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United States: Citigroup Capital Injection, 2008[1]

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Abstract

During the first three weeks of November 2008, Citigroup's stock price dropped almost 80%, and its credit default swap spreads spiked as the market lost confidence in the bank's ability to honor its commitments. Counterparties pulled away, and regulators determined Citi's failure would constitute a systemic risk. On November 23, 2008, the Treasury, Federal Reserve Board, and Federal Deposit Insurance Corporation announced a package of measures to rescue Citi, which included an Asset Guarantee Program (AGP) to cover $306 billion in Citi's assets and an ad hoc capital injection—the Targeted Investment Program (TIP). Under the guarantee, Citi would absorb the first $39.5 billion in losses; the FDIC, Treasury, and Citi agreed to share losses on the next $16.7 billion, with the Fed agreeing to provide a nonrecourse loan to Citi for 90% of additional losses. On December 31, 2008, the Treasury used Troubled Assets Relief Program funds to inject $20 billion in capital into Citi. This injection was later subsumed under the TIP, which was officially announced on January 2, 2009. Under the TIP capital injection, the Treasury received $20 billion in senior preferred shares and stock warrants. On July 30, 2009, the Treasury exchanged its preferred shares obtained under TIP for new trust preferred securities, strengthening some of Citi's capital ratios. In July 2009, the Treasury also exchanged $25 billion in preferred shares through the Capital Purchase Program (CPP) for common stock equivalent, which automatically converted into common stock in September 2009. On December 23, 2009, Citi repaid the Treasury's $20 billion TIP investment and terminated the AGP. Between April and December 2010, the Treasury sold off all its holdings of Citi's common stock associated with the CPP. On January 25, 2011, the Treasury sold all warrants from the Citi TIP for a total proceed of $190.4 million, through a registered public offering. Between the disposition of warrants and dividend payments, the Treasury received $1.8 billion (excluding interest expense) in income from the Citi TIP investment.

Keywords: ad hoc capital injection, Citigroup, Global Financial Crisis, loss-sharing arrangement, ring-fencing arrangement, TARP

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[1] This case study is part of a Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering ad hoc capital injections. A survey of all the cases in this series (Rhee, Hoffner et al. 2024) and the individual cases underlying it are available from the *Journal of Financial Crises* at https://elischolar.library.yale.edu/journal-of-financial-crises/vol6/iss3/. Rhee, Oguri et al. (2022) surveys broad-based capital injection programs.

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Overview

This case study is about the ad hoc capital injection provided by the US Department of the Treasury to Citigroup, Inc. (Citi) through the Targeted Investment Program (TIP) in December 2008. For coverage of the Federal Reserve's emergency liquidity assistance in relation to the Citi ring-fencing arrangement, see Arnold (forthcoming-b).

At the end of September 2008, Citi was one of the largest financial institutions in the world. Citi was a major supplier of credit to the US and other countries around the world; it had $277 billion in domestic deposits and $500 billion in foreign deposits (Fed 2008b).

On October 28, 2008, using funds from the Troubled Assets Relief Program (TARP), the Treasury purchased $25 billion in new preferred shares from Citi as part of the broad-based Capital Purchase Program (CPP); see Lawson and Kulam (2021) for a separate case study on the CPP. Despite the investment, Citi's stock price continued to collapse (SIGTARP 2009). By Friday, November 21, Citi counterparties had begun to pull back from the firm, limiting transactions with Citi, refusing to extend credit to it, terminating rolling overnight and other short-term funding, making margin calls on Citi debt, differentiating Citi's collateral from its peers', and slowing or stopping purchases of Citi commercial paper. Investors grew concerned over Citi's viability. Over the weekend of November 21–23, Citi executives met with federal regulators to work out a rescue plan (SIGTARP 2011a).

Key Terms

Purpose: The TIP injection aimed to foster financial stability by preventing the potential failure of a systemically important bank, in conjunction with an asset guarantee to reassure markets that Citi could absorb potentially catastrophic losses

Announcement Date	November 23, 2008
Operational Date	December 31, 2008
Date of Final Capital Injection	December 31, 2008
End Date	December 23, 2009
Source of Funding	US Treasury
Administrator	US Treasury
Size	$20 billion
Capital Characteristics	Preferred shares (converted into trust preferred securities), warrants
Bail-in Terms	No bail-in
Outcomes	Between the disposition of warrants and dividend payments, the Treasury received $1.8 billion (excluding interest expense) in income from the Citi TIP investment
Notable Features	The recapitalization was part of a package that also included an asset guarantee provided by the government and central bank

On November 23, 2008, to support the stability of financial markets, the Treasury, Federal Deposit Insurance Corporation (FDIC), and Fed (collectively, the USG) announced a USG support package for Citi (USG 2008). The USG support package consisted of (1) capital injections via the Treasury purchase of $20 billion in senior preferred stock through the Targeted Investment Program (Fed 2008b) and (2) a guarantee by the Asset Guarantee

Program (AGP) of $306 billion (later reduced to $301 billion) of assets. As part of the AGP, Citi would absorb the first $39.5 billion in losses on those assets; the FDIC, Treasury, and Citi agreed to share losses on the next $16.7 billion; and the Fed—through the Federal Reserve Bank of New York (FRBNY)—provided a nonrecourse loan facility to Citi for losses on the guaranteed assets that exceeded those loss-sharing arrangements (loan facility), subject to a 10% loss-sharing agreement with Citi for any loan made under the loan facility (Fed 2008b). On July 30, 2009, the Treasury exchanged the preferred stock issued under the TIP and AGP for new trust preferred securities (TruPS) that had greater structural seniority in Treasury's view (SIGTARP 2011a). In July 2009, the Treasury also exchanged $25 billion in preferred shares through the CPP for common stock equivalent, which automatically converted into common stock in September 2009 (SIGTARP 2011a).

Following the conversion of the CPP investment, Citi entered into discussions with the Fed and Treasury over the exit from the TIP. Citi required approval from the Fed, as its primary federal regulator, to repay the TIP (SIGTARP 2011b). On December 23, 2009, with the permission of the Treasury, Citi repaid the $20 billion TIP investment in full while issuing $20.3 billion in common equity during the month to private investors (SIGTARP 2011a; Treasury 2015; Treasury n.d.a).

On the same day, Citi also terminated its AGP arrangement. By January 25, 2011, Treasury sold its outstanding warrants from the Citi TIP for a total proceed of $190.4 million. Between the disposition of warrants and dividend payments, the Treasury received $1.8 billion (excluding interest expense) in income from the TIP investment (Treasury 2013; Treasury 2015). Combined with the investments into Bank of America Corporation (BofA), the TIP generated a profit of $4 billion in total (from $40 billion in investments) (Treasury n.d.a). Between April and December 2010, the Treasury sold off all its holdings of Citi's common stock associated with the CPP (SIGTARP 2011b). For a timeline of the recapitalization, see Figure 1.

