

**DRAFT  
MEMORANDUM**

**TO:** File  
**FROM:** Karen M. Dubas  
**DATE:** March 11, 2010; 5:45 – 6:20pm  
**RE:** Memo re Interview with Vikram Pandit

**This is not a transcript of the proceeding and should not be quoted as such.**

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*Paul Weiss*

Brad Karp, Susanna Buerger,

*Citigroup*

Vikram Pandit, P.J. Mode

*FCIC*

Brad Bondi, Tom Greene, Matt Cooper, Karen Dubas

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**BONDI:** [Explains purpose and mandate of FCIC.]

What do you view as the Citi-specific lessons learned from the financial crisis?

**PANDIT:** The starting point on this for me is really a little more systemic than Citi. Very few of us appreciated how much housing prices could go down in the marketplace, and that caused lots of losses on the Street. Like the rest of the Street, lots of our lessons on this come down to looking at risk capital, liquidity, and risk measures and what we're doing with government in terms of stress tests and scenario-planning.

There is a renewed sense of appreciating and understanding that you need to look at a much broader and wider set of possible scenarios as opposed to just looking at the range of scenarios over the past twenty or thirty years. Most people didn't think to stress house prices by 40%. This crisis leaves you with the understanding that you don't always pick up every scenario that's possible.

The second lesson the crisis leaves you with is a focus on concentration and limits. We had a really large concentration of super senior paper that was perceived to be safe by a lot of people. We had a lot of things that were specific to us. We had a concentrated

position of the CDO stuff. It looked safe and seemed safe, but it wasn't safe on a mark-to-market basis. There are all kinds of lessons on that.

After the Lehman Brothers crisis created funding discontinuity in the market, we stepped up to the Wachovia transaction at the last minute, and we eventually didn't get it. Even though people liked Citi before, there's a psychological change when you have something and it's taken away. There was a market perception about the possibility of Citi and Wachovia, and when that was taken away, that started a cycle of people thinking that they might not have liked Citi as much without Wachovia. I don't know what the lesson was, but that was a lesson in our case.

The third aspect is related to our stock price going from \$10 to \$3 from one Friday to the next Friday. It's really interesting because some of us bought stock at that low price because we thought there was a not a fundamental problem there. But the market took control of the stock price with short selling and a lot of other issues, and the perceptions became reality. The lesson for me is that capital strength really matters a lot. We thought we had it, but in dysfunctional markets that may not be enough.

**BONDI:** Was December 11, 2007 your first day as CEO?

**PANDIT:** Yes.

**BONDI:** When you became CEO, Citi had just announced \$55 billion in subprime exposure. On April 15, 2008, the Federal Reserve Board sent a letter to the Board of Directors, addressed to you, with an overall assessment as Fair. The overall tone of the letter was critical, and they mentioned serious deficiencies. What were the deficiencies as you saw them, leading into and during the crisis?

**PANDIT:** The single largest cause of why we are here is that housing prices went down 40%, and not too many people thought that was a possible stress scenario. Once you know that, you can see why we are here. Take super seniors. You can stress them a lot, and they look safe.

The ultimate point when I got there was that we had a situation at hand and we had to focus on that and work through it. Understanding that the market would look different going forward, we changed the risk management team and devised a plan to raise capital. We didn't have much time to look back, but we know that no one thought that house prices would go where they went.

**BONDI:** We met with Leach, and he went through all of the new risk management procedures that have been implemented. What risk management procedures were most significant for you?

**PANDIT:** A lesson you learned was in the context of stress tests. They have to be done

with a wide range of scenarios, even if they don't sound normal at all. You have to have a more robust set of scenarios for a what-if analysis. That was what I wanted to look at, and Brian Leach did a lot of that.

I used that as a mechanism for how much capital I wanted to raise. From November to December 2007, we raised \$40 to \$50 billion in the marketplace. I also sold a couple of businesses, and we raised about \$10 billion from that.

Those were the things that were the most important.

**BONDI:** I know you've come from academia, and I've looked up your dissertation. In academia there's a theory of trying to foresee black swans—low probability events with a high impact on firms. What are your thoughts about that?

**PANDIT:** It is based on scenario analysis, but the question is: what scenario?

Every month we have an Executive Committee meeting where someone comes in to talk about what's going on in the world. The reason that they're called black swans is because they're invisible. The best way to address black swans is by diversification and not as much concentration of risk. The super seniors was a large position, even though it was perceived to be super safe. Diversification and notional limits are a way to deal with black swans. You want to be in a place where no one position can put you in a place where we were.

**BONDI:** Was it a mistake for you to have this super senior concentration?

**PANDIT:** When you talked to fixed income dealers before the crisis, they thought about risk in terms of DV01—one basis point changes. There's no bond holder or manager who thought that AAAs could go to zero overnight. The entire industry in fixed is now understanding that risk is not all about PV0 or DV0. You have to have notional limits.

Many of the fixed income buyers can now only have a certain amount of exposure to certain things. The practice has gotten informed by the behavior of what's happened over the last four or five quarters. Frankly, you can't talk about AAAs going to zero, but concentration now matters. That's a new thought process.

**BONDI:** How important is it for someone like yourself or the Chief Risk Officer to be involved in setting limits?

**PANDIT:** There is a hierarchy of decisions that have to get made. It starts with me having a risk tolerance. I don't want to go through the kind of situation we went through, so I say that I'm willing to lose one year of post-compensation earnings, but not more than that. So you run every scenario possible to see how much risk you can take before you get there.

I'm involved at the top with my risk tolerance. And then Brian and I talk about the risk being divided up and translated to other groups. My guess is that I should be thankful that I wrote that dissertation.

**BONDI:** With your current risk management practices, what's the largest position that anyone can take on the balance sheet without consulting the Chief Risk Officer or you? Could you take a \$30 billion position?

