Memorandum for the Record

Telephone interview with Ann Rutledge of R&R Consulting

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April 22, 2010

No tape recording

Background: Rutledge used to work for Moody's. We served Rutledge with a friendly subpoena in order to allow her to talk to us about her examination of Parmalat's securitization bonds for Citigroup.

Rutledge left Moody's in 1999.

She said, "There was pretty clear evidence of fraud taking place at Parmalat. The customer made up a lot of data. Her response was that Moody's doesn't look at fraud. I knew that the agencies turned a blind eye to fraud."

In 2007, she was asked to be investigate. "It was clear it was something collaborative between Citi and Parmalat."

The first problem was that Citi did due diligence and then takes the results of its due diligence to Moody's.

As part of the proof of its "Prime-1" ness was an argument about cumulative losses. Simple with over collaterilzationwith loan loss reserves.

"Static pool vs revolving pool". Static pool is a measure of risk. So loan loss is 2x. So credit enhancement was les

The worse thing in the Parmalat case was double invoicing to their dealers.

Both receivables would be secured.

Receivables cannot be fixed in the conduit.

Her class, 1998-2003. The first time, Davis Square with Goldman Sachs, TCW as collateral.

Triggerles=top tranches in ABCP conduits.

Reps and warranties- absolute quantity of receivables.

We service portfolio of debt issues from 03-06.

Credit standpoint: How are inventories repaid from receivables if servicer is substantially impaired. A few invoices are legitimate.

If we can get data and spread it.

Three main questions:

Reps and warranties?

Service? If there's a shortfall, do you the servicer pay it back?

Do they recast pool from one days to next?

Ann Rutledge email

What I didn't explain in the last email is that, in the binder of data were printouts of Citi's data management system. I actually spread out a lot of that data into Excel--probably nobody expected anyone to do it, the numbers were size 10 font--and discovered two things as a result. #1, the deal didn't work, almost from the beginning. (In the XLS I sent before, look at how the Credit Notes have to grow, and look at how the loss reserve is eaten into-it's actually negative, which means they're under-collateralized.) And #2, Citi was treating all the defaulted accounts as if they would self-liquidate in time for the next payment. I showed this to my husband, who said this was an old trick; that Citi was treating defaulted CC accounts as tier 1 capital in 1991, when he worked in the CC department.

Sources of bad practice

Hiding mounting losses by expanding asset in securitization (the denominator effect)

Ignoring termination trigger to force early amoritization

Overdraw facility

Delayed payments by issuer

Increases in required loss reserve (don't get this)

Redefining days past due at 210 days + from 90 days +

Redefine ineligible assets as 239 days from origination

Agent did not conduct required examination of receivables

Agent did not report material credit quality deterioration

Self dealing

Allowing dummy invoices which serves to undercollateralize conduit

FAKE ABCP conduit: Actual liquidity backstop poor credit quality