with high-volume business and comparables, Merrill Lynch was -- Merrill Lynch was one where the CDO volumes were quite as big. I think they were number one behind us. But, you know, my understanding was that all the desks, all the dealers were very active in CDOs, had also an active inventory as well, spread over super-senior to the more junior tranches.

And as I mentioned, the inventory had to be maintained to feed the pipeline which was coming in the foreseeable future.

MS. NORMAN: I'm sorry, you mean the -- but you don't mean the super-seniors there? You mean, the inventory --

MR. BHATIA: Yes.

MS. NORMAN: I'm sorry, I -- for purposes of -- since we're taping, I'm afraid we're going to get a terrible recording here.

But when you say the inventory had to be maintained for the pipeline, you're talking about the ongoing warehousing to create new CDOs?

MR. BHATIA: Yes, I am, yes. Yes.

MS. NORMAN: And forgive me for reasking a similar question in the same way, but one of the things we've been trying to understand is just the rationale behind how the super-seniors ended up on Citi's books. And just from a risk-management perspective, whether it was just sort of a loss leader, that it was good business to Citi to take that position because its clients wanted the other positions, or whether Citi was making an intentional, you know, risk -- whether Citi thought that they were profitable, and wanted to have that particular product on its books?

MR. BHATIA: I'm not sure what the answer to that question is, since I was not around then when these things were put on. So I don't know what the rationale then was.

MS. NORMAN: From the ABS correlation desk --

MR. BHATIA: Yes.

MS. NORMAN: -- can you tell me the 6 billion in super-senior exposure --

MR. BHATIA: Yes.

MS. NORMAN: -- how profitable was that? I mean, you said it was paying a quarter percent; is that --

MR. BHATIA: Yes. Initially, when it was taken down, it was probably, you know, not more than a quarter percent. I don't know exactly at what price it was taken down.

But, you know, in the ABS correlation business, it was -- you know, it was part of this fully distribution transaction which the business started ramping up in 2006.

You know, and there, the business didn't sell in many cases, even the junior tranches, let alone the super-senior. So that there was just long risk in super-seniors as well as junior tranches.

MS. NORMAN: From a pricing perspective on CDOs, are the coupons that -- the tranche coupons, are they fixed or variable?

MR. BHATIA: The tranche coupons are typically fixed.

MS. NORMAN: And can you give me -- looking at a typical in 2006 -- and it can be synthetic, since you

mentioned the pricing was somewhat comparable -- what kind of ranges would there be on the coupons in the -- you mentioned the super-seniors would be a quarter percent. What about the senior position that was sold? What would the coupon be on that?

MR. BHATIA: The senior positions, I would say -- and, again, this is from memory -- it would be around a half a percent.

MS. NORMAN: And the mezzanines?

MR. BHATIA: And the junior tranches would go as high as -- they'd go up the rating scale. They would go as high as, I would say, you know, between two and a half to 3 percent for, typically, a BBB-like tranche.

MS. NORMAN: And the equity?

MR. BHATIA: Equity coupon would be, in many cases, would not be stated. I mean, equity would get the [*inaudible]* cash flow, typically in these transactions. So equity, people look at more not in coupon but, you know, what is the rate of return in the different default scenarios. That's typically, you know, what people look at for equity and equity investors. You know, usually demand is around 10 percent or higher, depending on -- you know, depending on particularly the type of collateral, that sort.

MS. NORMAN: How high would that go in the synthetic CDO world?

MR. BHATIA: I'm not -- I'm not – synthetic does not have stated coupons. I'm not sure how high that it would be. It would be a function of the performance of the portfolio.

MS. NORMAN: What would be the return that -- the investor that came to Citi in the synthetic CDO space? Your lead equity investor, what would be the highest sort of return that you would be trying to model for them, bearing in mind that they bore a lot of risk and it might not work out that way?