**PANDIT:** I don't know what the specific number is. You couldn't take \$30 billion—I don't see that. I cannot now recollect the limits that we put in place, but I was satisfied with the notional limits when we put them in place.

**BONDI:** You mentioned shoring up capital. Did you have a role in raising capital from the Abu Dhabi investment authority in 2007?

**PANDIT:** My role was quite peripheral. I was here, and I had a new job downtown. I wasn't involved in the selling process or designing the security. I knew about it, but that was not my role.

I did raise the next round of capital with sovereign wealth funds and in the market. That was about \$25 billion. I also did a capital raise in April with common and preferred stock. I authorized the sale of the German business. Those were all decisions made almost immediately after I entered. I was in India for the holidays, and I came back to New York through Singapore for a reason.

**BONDI:** In raising the funds through investors, do you know if any of these investors sought assurances from the federal government about Citi's health or whether the government would step in?

**PANDIT:** Not to my knowledge. This was in January 2008, before Bear Stearns happened. This was a well priced security that they found attractive.

**BONDI:** Were the seven SIVs in London under your oversight at Citi Alternative Investments (CAI)?

**PANDIT:** I came into CAI in July. They were under my oversight then. After I left to go downtown, John Havens took over CAI.

**BONDI:** Did you have a role in the decision to consolidate the assets and liabilities of the SIVs onto Citi's balance sheet?

**PANDIT:** Let me think about what we did. What started happening with those kinds of funds is that they became difficult to finance on their own. They were issuers of

commercial paper and of liabilities of which they held the assets. I remember at some point—these are vague recollections—that it became difficult to finance them that way.

Ultimately, we decided to make sure that we would supply them financing. We thought that this was a market dislocation. In the context of that, the decision was made that if we were going to do supply financing, we should bring them on balance sheet.

**BONDI:** Were there lessons learned from your experiences with those SIVs?

**PANDIT:** This is a broader lesson. The funding markets have changed, and it's difficult to finance through wholesale funding. This is as true for Citi as it is for GE Capital and CIT, and it's partially because of the disappearance of the securitization market and the shift toward notional limits. There was a funding shift in the market both prior to, and post, Lehman. The importance of stable, long-term funding in running businesses is the lesson that everyone has learned. The most stable businesses are the deposit-funded businesses.

The wonderful thing about where we were, was that you didn't have to worry about liquidity, and that all changed overnight.

**BONDI:** You recently testified before TARP. I took some notes, and there was a statement you made that was interesting: your management team has made Citi more focused by returning Citi to your core business. Was that to suggest that Citi was not as focused in the past as it should have been?

**PANDIT:** There have been significant shifts. This funding market shift is really significant, and you cannot run finance companies the way that you used to run them. We've decided not to be in the business where you have to rely on wholesale funding—we're not in shadow banking. I want to be in banking and rely on my depository base. The rest of the world has seen shadow banking get squeezed.

The second point was that I had to make some choices. We were both a private bank and a brokerage company. You can run both things, but it became clear that we should pick one. I wanted to go with the private bank model. It's not like it's right or wrong, but I thought we'd be a stronger company if we focused on just the banks. We had a presentation today to investors that is probably the clearest explanation of where we're going.

We did have a set of businesses that were really good businesses. We were selling a lot of these before I got here, and there were already plans to sell things like Primerica, and I decided to accelerate those.

**BONDI:** I was reading Paulson's book, and he made a comment that Citi had an unwieldy organizational structure that lacked a single unifying culture or strategy. Can

you comment on that?

**PANDIT:** My comment is: how would he know? He wasn't inside here, and I was. I don't have the same background that a lot of people here had. I haven't been at the company for a long time, so I maybe have a different perspective. People who were here before me might be able to tell you better.

The point that is important to me, is that where we are today is the result of changes in the funding market, and you have to adapt to those. The decisions that have been made have clarified that we want to be in the private banking business instead of the brokerage business. We want to be the world's bank.

We have a very clear, targeted strategy. At the heart of Citi has always been a bank that served customers around the globe. Maybe that wasn't always transparent or articulated correctly, and the clarification that we've done is articulate a clear strategy on the bank. I took what I got and I articulated the strategy that has always been in place. A lot of the pieces were always there.

If you have a Primerica, it's not going to have the same culture as Citicorp. It cannot. Those things were recognized up front. The point is that there are different approaches to companies and different ways of looking at companies, and we've got one today that is the right one because of the choices that have been made along the way. But before that, for a long period of time, as far as I can tell the analysts and the Street liked what Citi was.

**BONDI:** A few questions on Wachovia. Did you feel either explicit or implicit pressure by the government to do the transaction?

**PANDIT:** No, definitely not.

**BONDI:** What made Wachovia an attractive acquisition, particularly in fall of 2008?

**PANDIT:** We had that shadow banking business with the funding problems. Wachovia brought a depository base, and that was the attraction.

**BONDI:** Is the concern over shadow banking related to the lack of regulation, the structure, or what?

**PANDIT:** In the shadow banking business, there are people who lent money. They happened to finance it through raising money in capital markets rather than through deposits. There is no question that regulation did not make a level playing field. When you got to certain extreme ends, there was not much regulation. It's all those things together that caused shadow banking to get to a place where it was easier to get financing. There are lots of reasons why we are where we are. The point is that markets

are now unwilling to finance those activities like before. Why? It's because we tried that and didn't like it.

The second point is that the marketplace is looking for certain standards when they are looking to refinance things, and that's a situation where regulation can help. Even in hindsight, trying to unravel what happened is not an easy thing. The market thought these were good and safe investments—more so than they turned out to be. Before these can come back, the market wants to see a set of standards that they can get comfortable with.

[End at 6:27pm]