Figure 1: Timeline of the Citigroup Recapitalization

Date	Event
Oct. 14, 2008	Treasury announces initial TARP assistance through CPP investments.
Oct. 28, 2008	Treasury names Citi as among the first recipients of TARP funds via the CPP. Treasury uses $25 billion of TARP funds to buy preferred shares of Citi.
Nov. 12, 2008	Citi stock hits single digits for first time since 1996 on the heels of Q3 losses of $2.8 billion.
Nov. 18, 2008	Citi calls then–Treasury Secretary Henry M. Paulson, Jr., and tells him that short sellers are attacking the bank, asks for Securities and Exchange Commission (SEC) reimposition of a rule on short selling.
Nov. 19, 2008	Citi announces further losses in structured investment vehicle (SIV) write-downs and says it will take a remaining $17.4 billion in off-balance-sheet SIVs onto its balance sheet; Citi stock plunges 24% and CDS spreads begin to widen.

Date	Event
Nov. 20, 2008	In the morning, then–FRBNY President Tim Geithner, Fed Chair Ben Bernanke, Treasury Secretary Paulson, FDIC Chair Sheila Bair, and Office of the Comptroller of the Currency Comptroller John Dugan hold a conference call on Citi.
Nov. 21, 2008	• In the UK, the Financial Services Authority (FSA) imposes a $6.4 billion "cash lockup" to protect Citi's London broker-dealer; the FDIC thinks the action will be "very damaging" to Citi's liquidity position (FCIC Report 2011, 380). • Concern spreads in the market that if the US government doesn't take action over the weekend, Citi might fail. • Citi counterparties begin to pull back from the firm; some credit counterparties stop rolling overnight funding. • FRBNY holds conference call with Citi, requests that Citi make a proposal for additional government assistance.
Nov. 22, 2008	• 3:36 a.m.: Citi delivers a proposal for government assistance to FRBNY, including a government guarantee of a $306 billion asset pool. • c. 12:00 p.m.: Fed, FDIC, OCC, and Treasury meet with Citi to discuss the initial proposal, the terms of which would ultimately be revised.
Nov. 23, 2008	• FDIC staff recommend to the FDIC board that it make a systemic risk exemption for Citi. • Fed Board of Governors discusses and approves a loan facility for Citi. • Afternoon: USG submits revised Citi proposal to Citi with new term sheet. • Late night: Citi accepts USG proposal. • 11:00 p.m.: USG announces support package (AGP and $20 billion capital) for Citi in public press release.
Dec. 31, 2008	• Treasury injects $20 billion of capital into Citi in exchange for preferred shares and warrants (announced ex post as falling under the TIP), as part of the package announced Nov. 23.
Jan. 2, 2009	Treasury provides program descriptions for AGP and TIP ex post.
Jan. 9, 2009	Fed and Treasury officials approach the FDIC regarding the possibility of ad hoc assistance to BofA.
Jan. 15, 2009	• Fed Board of Governors and the FDIC board of directors recommend that the secretary of the Treasury invoke the systemic risk exception. • Fed Board decides to provide financing support to BofA.
Jan. 16, 2009	• Fed, Treasury, and the FDIC announce an interagency support package consisting of TARP capital injections and asset guarantees, including the Fed's loan facility for loss-sharing on the pool of assets under guarantee. • Citi issues preferred stock to Treasury ($4 billion) and FDIC ($3 billion) as compensation for their AGP support.
Feb. 27, 2009	Treasury announces a plan to bolster Citi's capital by converting Citi's CPP preferred shares into common stock.
June 9, 2009	Citi and the USG finalize the agreement to convert CPP preferred shares to common stock.
July 30, 2009	Treasury exchanges its TIP preferred shares with Citi for new trust preferred securities.

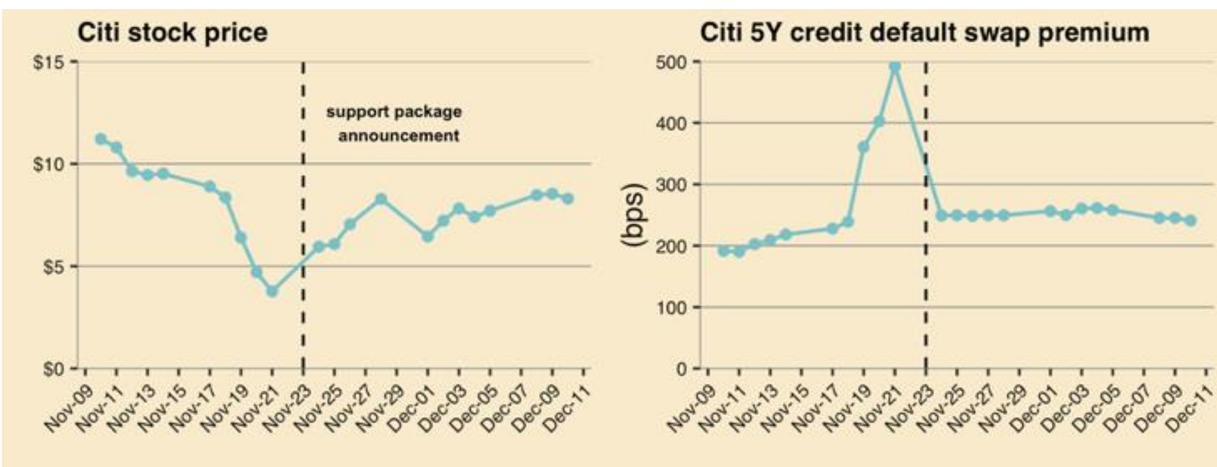
Date	Event
Dec. 23, 2009	Citi repays $20 billion in TIP, raises $20.3 billion in equity through a public offering throughout the month, and terminates the AGP.
Dec. 10, 2010	Treasury finishes disposing of Citi common stock.
Jan. 25, 2011	Treasury auctions its Citi TIP warrants through a registered public offering, generating proceeds of $190.4 million.

Source: Authors' analysis.

Summary Evaluation

On the Monday following the announcement of the USG support package, the market responded positively, and Citi's shares closed up 58% (FCIC Report 2011). Citi's credit default swap (CDS) spreads had widened on the news that it would take large losses, but after the USG support package was announced, CDS spreads for financial and some nonfinancial institutions began to narrow (Fed 2009). Figure 2 shows Citi's stock and CDS prices before and after the AGP announcement.

Figure 2: Citi Common Equity and Credit Default Swap Spreads, Nov.–Dec. 2008



Sources: LSEG/Refinitiv DataStream; authors' calculations.

According to the Office of the Comptroller of the Currency (OCC), heavy deposit outflows at Citi continued on Monday morning Asia time (Sunday evening Eastern US time) but slowed when the USG made its support package announcement (SIGTARP 2011a).

However, despite the initial Treasury capital injection in Citi via preferred shares, within weeks (by early February 2009), Citi was "under siege" (Geithner 2014, 306). Markets had lost confidence in the quality of its capital, and Citi's share price fell below $2 (Geithner 2014, 306). Although Citi had adequate regulatory capital, less than 20% of it was composed of common equity, which is the highest-quality form of capital because common equity investors are the first to absorb losses. On the basis of common equity, Citi was one of the most highly leveraged banks in the country, with a ratio of 60:1 for assets to common equity. By that time, markets had discounted lower-quality capital, such as the preferred equity investments that Treasury had initially made through the TIP (and the CPP) (Geithner 2014, 306). From that point until February 27, 2009—when Treasury announced a plan to convert Citi's CPP preferred shares into common equity—rumors spread in the markets that Treasury was going to nationalize Citi (Geithner 2014, 306–315; Treasury 2009d). By spring 2009, it was clear that markets simply didn't trust any non-common-equity capital (Geithner 2014, 347).

