

**Testimony of Thomas Maheras  
Former Co-CEO of Citi Markets and Banking  
Financial Crisis Inquiry Commission  
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Chairman Angelides, Vice-Chairman Thomas, and Members of the Commission: Thank you for the opportunity to appear here today. My name is Tom Maheras, and I served as co-head of Citi's investment bank from January 2007 until I left the bank in early October 2007. Before that, I served as head of Global Capital Markets from 2004 until the beginning of 2007.

The Commission has asked me to address a number of issues, including the growth of Citi's CDO business, the losses suffered by Citi's investment bank, the manner with which the investment bank interacted with Citi's Board during the earliest stage of the financial crisis, and the lessons learned from these experiences.

Let me begin by placing Citi's CDO business in context: When I was co-head of Citi's investment bank, we provided a very broad range of products and services in more than 80 countries around the globe, including investment banking and advisory services, taxable and tax exempt debt origination and trading, equity origination and trading, institutional brokerage services, foreign exchange, commodities, lending, structured products, and global transactional services. The CDO business, which was run by highly competent managers several levels below me, was at all times a very small part of the investment bank's overall business. To give you some perspective, in the fiscal year 2006 the investment bank had a balance sheet of about \$1.3 trillion and generated revenues of over \$27 billion. The entire CDO business in that year—its best year ever—comprised less than 2% of those revenues and was a subset of the credit markets unit within our fixed income group, which itself was just one part of our investment bank.

In 2005, based in part on a careful study from outside consultants hired by our senior-most management, the company decided to expand certain areas of our fixed income business that we believed at the time offered opportunities for appropriate long-term growth. This decision included the structured credit business (which housed within it the CDO business). That said, our CDO business was and remained a minor component of our investment bank's overall business.

My former colleagues are here with me on this panel today and can discuss the details of the CDO business. From my perspective based on my previous positions as head of global capital markets and co-head of the investment bank, I believe that the CDO business was appropriately supervised by experienced managers and by an independent risk group, and that I was properly apprised of the general nature of our work in this area and its attendant risks. I also strongly believe that our Board of Directors and our most senior management were provided with the appropriate information and guidance about Citi's investment banking business activities. When issues arose in early 2007 regarding the more junior CDO tranches we held, and when issues regarding our safest, super senior CDO holdings arose later in the year, senior management and the Board took reasonable steps to evaluate and address the unprecedented events that rapidly unfolded.

How, then, did our investment bank end up incurring such large losses on its CDO positions? What went wrong? As the Commission is aware, I spent a day meeting with your staff to give my detailed views on these issues. But let me summarize them for you today:

The losses that Citi incurred that related to our CDO business principally arose from the extremely high-rated CDO tranches—the so-called “super seniors”—that everyone at the bank and most people in the industry believed were among the safest instruments in the capital markets. These “super seniors” were rated above AAA, which meant that their chances of default were deemed to be extremely low.

It is difficult now, given all that has happened, to put ourselves back to the time before the financial crisis, but it is central to a proper understanding of what happened with respect to Citi’s CDO business to understand the following critical point: Citi’s losses from its CDO business did *not* result from Citi’s fixed income group placing high-risk bets in its proprietary trading business on esoteric, cutting edge trades in a reach for outsized profits. To the contrary, our primary CDO losses stemmed from client-driven activities resulting in the holding by Citi of very *low*-interest yielding, and what was understood to have been *super-safe*, securities that unexpectedly depreciated in value after I left the company—during a period when the country experienced the greatest residential real estate collapse since the Great Depression.

My personal involvement with Citi’s CDO business illustrates this point. Until the beginning of 2007, our CDO business was not a focus of my attention. The business was a small part of our bank, managed by several levels of experienced managers who reported up to me, and it was operating profitably and smoothly, with appropriate professional management and independent risk oversight. I became involved when we began to see deterioration in the subprime market, and related financial fallout, in early 2007. This is when the lower-rated CDO securities started to deteriorate in value. We took significant steps to reduce our exposure to these riskier CDO positions.

But even in the summer and fall of 2007, I continued to believe, based upon what I understood from the experts in the business, that the bank's super senior CDO holdings were safe. It was only later, in the fall of 2007, that the bank started to see mark-to-market losses on these positions. And it was only after I left the bank, when the rating agencies downgraded these securities in a sweeping and unprecedented series of moves, that the subprime market continued to deteriorate and these positions became significantly impaired.

What could have been done to prevent these losses? I have asked myself that question many times. Given the extraordinary losses that were eventually imposed on the company's shareholders, I understand that it would be somehow more reassuring to conclude that we made an ill conceived trading bet or that we invested in a business that was overly risky, or even that we lacked proper controls—but I do not believe any of those to be the case. Knowing what we knew at the time, and looking back on this part of our business, I cannot fault the fact that the business and most everyone in the industry including our own regulators regarded these super senior CDO securities to be extremely safe. What I can tell you, with the luxury and benefit of hindsight, is that we, like many other experienced members of the industry, failed to recognize that there was a real possibility of the kind of catastrophic residential real estate crash that our country has experienced over the past several years. No one, myself included, ever conceived that we would see real estate prices plunge 30-40%, with homeowners walking away from their homes en masse for the first time ever. I regret that I and my colleagues did not see that coming, but we did not. Going forward, we must recognize the ever-present vulnerability

of our financial system to serious and unanticipated wide-spread shocks and continue to evolve risk measurement and risk management practices accordingly.

I would be pleased to answer the Commission's questions. Thank you.

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