MR. BHATIA: Sure. I mean, I think -- I don't know the exact answer to your question because, you know, spreads were pretty tight and it was a different environment, so I don't exactly know whether the deals were modeled as the basis coupon. But I would imagine it would be around 11, 12 percent. That's because that's what the equity investors were kind of -- what their target was at that point in time.

But I don't know specifically where our *[inaudible]* modeled to.

MS. NORMAN: Okay. And did these -- did these pay quarterly or monthly or --

MR. BHATIA: Typically, they pay quarterly.

MS. NORMAN: Okay. And when we were talking about them being fixed, is that -- is that fairly consistent, or did that vary as well in the ABS CDO context? Were they always fixed?

MR. BHATIA: The coupons -- the coupons are fixed.

MS. NORMAN: Okay.

MR. BHATIA: I mean, I think there are certain nuances of the deals where what is -- the coupon is -- in some deals, the coupon is based on a different notional, which is the technicality of these deals, which I don't remember now. In some deals, they're called write-down structures. As the losses happen, the principal is written down. In some deals, the principal is not written down immediately. It's written down towards the end of the deal.

So the coupon is fixed as a percentage. But the size of the tranche is the one that varies depending on what type of structure the deals were done under.

MS. NORMAN: Okay, and I suppose some of them may be overcollateralized as well, changing the calculus on that; is that --

MR. BHATIA: Calculus, huh?

MS. NORMAN: If a deal is overcollateralized, would that also mean that the coupon was on a smaller

notional?

MR. BHATIA: No, I think the collateral -- the collateral test, yes. I mean, the collateral test would cash those away from some tranches to some more senior tranches. So I think that in effect the coupons is to extend the coupons get diverted to make the deals more stable for the senior investors. But the stated coupon will not change in specific.

MS. NORMAN: Okay, that makes sense.

Let me go through my notes here, if I can, for a second.

If we can go back to July of 2007, what was your involvement in July 2007 in either trying to delever or assess the risks or in any other way on the -- in the CDO business?

MR. BHATIA: Sure, in 2007 -- in 2007, in July, you know, I don't recall exactly when Chris Carman left. But when Chris Carman left, then I took over running the ABS correlation desk.

And my focus, you know, starting then was to look at the risks in the book to see, you know, how we would derisk the book. And that was kind of the bulk of my focus on that.

MS. NORMAN: What did you do to derisk the book?

MR. BHATIA: The CDO market was at that point in time, you know, completely illiquid, so we could not relegate our CDOs which were there in the inventory and ABS correlation book sell those because there are no buyers of that. So the only way we could hedge the book is buying, you know, protection on senior RMBS in synthetic form, which is what we did.

So in starting August and September, you know, we became active in terms of pursuing of this protection.

MS. NORMAN: Were you ever aware of anytime in early 2007 when the cash CDO business was purchasing -- increasing its purchasing to take advantage of distressed buying opportunities?

MR. BHATIA: No, I was not aware of that, no.

MS. NORMAN: Prior to me just asking that question, is that something you've ever heard?

MR. BHATIA: No.

MS. NORMAN: Did you have any involvement or conversations regarding the seven SIVs out of the London desk?

MR. BHATIA: Can you repeat that?

MS. NORMAN: Sure. We understand that Citi had seven special investment vehicles.

MR. BHATIA: Oh, yes, I was not involved in

that.

MS. NORMAN: Okay. That makes for a short conversation.

When you came over to Citigroup in 2006 with Michael Raynes, did you have any understanding as to whether Citi was trying to grow its CDO business?

MR. BHATIA: No.

MS. NORMAN: Okay.

MR. BHATIA: I was not aware of that. I was -- you know, I was focusing on correlation.

MS. NORMAN: That's fair.

MR. BHATIA: Because I was not aware of any growth plans or otherwise on the CDO side.

MS. NORMAN: Okay.

How much did you make when you were hired in 2006? What was your compensation package?

MR. BHATIA: My compensation package in 2006 was -- I think my cash compensation was -- and, again, from memory, I think it was around three million.