In its 2011 audit report, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) said that the USG support package (including the TIP) "undoubtedly" increased moral hazard:

> When the Government assured the world in 2008 that it would not let Citigroup fail, it did more than reassure troubled markets – it encouraged high-risk behavior by insulating risk takers from the consequences of failure. Unless and until institutions like Citigroup can be left to suffer the full consequences of their own folly, the prospect of more bailouts will potentially fuel more bad behavior with potentially disastrous results. (SIGTARP 2011a)

Context: United States, Citigroup, 2008–2009	
Assets	**$1,938 billion** as of Dec. 31, 2008 **$1,857 billion** as of Dec. 31, 2009
Liabilities	**$1,794 trillion** as of Dec. 31, 2008 **$1,702 trillion** as of Dec. 31, 2009
Deposits	**$774 billion** as of Dec. 31, 2008 **$836 billion** as of Dec. 31, 2009
Capital Ratio (Tier 1)	**11.9%** as of Dec. 31, 2008 **11.7%** as of Dec. 31, 2009
Nonperforming Loans	Unknown
Market Share	Unknown
Banking System, % of GDP	**68.4%** as of Dec. 31, 2008 **62.7%** as of Dec. 31, 2009
Sources: Bloomberg; Citi 2010; World Bank Global Financial Development Database; World Bank Deposit Insurance Dataset.	

Key Design Decisions

1. Purpose: The TIP injection aimed to foster financial stability by assuring markets that the government would not let Citi fail.

According to the Treasury, the purpose of the TIP was to foster financial stability, strengthen the economy, and protect jobs by preventing the loss of confidence in a financial institution and the resulting destabilizing market disruptions (Treasury 2009b).

With respect to eligibility, the Congressional Oversight Panel noted that while the CPP had been a voluntary program for healthy banks, the TIP (and the Systemically Significant Financial Institution [SSFI] Program) addressed institutions "experiencing more difficulty or at risk of failure" in connection to other government programs (COP 2009a, 10, 43). The Treasury would select TIP participants on a "case-by-case basis" and would consider various eligibility criteria including: a bank's interconnectedness, systemic importance, access to other sources of private or government assistance, size of potential risk for a loss of confidence in relation to illiquid or distressed assets, and whether other institutions with similar vulnerabilities might be affected by a bank's participation in the program (Treasury 2009b).

According to then–Secretary of the Treasury Paulson and then–President of the FRBNY Geithner, the main purpose of the USG support package was to "assure the world that the Government was not going to let Citigroup fail" (SIGTARP 2011a).

As of September 30, 2008, Citi was one of the largest financial institutions both domestically and in the entire world. It was the second-largest bank in the United States with more than $2 trillion in assets; its largest banking subsidiary—Citibank, N.A.—was the third-largest insured depository institution in the country. Citi was a major supplier of credit to the US and other countries around the world. It had $277 billion and $500 billion in domestic and foreign deposits, respectively. Citi was also a major counterparty to many institutions globally and played a central role in payments clearing, investment banking, asset management, and brokerage services worldwide (Fed 2008b).

FDIC staff, in recommending the systemic risk exception, said that a Citi failure "would significantly undermine business and household confidence" (FCIC Report 2011, 381). Regulators were also concerned that a possible Citi failure might lead to economic impacts that could undermine the effects of the Capital Purchase Program under TARP (FCIC Report 2011). Secretary Paulson thought that Citi was "teetering on the brink of failure" by mid-November 2008 (SIGTARP 2011a, 3). At the time, Fed regulators believed that a Citi failure would have been destabilizing to the global financial system by disrupting numerous markets, including those for interbank credit, other credit, derivatives, qualified financial contracts, bank debt, and senior subordinated debt. Then-Chairman Bernanke said that a Citi failure could have resulted in blocked access to automatic teller machines and halted issuance of paychecks. An FDIC official told SIGTARP that a Citi failure's impacts on money market liquidity could have been global in scope (SIGTARP 2011a). Then–Office of Thrift

Supervision Director John Reich said Citi's situation was "obviously a systemic risk situation"; Secretary Paulson said, "if Citi isn't systemic, I don't know what is" (SIGTARP 2011a, 15). On the weekend of November 21–23, 2008, at least one meeting participant (representatives from the Fed, OCC, and FDIC) said the goal of Citi support was to avoid a "large worldwide bank run" (SIGTARP 2011a, 15).

A Fed official said that the Citi preferred-share capital injection was "a clever way for the government parties to provide more protection and be more protected themselves" (SIGTARP 2011a). Ultimately, policymakers judged that the additional exposure to potential losses of $20 billion of TARP funds would be less costly to the financial system than the cost of a Citi failure (SIGTARP 2011a).

Two days after the Citi capital injection (on January 2, 2009), the Treasury said that it had provided the Citi capital injection under a newly named program (when it also named the ring-fencing arrangements ex post as the Asset Guarantee Program) (SIGTARP 2011a). Treasury could have provided the capital injections under the existing Systemically Significant Failing Institution Program, which it had recently created to support the failing insurer American International Group (AIG), but it chose not to do so in part because it did not want to label Citi a failing institution (SIGTARP 2011a).[4]

Citi leadership told the FDIC that all Citi needed was expanded access to the Fed's liquidity facilities (FCIC Report 2011). However, the FDIC dismissed this option on the basis that (a) any "incremental liquidity" would be quickly eliminated by deposit outflows and (b) Citi did not have adequate high-quality collateral to access the Fed's facilities[5] (FCIC Report 2011, 381). On Saturday, November 22, 2008 (the day before the USG announced the new asset guarantee and recapitalization package for Citi), the government considered other options,[6] including: (a) the creation of a government conservatorship in the style of those created for Fannie Mae and Freddie Mac; (b) the creation of a special purpose vehicle[7] controlled by the government to buy troubled assets from Citi with TARP funds; (c) the creation of a public–private investment fund to buy troubled assets from Citi; and (d) further TARP capital injections. Ultimately, the USG parties said that the ring-fencing (asset guarantee) strategy would require far less up-front funding from the USG than purchasing assets outright and

[4] The Treasury announced the Systemically Significant Failing Institution (SSFI) Program in November 2008, "designed to provide stability and to prevent disruption to financial markets from the failure of a systemically significant institution" (Treasury 2008). SSFI support would be provided on a case-by-case basis, and on November 25, 2008, the Treasury made the first disbursement, purchasing $40 billion of senior preferred shares from AIG (Treasury 2008). The SSFI Program was ultimately renamed to the AIG Investment Program, with AIG as the only recipient (Buchholtz and Lawson 2020; GAO 2010).

[5] Indeed, Citi had moved only "a limited amount" of assets for pledging at the discount window in response to an impending rating-house downgrade earlier in the year (FRBNY 2009). Further, late in the evening on Saturday, November 22, Citi requested that the Fed double Citi's access to the Commercial Paper Funding Facility, and the Fed rejected the request (SIGTARP 2011a).

[6] Relatedly (though options considered by Citi instead of the USG), Citi was also considering on November 22 the sale of its whole business or parts of its business, as well as the replacement of its CEO (FactSet 2008).

[7] A special purpose vehicle is an off-balance-sheet legal entity that can hold assets that the entity providing the capital for such a vehicle may not be able to purchase or hold (SIGTARP 2011a).

would be replicable for other institutions that could come under similar pressures (SIGTARP 2011a). According to the Treasury, none of the other options were "seriously considered" (COP 2009b).

However, after the TIP investment, when market sentiment toward Citi did not sufficiently improve (resulting, ultimately, in the Treasury's announcing a plan to exchange CPP preferred shares for common stock on February 27, 2009), nationalization was considered seriously by the Treasury and the economic leadership team at the White House[8] (Geithner 2014, 307–309). The Treasury team ultimately concluded that the most likely outcome of a premature nationalization of Citi would be a run on BofA, followed potentially by runs on other large banks such as Wells Fargo, Morgan Stanley, and Goldman Sachs (Geithner 2014, 325). Further, policymakers at the time agreed that if Treasury were to nationalize Citi or BofA, it would then have had to guarantee the rest of the system to prevent system-wide runs, which would have been very costly. In addition to the first-order cost of the adjacent guarantees that would have been necessary, nationalization would have presented the government with the choice of either liquidating the firm(s) quickly, resulting in expensive fire-sale losses for taxpayers, or running the institution(s) for the medium to long term, which would have introduced other challenges (Geithner 2014, 344).

2. **Part of a Package: In connection with the TIP, the Treasury, FDIC, and Fed provided asset guarantees under the Asset Guarantee Program, for which the Treasury and FDIC were compensated by Citi with additional preferred equity shares.**

Both the TIP capital injections for Citi and BofA were constituent parts of larger USG support packages, which also included the AGP (also known as the "ring-fence"), which guaranteed assets on the banks' balance sheets in loss-sharing agreements with the Treasury, FDIC, and Fed (Arnold, forthcoming-a; Arnold, forthcoming-b).

On November 23, 2008, the Fed, FDIC, and Treasury announced an interagency support package for Citi, which, in addition to the TIP capital injection, consisted of a guarantee by the USG of $306 billion of assets (later reduced to $301 billion) (SIGTARP 2011a). Under the Asset Guarantee Program, the Treasury and FDIC agreed to guarantee ring-fence-eligible assets by taking second- and third-loss positions, respectively. Under this arrangement, Citi would bear the first $29 billion in losses (later expanded to $39.5 billion in the eventual Master Agreement)[9] on the asset pool, and then Treasury would provide $5 billion in loss guarantees and the FDIC would provide $10 billion in loss guarantees (Fed 2008b; Citi, Treasury, FDIC, and FRBNY 2009a). In compensation for their loss protection, Citi would

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[8] In fact, Obama advisers Larry Summers and Jeremy Stein thought that nationalization was both necessary and inevitable (Geithner 2014, 308). Then–Treasury Secretary Geithner and Summers wrote to President Obama saying that there was a "significant chance" that both Citi and BofA would ultimately be nationalized (Geithner 2014, 308–309).

[9] Originally, the November 23 announcement stated that Citi's deductible would be $29 billion "plus reserves"; factoring in (1) reserves with respect to the portfolio of roughly $9.5 billion and (2) an additional agreed-upon $1 billion in reserves as compensation for excluding some hedging products, the total Citi deductible at the time of signing the Master Agreement came to $39.5 billion (COP 2009b).

issue the Treasury and FDIC $4 billion and $3 billion, respectively, in preferred stock bearing an 8% coupon (Fed 2008b). For the AGP, the Treasury also received warrants to purchase of 66.5 million common shares at a strike price of $10.61 per share; for the TIP, the Treasury received warrants to purchase 188.5 million common shares at the same strike price (SIGTARP 2011a).

The Fed would provide an emergency loan for 90% of the amount of losses over $56.2 billion through a loan facility to Citi through the Federal Reserve Bank of New York. Any lending through the loan facility would be collateralized against the asset pool, which would comprise loans and securities backed by residential or commercial real estate (and other assets that the government and Citi would agree as eligible) (Fed 2008a). See Arnold (forthcoming-b) for a separate case study on the Fed's loan facility with Citi.

For Citi, the value of the asset guarantee was that the regulators allowed the bank to report significantly higher regulatory capital ratios—which they variously reported as $16 billion of additional capital or a 150-basis-point-higher Tier 1 capital ratio. Market participants responded favorably to the Asset Guarantee Program, even though Citigroup remained responsible for the first $39.5 billion in losses, because of the widespread fears of catastrophic losses at the height of the Global Financial Crisis of 2007–2009 (GFC). On December 23, 2009, Citi and the government parties terminated the Master Agreement governing the loan facility, thereby ending the FRBNY's loan facility (Citi, Treasury, FDIC, and FRBNY 2009b).

Earlier, in October 2008, Citi was one of 12 financial institutions to receive Treasury investments under a broad-based capital injection program through TARP, the CPP. On October 28, Citi received $25 billion, the maximum allocation under the CPP (SIGTARP 2009).

By the time of the November 23 support package, Citi had utilized several existing GFC-era programs and facilities. As of Friday, November 21, 2008, Citi had $24.3 billion outstanding under the Fed's collateralized liquidity facilities; had $200 million outstanding under the Fed's Commercial Paper Funding Facility; and had borrowed $84 billion from Federal Home Loan Banks (FCIC Report 2011). On November 23, 2008—concurrent with the announcement of the USG support package—the Fed authorized the extension of credit to Citi's London-based broker-dealer under the Primary Dealer Credit Facility (PDCF) (Fed 2009). By December, Citi had also issued $32 billion in senior debt guaranteed by the FDIC (FCIC Report 2011).

3. Legal Authority: The Emergency Economic Stabilization Act of 2008 provided the Treasury authority for the TIP.

The Emergency Economic Stabilization Act (EESA) of 2008 authorized the Treasury to establish the TIP under TARP (SIGTARP 2009). President George W. Bush signed EESA on October 3, 2008, to give the Treasury novel authority to purchase distressed assets related to mortgages, securities, and other financial instruments (Baker Donelson 2008). Section 101(a)(1) of the EESA states that the Treasury was authorized to establish TARP to "purchase, and to make and fund commitments to purchase, troubled assets from any financial institution" (EESA 2008, sec. 101[a][1]). The EESA defines a "troubled asset" as (a) residential or commercial mortgages, or other financial instruments based on or related to mortgages; or (b) any instrument that the Treasury secretary, after consulting with the Fed chair, determines "the purchase of which is necessary to promote financial market stability," after transmitting that determination to appropriate Congressional committees (EESA 2008, sec. 3[9]). Section 113(d) of the EESA stipulates that, in general, the Treasury—when acquiring troubled assets of a financial institution—must also acquire warrants for the right to receive nonvoting common stock or preferred stock of the financial institution for the benefit of taxpayers (EESA 2008, sec. 11[d][1]). Before TIP, the CPP was a broad-based program through which Treasury purchased equity in financial institutions; as a TARP facility, the CPP was also authorized under the EESA (Treasury n.d.b).