My deferred compensation in stocks was, I think, another two and a half or so. Again, this is from memory. Another two and a half million in deferred compensation.

MS. NORMAN: And did that change significantly in 2007?

MR. BHATIA: In 2007, I think my cash compensation was lower. I think it was two and a half million. And I think my deferred was lower as well, to be -- I think it was around two and a quarter million.

MS. NORMAN: And in 2008?

MR. BHATIA: I'm sorry, that's -- that's a time I don't really remember what happened. I don't have that number in my mind.

MS. NORMAN: In your mind, was it staying relatively the same or was it going up or down?

MR. BHATIA: I believe it was lower than 2007.

MS. NORMAN: Okay.

MR. BHATIA: And I just don't remember the number.

I think it would be around -- between three and a half to four million total compensation. I don't know -- I mean, I don't remember how much was in cash and how much was in deferred in stocks. I don't remember that.

MS. NORMAN: Okay. Did you have any meetings with regulators while you worked with Citi in 2006 or 2007?

MR. BHATIA: Yes, I had meetings -- the meetings, I mean, I remember were with OCC in 2007. And

that was as part of the examination which OCC was doing in London.

I was involved in the examination, you know, from the credit correlation side in terms of the OCC coming in and examining the credit correlation business.

MS. NORMAN: Are we allowed to ask questions about that, Ms. Buergel? I don't know the status.

MS. REISERT: Yes, no -- Mimi-- the OCC and have waived their assertion of the bank examiner's privilege.

MS. BUERGEL: They have, okay.

MS. REISERT: They have. All right.

MS. NORMAN: Okay. Can you tell me what you remember about those meetings with the OCC, Mr. Bhatia?

MR. BHATIA: Yes, the meetings with the OCC were focused on non-subprime, non-ABS business. It was focused on credit correlation. You know, the credit correlation, you know, we had gone through -- and this is around the -- before the time I joined through a bar *[phonetic]* approval process. Bar is *[inaudible]* valued interest, so valued interest approval process, so the meeting was the follow-up meeting to that. And it was also a follow-up meeting to -- I think in 2005 there was an OCC audit in New York.

So the discussions there were mainly specific

to the credit correlation as well, and the ABS correlation business, I didn't represent that business, therefore, I did not represent anything related to subprime there.

MS. NORMAN: Did you have any other meetings with regulators while you worked with Citi in 2006 and 2007?

MR. BHATIA: Yes. I mean, I had other meetings with -- at least I recall one meeting with -- the way I recall, OCC examiners -- I'm sorry, OCC examiners in that meeting. I think that was more of – and I don't remember, unfortunately. It was in 2007, I don't remember when the meeting was. But just as a general, you know, market update in terms of -- you know, in terms of what was happening in the market, and I can't discuss exact positions.

MS. NORMAN: Did you -- in the course of those meetings, do you recall any questions or concerns from the OCC regarding Citi's subprime exposure?

MR. BHATIA: No, the at this meeting I'm talking about, which I remember, was after -- it was around, I think, the fall of 2007, where the subprime market had largely unfolded. So I think it was more of a question of, you know, a reflection on the market and a reflection on the position. That was basically the

main topic there.

MS. NORMAN: Do you recall at any time OCC being critical of Citigroup's risk management practices?

MR. BHATIA: Well, I mean, I know that the audit of credit, the credit correlation audit which happened in 2005, again, that was not limited to subprime, that was not limited to ABS -- I'm sorry, that was not included subprime or ABS correlation, you know, I was critical of the credit correlation desk so I was involved in kind of answering their concerns on that. And that's why there was a follow-up audit in 2006 on that. But I don't remember any concerns regarding the rates regarding, you know, subprime exposures or ABS correlation, while I was running that business.

MS. NORMAN: And in 2006 and 2007, was the OCC critical at that time of Citi's --

MR. BHATIA: I was not involved in that, so I'm not sure.

MS. NORMAN: Oh, I'm sorry. Fair enough. I thought you said you were in meeting at that point.