There was certain ex post controversy about the legal authority of the TIP. The Congressional Oversight Panel said:

> There is no evidence that the TIP existed as a program prior to [its January 2, 2009] announcement, but funds were disbursed to Citigroup that were later attributed to the TIP . . . TIP is not referred to by name in EESA [but] Treasury asserts its authority for this program arises from Section 101, which authorizes Treasury to purchase troubled assets. (COP 2009b)

Section 101(d) of the EESA required Treasury to provide a program description of its TARP program within two business days of the first purchase of troubled assets. The EESA required that program description to include (a) the mechanism(s) through which Treasury would buy the assets; (b) the pricing/valuation methodology to be employed; (c) asset manager-selection process; and (d) criteria for selecting the troubled assets (EESA 2008, sec. 101[d]). Two days after its first capital injection into Citi, Treasury provided its program description and said that the underlying legal authority for the TIP was the EESA (SIGTARP 2011a; Treasury 2009b). In its Section 101(d) description, the Treasury said that it,

> May invest in any financial instrument, including debt, equity, or warrants, that the Secretary of the Treasury determines to be a troubled asset, after consultation with the Chairman of the Board of Governors of the Federal Reserve System and notice to Congress. (Treasury 2009b)

In exercising its TARP authorities, the Treasury secretary was required by the EESA to consider, inter alia, when purchasing assets or instruments from an individual institution, that institution's long-term viability; protecting taxpayer money and maximizing returns; and providing systemic financial stability and the stability of the broader economy, to include employment and foreclosures (EESA 2008, sec. 103).

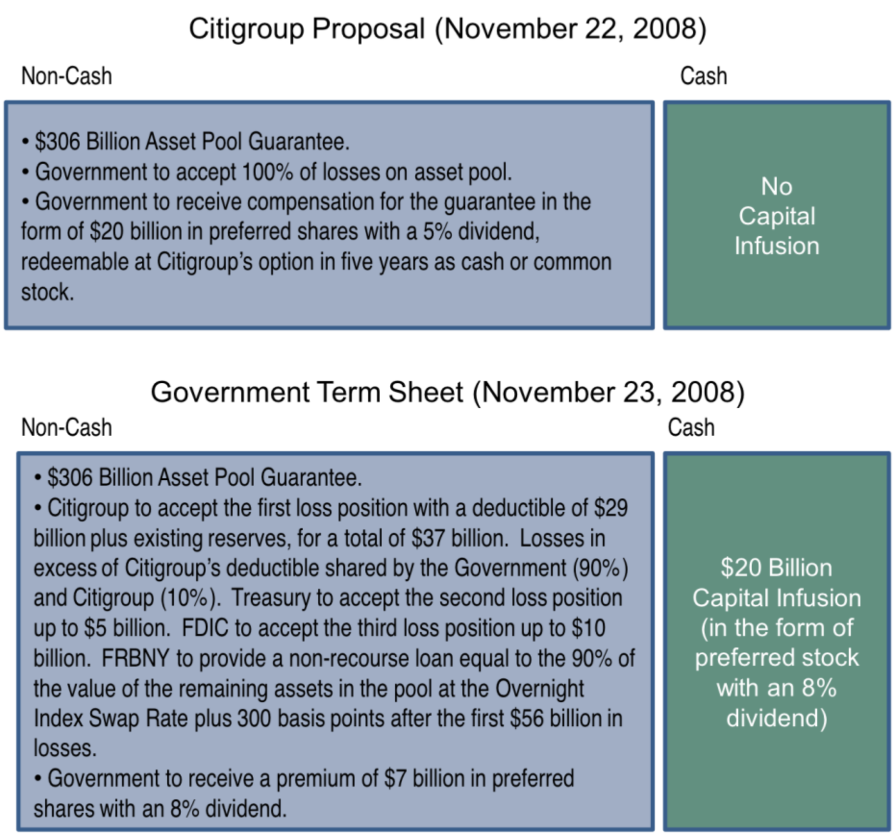
Pursuant to Section 105(a) of the EESA, Treasury was required to make monthly disclosures about its use of TARP funds (see Key Design Decision No. 6, Communication and Disclosure) (EESA 2008, sec. 105[a]).

4. Administration: Treasury administered the capital injections.

Citi was not involved in any discussions about the TIP capital injection; rather, the idea was suggested by the USG to Citi at the end of "Citi weekend" (SIGTARP 2011a). On Saturday, November 22, 2008, at 3:36 a.m., Citi delivered a proposal for government assistance to the FRBNY. At about noon, the USG parties (Treasury, FDIC, and Fed) met with Citi to discuss the proposal, choosing ultimately to revise the terms. That evening, Chairman Bernanke and Secretary Paulson discussed whether to make a common stock or preferred share injection. On Sunday, they submitted to Citi a new proposal with a revised term sheet (SIGTARP 2011a). Figure 3 shows the difference between the original Citi proposal (Nov. 22) and the ultimate USG support package (Nov. 23).

The main changes from Citi's proposal were: (a) the government proposal required Citi to accept a significant first-loss position on the asset pool, whereas Citi has proposed that the government would cover all losses on the pool; (b) in return, the government would inject an additional $20 billion in preferred equity through the program later known as TIP (see Figure 3).

Figure 3: US Government and Citi Assistance Proposals, November 22 and November 23, 2008



Source: SIGTARP 2011a.

After the July 2009 Citi exchanges (see Key Design Decision No. 8, Capital Characteristics), the Treasury said that it expected to hold the securities in a trust (Treasury 2009a).

5. Governance: The Government Accountability Office provided oversight of TARP, and the Special Inspector General for TARP issued audit reports discussing the financial support provided to Citi.

The Government Accountability Office (GAO) provided oversight of TARP. Congress also created a Special Inspector General for TARP, which issued audit reports discussing the financial support provided to BofA as part of its broad oversight of TARP programs.

Pursuant to Section 116 of EESA, the GAO provided oversight on the performance of TARP and its related programs (including the TIP) (EESA 2008, sec. 116). The GAO subjected TARP to oversight along the following domains:

- TARP's performance in meeting the purposes of EESA in foreclosure mitigation, cost reduction, financial stability, and taxpayer protection;
- TARP's financial condition and internal controls;
- Characteristics of transactions and commitments;
- Characteristics and disposition of acquired assets;
- Efficiency of the use of appropriated funds;
- Legal and regulatory compliance;
- TARP's efforts in mitigating conflicts of interest;
- Efficiency of contracting procedures. (EESA 2008, sec. 116)

Additionally, the Treasury would reimburse the GAO for oversight costs (EESA 2008, sec. 116). EESA required the GAO to submit oversight reports every 60 days to Congress and the SIGTARP (EESA 2008, sec. 116). EESA also required TARP to issue annual reports of its financial statements, audited by the GAO, to Congress and the public (EESA 2008, sec. 116).

The Inspector General (for SIGTARP) was appointed by the president and confirmed by the Senate (EESA 2008, sec. 121). SIGTARP was responsible for conducting, supervising, and coordinating audits of the purchase, management, and disposition of assets under TARP (EESA 2008, sec. 121).

On January 13, 2011, SIGTARP issued a 77-page audit report entitled "Extraordinary Financial Assistance Provided to Citigroup, Inc.," which covered, inter alia, the basis for the decision to support Citi with the TIP and the basis for the decision to allow Citi to repay its TIP capital injection (SIGTARP 2011a).

6. Communication and Disclosure: The Treasury had to make monthly disclosures to Congress on the use of TARP funds, which included the TIP.

The Treasury injected capital into Citi on December 31, 2008, before announcing the name of the official program in which the Citi intervention would be included, the TIP, on January 2, 2009 (SIGTARP 2011a). Although the capital injection would not be made until December, the USG expressed the hope that its announcement in November would send a stabilizing message to reassure Citi counterparties, which the USG said would be expected to increase lending to Citi and relax the terms thereof (SIGTARP 2011a).

On December 14, 2009, the same day Citi received approval from the Fed to repay its TIP investment and cancel its AGP arrangement, Citi issued a press release announcing as much (SIGTARP 2011a). Two days later, on December 16, Citi issued a press release announcing its planned public equity offering and saying that, with its planned repayment of TIP and its exit from the AGP, it would "no longer be deemed to be a recipient of 'exceptional financial assistance' under TARP" (SIGTARP 2011a, 57).

Pursuant to Section 105(a) of the EESA, Treasury was required to make monthly disclosures to Congress regarding its use of TARP funds ("Monthly 105(a) Reports"), including those used in the TIP (EESA 2008, sec. 105[a]). Starting in October 2008, Treasury has filed Monthly 105(a) Reports each month, through August 2023 at the time of writing.[10] Additionally, Section 129 of the EESA required the Fed to report to the Senate Banking Committee and House Financial Services Committee on any use of its Section 13(3) authority within seven days of invoking that authority (EESA 2008, sec. 129[a][2]).

7. Treatment of Creditors and Equity Holders: The TIP limited dividends to stockholders but did not result in consequences to bondholders.

During the second hearing of the Congressional Oversight Panel on Citi and TARP, panel member Damon Silvers said that the Citi TARP programs, in aggregate, resulted in a de facto restructuring of Citi's balance sheet:

[10] Treasury's Monthly 105(a) Reports can be found through the Federal Reserve Bank of St. Louis: https://fraser.stlouisfed.org/title/troubled-asset-relief-program-tarp-5167?browse=2000s.

> [Treasury] has managed TARP's holdings in Citigroup to affect what is essentially a limited balance sheet restructuring; effectively requiring or inducing Citigroup's preferred stockholders to become common stockholders—not just the government, but the private preferred stockholders that preceded the government on the balance sheet. Now, this step, this move, diluted common stockholders' share of future profits substantially, and this is something I strongly support from the perspective of fairness and moral hazard . . . But these transactions did not appreciably alter Citigroup's total Tier 1 capital, as a percentage of Citigroup's risk-adjusted assets, nor did it result in any consequences for Citigroup's bondholders. [emphasis added] (COP 2010)

8. Capital Characteristics: The capital injection came in the form of preferred shares with an 8% dividend, later converted into trust preferred securities, which strengthened Citi's capital.

Preferred Shares

Citi issued Treasury 20,000 fixed-rate cumulative perpetual preferred shares with a liquidation value of $1 million per share, for a total of $20 billion (Citi and Treasury 2008). The preferred shares were ranked pari passu with or senior to all other preferred shares in Citi, whether outstanding or not yet issued (Citi and Treasury 2008). The preferred shares qualified as Tier 1 capital (Citi 2008).

On Saturday, November 22, 2008, Chairman Bernanke and Secretary Paulson discussed whether to structure the injection as a common-share or preferred-share injection. While Bernanke initially supported a common equity investment, Paulson opted to support the preferred-share investment because it would avoid diluting common shareholder equity and the political ramifications of a large government stake in Citi. According to one senior Fed official, the use of nonconvertible preferred shares would deter market characterization of Citi as having been nationalized, which would have further undermined market confidence in the bank. Additionally, preferred shares had other advantages of (a) more seniority in the capital stack and resulting higher protection of taxpayers in the event of liquidation; (b) the payment of dividends by Citi to the USG (SIGTARP 2011a).

The preferred shares paid a cumulative 8% annual dividend, computed on a 360-day basis, payable in arrears on the 15th of February, May, August, and November. The 8% rate was calculated cumulatively on (a) the liquidation amount per share and (b) the amount of accrued and unpaid dividends of any prior dividend period. When dividend payments were not paid in full on the respective payment date, the dividends would be "declared *pro rata* so that the respective amounts of such dividends declared shall bear the same ratio to each other as all accrued and unpaid dividends per share" (Citi and Treasury 2008).

Per the agreement, the Treasury would not sell the preferred shares unless it were to a qualified institutional buyer. Additionally, Citi would be obligated to provide notice to Treasury of its intention to redeem preferred shares at least 30 days before—but not more than 60 days before—its planned redemption date (Citi and Treasury 2008). Citi could not redeem the TIP shares until it redeemed all $25 billion preferred shares it received under the CPP (Citi 2008). CPP participants could redeem shares after three years or upon completing a qualified equity offering—raising additional Tier 1 or Tier 2 capital through private markets equal to at least 25% of the Treasury's investment (Lawson and Kulam 2021).

The TIP preferred shares were nonvoting but did confer class voting rights on the following: (a) the issuance of shares senior to the TIP preferred shares; (b) amendments to the rights of the TIP preferred shares; and (c) mergers, acquisitions, or other exchanges that could adversely affect the rights of the TIP preferred shareholders. Further, the Treasury would retain the right to elect two directors to the board of Citi in the event that dividends were not paid in full for a total of six dividend periods (regardless of whether those periods were consecutive), but that election right would terminate at any time at which Citi had paid all prior dividend periods (Citi and Treasury 2008).

Treasury had no right to convert the preferred shares into any other securities (Citi and Treasury 2008).

Warrants

For the TIP, Citi issued warrants to Treasury to purchase 188,501,414 shares of common stock at a strike price of $10.61.[11] The warrants would expire after 10 years. The Treasury would not exercise voting rights with respect to shares acquired under the warrants. In the event of registration with the Securities and Exchange Commission, Treasury agreed to a 30-day holding period between notifying Citi of its intent to sell the warrants and the day on which it could sell them. The warrants were fully transferrable, in whole or in part (Citi and Treasury 2008).

Upon the redemption (in whole) of the preferred shares, Citi could repurchase the warrants from Treasury at fair market value (Citi and Treasury 2008).