Any other regulators, other than the OCC that you met with in 2006 and 2007 at Citigroup?

MR. BHATIA: I mean, I also recall a meeting with Fed. But I don't recall the content of the meeting. It was, again, more, I think, from market

color than discussing any positioning and so on. I don't remember the exact content of the meeting, though.

MS. NORMAN: Okay. Any meetings with the FSA?

MR. BHATIA: I mean, I'm trying to remember it, but I was in a meeting with FSA or not. To be honest, I don't remember. You know, I need to go and check back whether there were any meetings scheduled between me and the OCC. I don't remember anything -- any discussion -- any discussion with FSA on subprime or on ABS correlation, that I'm meeting with them on credit correlation, which I don't recall these days.

MS. NORMAN: Looking back at your -- at 2006 and 2007 -- and these are, by way of background and explanation, the next very short line of questioning, Mr. Bhatia -- and we are almost finished -- one of the things that the Commission is charged with is just looking at what exactly caused the perfect storm. You know, business decisions that were made by institutions, factors in market, regulation, a lot of -- we're looking at a lot of things.

And we're not an enforcement body, by the way. We're just looking at potential causes and contributors to the financial crisis. So one of the things we are asking everyone we talk to -- and I know your time at Citi was short, but it was during a critical time so I

will ask you these questions as well -- is looking back to your time at Citi, from August 2006 to November of 2007, do you think you made any mistakes --

MR. BHATIA: No.

MS. NORMAN: -- regarding the -- okay.

And --

MR. BHATIA: You mean, you're asking me as a person, right?

MS. NORMAN: Yes, just in regard to the business decisions you made. And again, your time is short, so the question, I know, doesn't -- is a little strange in your case.

But from at least August of 2006 -- well, I guess you were on the other desk.

Looking back, in hindsight, do you think other individuals at Citigroup that you came across and perhaps studied when you moved into the roles you moved into in 2007, do you think there were mistakes that others at Citigroup made in that regard to the ABS CDO business?

MR. BHATIA: No. I mean, I don't think there were any mistakes made. But, you know, I think as I talked about, I think, in hindsight, it's clearly indicated that our exposure in the sector was high.

MS. NORMAN: And looking back, and from

lessons learned and just anything you've gathered during your time at Citigroup, can you give us any color on why Citigroup may have been more exposed than others in that area?

And I know you mentioned Merrill and others, and certainly there were other market participants that were also very exposed. But, you know, there were some large market participants that were less exposed.

Can you add any color on why Citi got itself in a position of more exposure?

MR. BHATIA: Sure. I mean, I think as I had mentioned before, the first thing was -- so when I looked at Citi's risk in ABS -- you know, in ABS CDOs, you know, we had super-senior exposure, we had more junior exposure.

And, you know, the junior exposure or the warehouse or the inventory exposure was purely from the fact that, you know, we were active -- very active in the CDO business. The CDO business was a fee business. You know, we made a small fee for distributing that risk. The premise was that we would not be left with any open risk. But when the market stopped, then obviously you were left with a lot of inventory positions. And as a result of that, you know, we took huge losses and we gave up all the fees that we earned

over the last -- over the last ten years or so in the fee business.

So it's clearly the case that we were relying a lot on our distribution to take us out of risk. And, you know, we did not contemplate -- looking back again, we did not contemplate that the distribution, you know, would stop one day.

So that, I think, in hindsight is one thing that we've learned from this, learned from this crisis.

The second thing is, the super-senior position, focusing on that for a second, you know, clearly our exposure across the two, cash book and the correlation book was quite high. You know, and, again, looking back, that exposure it was oversized versus our competitors, and that exposure should have been lower.

And, again, in hindsight, you know, when you look at it now, something that pays, you know, a quarter of a percent, you know, you're looking at an upside, which is not that much; right? Because it's just the fee you earned, but you're looking at the downside, which is quite high.