Trust Preferred Securities

On February 27, 2009, the Treasury announced its intention to participate in Citi's planned exchange offers, aimed at boosting Citi's tangible common equity (Treasury 2009d). According to the plan, Citi would convert a significant portion of its preferred shares into common equity. Under the exchange, the Treasury would convert its CPP preferred shares—but only the amount of preferred shares that other preferred shareholders were willing to convert (up to $25 billion)—into a new security that would convert into common equity. The Treasury would also exchange its $20 billion TIP Citi preferred shares into new trust preferred securities (TruPS) with the same 8% cash dividend rate. The TruPS would have greater structural seniority (Treasury 2009d). On July 30, 2009, Treasury exchanged its

[11] Citi and Treasury could reduce this price though, for example in the case that Citi completed a pro rata repurchase of common stock (Citi and Treasury 2008). For the AGP, Citi also issued warrants to Treasury to purchase 66,531,728 common shares at a strike price of $10.61 (SIGTARP 2011a).

preferred stock obtained under the TIP and the AGP[12] for new TruPS, thereby strengthening some of Citi's capital ratios. These securities were more structurally senior to preferred stock[13] (for example, they had a more senior claim in bankruptcy), and Treasury continued to collect its 8% annual dividend. Those trust securities were set to mature in 2039 (SIGTARP 2011a).

TruPS were hybrid securities issued by bank holding companies (BHCs) through the following structure: the BHC created a special purpose entity (SPE), which issued cumulative preferred stock; the BHC then borrowed on those proceeds using long-term subordinated debt. Since a 1996 Fed decision, a portion of TruPS issuance satisfied Tier 1 capital requirements. The dividend payments on TruPS were tax deductible to the BHC (since dividend payments were in fact the interest on the subordinated debt). This was not true of dividends paid on normal preferred equity, and therefore TruPS represented a tax advantage to the issuer. While regulators considered TruPS equity for the purposes of regulatory capital, rating agencies rated TruPS as debt instruments and discounted their contributions to the capital strength of banks (Moody's Investors Service, for example, said that it "[had] always considered TruPS to be far more debt-like in nature") (French et al. 2010, 5). The FDIC said that in its experience, TruPS holders "have been an impediment to recapitalizations or sales of troubled banks" (French et al. 2010, 12).

The regulatory treatment of TruPS as Tier 1 capital was subject to numerous Fed conditions, including, in particular, the requirement that the eligible TruPS must confer to the BHC the ability to defer dividend payments. In the Supervisory Capital Assessment Program (SCAP) stress tests in the spring of 2009, bank regulators did not include TruPS in bottom-line tangible equity targets of the assessments (French et al. 2010).[14]

According to the Treasury, the TruPS' "material terms . . . [would] be substantially similar to those of Citi's traditional TruPS" (Treasury 2009a). Treasury said that the *broader* exchange (to include the exchange of preferred shares for common stock under the CPP) did not increase Treasury's investment in Citi but did "increase the risk of the investment for the government" (Treasury 2009d); while the trust preferred securities were more senior in the capital stack vis-à-vis the preferred shares, the common stock, exchanged through the CPP, was more junior.

9. Size and Source of Funding: Under the TIP, the Treasury provided a one-time capital injection of $20 billion using TARP funds.

The Citi TIP capital injection totaled $20 billion. Then-Secretary Paulson said his team conducted no Citi-specific analysis to arrive at the figure but rather considered the limited

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[12] The FDIC similarly converted its $3 billion in preferred shares to $3 billion in trust securities (SIGTARP 2011a).

[13] In at least one instance, Treasury noted that Citi had outstanding *enhanced* trust preferred securities, but research was unable to obtain further information on those securities and found no evidence that Treasury ultimately obtained any of them (Treasury 2009a).

[14] The Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 eliminated most BHCs' ability to include TruPS in Tier 1 regulatory capital levels (French et al. 2010).

amount of available TARP funds and the possibility of another bank's needing TARP funds. Although there was no written documentation concerning the process of arriving at the $20 billion figure, then–FRBNY President Geithner said the decision was the result of FRBNY and Treasury discussions (SIGTARP 2011a). In regard to the $20 billion size, Geithner said, "there's no perfect science to this thing. . . You need to balance risk versus what the firm needs, but it was Treasury's money" (SIGTARP 2011a, 22).

10. Timing: The Treasury announced ad hoc investments into Citi following a precipitous decline in Citi's stock price and after previously investing $25 billion through a broad-based capital injection program.

On October 28, 2008, Citi received a $25 billion capital injection, also through preferred shares, from the Treasury under the broad-based Capital Purchase Program (SIGTARP 2009). Despite the investment, Citi's stock price continued to collapse in the following weeks, falling from $13.99 on November 3, 2008, to $3.05 on Friday, November 21 (SIGTARP 2011a). Over the weekend of November 21, Citi executives met with Federal regulators to work out a rescue plan (SIGTARP 2011a).

On Sunday, November 23, 2008, in order to support the stability of financial markets, the government announced the support package for Citi (USG 2008). The package consisted of (a) capital injections via the Treasury purchase of $20 billion in senior preferred stock through the Targeted Investment Program (Fed 2008b) and (b) a guarantee by the AGP of $306 billion of assets (SIGTARP 2011a).

After the TIP capital injection on December 31, 2008, Citi's share price continued to decline, falling below $1 per share in March 2009. According to the OCC, markets viewed the aggregate $45 billion in TARP preferred shares as equivalent to debt and wanted Citi to obtain more common equity. By February 2009, Treasury was aware that Citi needed more capital—specifically common equity—but that rumors that the government was going to nationalize Citi were also destabilizing the financial system. In order to prevent a Citi failure on the one hand and avoid nationalization on the other hand, Treasury settled on a conversion of CPP preferred shares into common shares, but an amount that kept the government's share of Citi below 50% (Geithner 2014, 314). On February 27, 2009, Citi and Treasury announced that Treasury had agreed to exchange $25 billion of preferred shares from the earlier CPP investment into common stock at a price of $3.25 per share and that Treasury would exchange its TIP and AGP preferred securities for trust preferred securities (SIGTARP 2011a; Treasury 2009c). Citi and the Treasury entered into the resulting agreement on July 9, 2009, and on July 23, 2009, and July 30, 2009, both parties completed the transaction, resulting in Treasury's conversion of $25 billion of preferred shares to $25 billion of common shares (for a total of 7.7 million shares). As a result of the transaction, Treasury owned 33.6% of Citi common stock (SIGTARP 2011a).

Also on July 30, 2009, the Treasury converted its TIP preferred shares to trust preferred securities (see Key Design Decision No. 8, Capital Characteristics). Figure 4 shows the changes to Treasury's holdings of Citi securities before and after the July 2009 exchanges.

Figure 4: Treasury's Holdings of Citigroup Equity Instruments, before and after July 2009

	Capital Purchase Program [a]	Targeted Investment Program (ad hoc) [b]	Asset Guarantee Program [c]
Pre-July Exchanges	$25 billion in preferred shares	$20 billion in preferred shares	$4 billion in preferred shares
Post-July Exchanges	$25 billion in common shares	$20 billion in trust securities	$4 billion in trust securities

(a) No changes were made to the warrants to purchase 210,084,034 common shares at a strike price of $17.85 per share.

(b) No changes were made to the warrants to purchase 188,501,414 common shares at a strike price of $10.61 per share.

(c) No changes were made to the warrants to purchase 66,531,728 common shares at a strike price of $10.61 per share.

Source: SIGTARP 2011a.

11. Restructuring: The capital injection did not accompany restructuring measures.

Citi did not undergo restructuring during its participation in the TIP.

12. Treatment of Board and Management: The USG had to approve executive compensation under its participation in the TIP and guarantee program; Citi's TIP agreement authorized the Treasury to appoint two directors to Citi's board in the event that Citi missed six dividend payments.

Executive compensation required approval by the USG parties; see Key Design Decision No. 13, Other Conditions (SIGTARP 2011a). Under Citi's TIP agreement, the Treasury would retain the right to elect two directors to the board of Citi in the event that dividends were not paid in full for a total of six quarterly dividend periods (regardless of whether those periods were consecutive). The election right would terminate at any time at which Citi had paid all prior dividend periods (Citi and Treasury 2008).

13. Other Conditions: Absent Treasury approval, the TIP restricted payment of common stock dividends for a period of three years.

The preferred shares restricted common stock dividend payments and equity repurchases (Citi and Treasury 2008). For a period of three years, the Citi agreement prohibited the payment without Treasury's consent of (a) quarterly dividends on common stock in excess of $0.01 per share; (b) any dividends payable in common stock shares; or (c) dividends or distribution rights for junior stock. Further, the Citi agreement prohibited the repurchase without Treasury consent of any equity securities (to include common stock, trust preferred securities, etc.), subject to some exceptions (Citi and Treasury 2008).

Further, executive compensation plans had to be approved by the USG (SIGTARP 2011a).

14. Regulatory Relief: Our research did not uncover evidence of regulatory relief extended to Citi.

Our research did not uncover evidence of regulatory relief extended to Citi.

15. Exit Strategy: Citi signed an agreement with the Treasury to repay the TIP in December 2009, and the Treasury sold off its outstanding warrants in January 2011.

In compliance with the American Recovery and Reinvestment Act of 2009, Treasury had to permit repayment of any TARP capital (see Key Design Decision No. 3, Legal Authority). However, Treasury approval for repayment of TARP capital was conditional on consultation with the appropriate federal banking authority, in this case the FRBNY. Financial institutions aiming to repay TARP investments were subject to existing supervisory procedures for the approval of redemption requests for capital instruments, which included assessments by the bank regulator of, inter alia, soundness, capital adequacy, and lending capacity (SIGTARP 2011a).

On September 11, 2009, then–Citi CEO Vikram Pandit met with the FRBNY's president at that time, William Dudley, and others about redeeming its TIP capital. The Fed was unconvinced that Citi was prepared to repay its TARP funds, particularly after running its own stress tests. On November 3, 2009, the Fed provided further guidance on steps necessary for institutions to repay TARP investments, among them a demonstrated ability to access long-term debt markets in the absence of the Temporary Liquidity Guarantee Program (SIGTARP 2011a).

Two days later, an FRBNY official met with Citi's CFO and CEO and informed them that Citi would have to increase its common share equity more than other banks had before they would allow Citi to repay its TARP capital (SIGTARP 2011a). On November 9, the FRBNY ran an additional stress test on Citi and on December 3 presented the results of that stress test to Citi's chief risk officer and CFO. To be eligible for TIP repayment, Citi would need to maintain a Tier 1 capital ratio of 6.6% and a Tier 1 common ratio of 4.6%, which would be possible if Citi: (a) raised $21.4 billion in common stock; (b) repaid the $20 billion in TIP trust preferred securities; and (3) canceled the AGP ring-fence arrangement. Later in the day (on December 3), Citi provided the FRBNY with a repayment proposal, which included full repayment of the TIP capital injection and termination of the AGP. In its proposal, Citi said it would raise $20.3 billion of capital. The FRBNY responded to the proposal saying that it did not include sufficient common equity issuance. The following day, Citi revised its proposal, raising the total amount to $24.1 billion (SIGTARP 2011a). Figure 5 shows the composition of the original and revised repayment proposals.

Figure 5: Citi Repayment Proposals, Original and Revised, 2009 ($ billions)

Capital Instrument	Dec. 9 Proposal	Dec. 10 Proposal
Common Stock	$15	$17
Common Stock Overallotment Option [a]	$2.3	$2.6
Tangible Equity Units [b]	$2.5 [c]	$3.5 [d]
Employee Stock Options	$1	$1.7
Total	*$20.3*	*$24.1*

(a) The overallotment option allowed the underwriters to sell up to 15% more common stock ($2.3 billion) in the case that the original issuance was fully subscribed.

(b) $2 billion would count as common equity.

(c) $2.8 billion would count as common equity.

(d) The Tangible Equity Units were composed of a junior subordinated note and a stock purchase contract.

Source: SIGTARP 2011a.

In response to Citi's December 10 proposal, the FRBNY said that it was concerned about Citi's ability to fulfill the overallotment option and said that Citi's final proposal would need to include a stipulation about actions Citi would take in the event the overallotment was not filled (SIGTARP 2011a).

On December 13, 2009, Citi submitted a final repayment proposal to the FRBNY, which matched the December 10 proposal in capital instrument classes and sizes but included the stipulation that the USG would surrender $1.8 billion of AGP trust preferred securities as compensation for the early AGP termination[15] and acknowledged that it would need to make up any capital shortfall in the event it was unable to raise sufficient capital:

> . . . if the offering of common stock and tangible equity units do not generate at least $21.3 billion of additional equity capital, the regulators would expect Citigroup to issue additional trust preferred securities in a ratio of $2 for every $1 the equity raised falls short of $21.3 billion, subject to a minimum equity raise of $19.8 billion, up to a maximum of $3 billion of trust preferred securities during the first quarter of 2010. (SIGTARP 2011a, 37)

On December 14, the Fed sent a letter to Citi approving its final repayment proposal and outlining the conditions necessary for Citi to exit the TIP and the AGP. Two days later, Citi

[15] This figure was the result of independent negotiations with the Treasury (SIGTARP 2011a).

priced its capital offering and began to execute the capital raise. It was the largest public equity offering in US capital market history at the time (SIGTARP 2011a).

On December 23, 2009, Citi and Treasury signed an agreement for the repayment of the TIP. While the Termination Agreement said that Citi had raised capital through common and preferred stock offerings, in fact, Citi had failed to meet the $1.5 billion overallotment option necessary for fulfilling the capital requirement, raising only $0.6 billion and thereby leaving a $0.9 billion capital shortfall. In March 2010, Citi raised $2.3 billion through an offering of trust preferred securities (SIGTARP 2011a).

Throughout 2010, Treasury began to sell its AGP trust preferred securities and CPP common shares—by December 10, 2010, Treasury had sold all its CPP common stock and the AGP and TIP trust preferred securities. However, as of December 10, 2010, Treasury maintained warrants for 465.1 million common shares and had finished liquidating CPP common shares (SIGTARP 2011b; SIGTARP 2011a). By January 25, 2011, Treasury sold its outstanding warrants from the Citi TIP for a total proceed of $190.4 million (Treasury 2015).

Between the disposition of warrants and dividend payments, the Treasury received $1.8 billion (excluding interest expense) in income from the Citi TIP investment (Treasury 2013; Treasury 2015). Combined with the investments into BofA, the TIP generated a profit of $4 billion in total, with $3 billion in dividend payments (from $40 billion in investments) (Treasury n.d.a).

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