So looking back, it seems that it was not the right decision to have been made, to, first of all, concentrate on a lot of risks in super-senior and then concentrate on something that doesn't pay you that much,

right, so the return on capital doesn't seem to be that high, now knowing that the capital obviously was much higher than originally we had initially *[inaudible]* that it was.

MS. NORMAN: Do you -- from the August '06 time period, you know, until the summer of 2007, do you recall any conversations in Citi just about the quality of the underlying collateral? How the RMBS and the underlying mortgages were originated? Whether originating standards were not high?

MR. BHATIA: No, I don't remember any conversations from -- you know, as I mentioned that stage, my involvement was in risk meetings. I don't remember any discussions on that.

MS. NORMAN: Do you personally think that the explosion of the CDO market contributed to the financial crisis?

MR. BHATIA: I mean, I think it's -- I mean, I think the crisis was essentially, I think, came -- I don't think the CDO was responsible for the crisis.

My personal view is that, you know, CDOs did result in basically degrading leverage in the system for some investors. And so they were more adversely affected by the crisis.

MS. NORMAN: What about the increase in

synthetic products and the ease with which leverage could be increased without increasing through the real underlying assets? Do you think that contributed to the financial crisis?

MR. BHATIA: I mean, again, I don't think it contributed to the -- I mean, I don't think it contributed to the crisis, but it did -- for some part, it did create a chain reaction there for some parts when, you know, the losses were outside versus outside versus the capital they had. And as a result of that, you know, I think there is a systemic factor which resulted in that being transmitted to other parts.

But I do think the genesis was not CDO-related. The genesis was just the macro-economic factors, or the technical factors affecting the underlying collateral.

MS. NORMAN: These questions may seem unfair to you -- but I don't run across too many Ph.D.s in the trading world so --

MR. BHATIA: I look at our portfolio, and if you look at our portfolio, you know, our exposure, in, for example, in the synthetic states, in CDOs were all in notional terms much more than in cash terms. And that's because synthetic was -- you know, was a market which was a new market, and cash had been around for a

while. So if you look at the size of the exposure we had, you know, synthetic was much smaller than cash.

MS. NORMAN: Was -- and I just, because I'm so new to this and you have more time with it, I'm going to ask you, was one of the significant drivers on the synthetic process just that people couldn't do deals fast enough?

MR. BHATIA: I think it was more customization rather than people can do deals fast enough or not. You know, I think that's basically what I would -- you know, I would say was the primary reason.

Because, you know, yes, you're right, the deals in terms of wrapping up the collateral, it's easier -- or it's quicker to just sell protection rather than find where the bond is -- the cash bond is, and then bind the cash bond. So the fee is, obviously, the basis -- is different. But I think the primary reason why this is done is because of the customization of risk.

MS. NORMAN: Have you ever given testimony or a deposition before, Mr. Bhatia?

MR. BHATIA: No.

MS. NORMAN: And have you ever been involved in any litigation related to your work with Citigroup?

MR. BHATIA: No.

MS. NORMAN: Is there anything else that you think we should know?

MR. BHATIA: No.

MS. NORMAN: Would your lawyers like to add anything?

MS. BUERGEL: I don't think so.

MS. NORMAN: Okay.

Two final comments, Mr. Bhatia.

One: Thank you. I know this has been enormously helpful. These are scenarios that are very new to us. And, unfortunately, we don't have a lot of time to figure out a lot of these things, so we really appreciate being able to go directly to somebody who does this for a living. And you've been very patient, and we appreciate that. And that comes with an apology for those things which, with more time, I would have endeavored to understand more before talking to you. So that's the first.

And the second is, just to reiterate what I mentioned at the beginning of the call, that while one of our missions is to hopefully make public some views on some of the contributing underlying causes of the financial crisis, our investigation work is confidential. So we would ask that you not share the fact of or substance of this interview with anyone other

than your counsel.

MR. BHATIA: Sure.

MS. NORMAN: And with that, I'm going to turn off the tape-recorder, with those words.

(End of interview with Mickey Bhatia)

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