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### Transcript of FCIC staff interview with Charles Prince, Citigroup

Brad Bondi

Karen Dubas

Charles Prince

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FINANCIAL CRISIS INQUIRY COMMISSION

Interview of CHARLES O. PRINCE

March 17, 2010

1285 Avenue of the Americas

9:30 a.m.

C O N F I D E N T I A L

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2

FINANCIAL CRISIS INQUIRY COMMISSION  
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1 Interview - CHARLES PRINCE

2 BY MR. BONDI:

3 Q Good morning, Mr. Prince. How  
4 are you?

5 A Good morning. Well, thank you.

6 Q My name is a Brad Bondi. I am  
7 with the Financial Crisis Inquiry Commission  
8 in Washington. We were formed by Congress  
9 to investigate the causes of the financial  
10 crisis, both domestic and globally, and to  
11 report on those causes in a report due  
12 December 15, 2010, this year.

13 This interview is being  
14 transcribed. Because we are members of the  
15 government, I am obligated to tell you that  
16 the typical rules of 18 USC 1001 apply. And  
17 that means obviously you have to be truthful  
18 to government investigator. But I have no  
19 reason, Mr. Prince, to doubt your veracity.

20 A Thank you for that.

21 Q But I am obligated just to put  
22 you on notice.

23 A Duly noted.

24 Q Could you please state your full  
25 name for the record?

1 Interview - CHARLES PRINCE

2 A Charles Prince, P-R-I-N-C-E.

3 Q Are you currently provide, Mr.  
4 Prince?

5 A I am not.

6 Q Do you have a consulting role  
7 anywhere?

8 A I do.

9 Q Where is that?

10 A With a firm called Albright  
11 Stonebridge Group.

12 Q Where are you based?

13 A They are based in Washington,  
14 D.C. I am not based there. I consult with  
15 them as needed.

16 Q And, Mr. Prince, I understand you  
17 were CEO of course of Citigroup.

18 Could you briefly describe the  
19 positions you held at Citigroup or any of  
20 its predecessors and the years that you held  
21 them?

22 A Sure. And should I go all the  
23 way back to when I started, or as much as  
24 you want or --

25 Q If you don't mind briefly just

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2 identify the position, the company and the  
3 years, if you wouldn't mind, if you recall.

4 A Sure.

5 I started with -- for these  
6 purposes, I started with a company called  
7 Commercial Credit Company in Baltimore,  
8 Maryland, on January 15, 1979. And  
9 commercial credit was a predecessor company  
10 of what became Citigroup.

11 First let me tell you how it  
12 became a predecessor company, than I'll give  
13 you my tenure and so forth.

14 Commercial Credit was a  
15 subsidiary of another company at that point  
16 in time. It went public in 1986 under the  
17 leadership of Mr. Weill and a series of  
18 other individuals.

19 And then from 1986 until 1998,  
20 commercial credit engaged in a series of  
21 acquisitions and changed its name as it went  
22 along so that by 1998, the company that was  
23 Commercial Credit was then known as  
24 Travelers Group. Travelers Group then in  
25 1998 merged with Citicorp creating

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2 Citigroup.

3 My tenure with these various  
4 companies, I started as an attorney in 1979  
5 with Commercial Credit. I became general  
6 counsel of the company in about 1984 or  
7 thereabouts. I continued as general counsel  
8 of the company through its various  
9 iterations and name changes until the time  
10 of our merger in 1998, at which time I  
11 became the co-general counsel of the merged  
12 entity, Citigroup.

13 My partner, as co-general  
14 counsel, retired a year or so later. So I  
15 then became sole general counsel in about  
16 1999. I stopped being general counsel I  
17 think sometime in 2000, maybe the fall of  
18 2000, and was promoted to be chief  
19 administrative officer.

20 Then in about 2001, I was chief  
21 administrative officer. And then in 2002, I  
22 became the head of our corporate and  
23 investment bank. Then in 2003, became the  
24 CEO of the company and in 2006 became  
25 chairman.

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2 I am surprised I remembered all  
3 that.

4 Q I am impressed that you  
5 remembered it all, sir.

6 When in 2003 did you become CEO,  
7 what was the official date?

8 A I think it was October.

9 Q When in 2006 did you become  
10 chairman, sir?

11 A That would have been at the  
12 annual meeting which was in April.

13 Q Who was chairman between 2003 and  
14 2006?

15 A Sandy Weill.

16 Q Mr. Prince, what was Mr. Rubin's  
17 role vis-à-vis your role as CEO?

18 A During --

19 Q Since you became CEO of  
20 Citigroup, what was his role vis-à-vis your  
21 role?

22 A Bob Rubin continued the role that  
23 he had before I became CEO. Before I became  
24 CEO, Bob was, I believe the official title  
25 was chairman of the executive committee of



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2 the board. And he continued with that  
3 official designation. But Bob's role was a  
4 more informal or nuanced one than the title  
5 would suggest.

6 Bob was a very important member  
7 of our board, of course. But he was also  
8 very involved in the strategic direction of  
9 the company, not so much the day-to-day  
10 operations. But where the company should be  
11 focused going forward, how it should grow,  
12 how it should think about its future. He  
13 was also fairly involved in client work,  
14 both in the private bank, on our  
15 institutional side. Given Bob's background,  
16 given his extremely high reputation, he was  
17 someone that people in our client base  
18 wanted to meet.

19 Q I understand things changed in  
20 the summer of 2007 in terms of the frequency  
21 of your interactions with Mr. Rubin. But  
22 prior to say summer of 2007 from let's say  
23 when you became CEO in October 2003 through  
24 early 2007, how often would you meet with  
25 Mr. Rubin?

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2 A Well, with permission I will just  
3 disagree if I may with the premise.

4 Q Please.

5 A It didn't really change in the  
6 summer of 2007. As I am sure we will talk  
7 later, we talked about different things.

8 Q Yes, sir.

9 A But Bob's office was literally  
10 right next to mine. It was separated by a  
11 little conference room, but it was 20 feet  
12 away. And Bob and I would talk -- if we  
13 were both in the office, we would talk three  
14 or four times a day. He would walk into my  
15 office, I would walk into his office.

16 If one or the other of us wasn't  
17 physically in town that day, then we might  
18 talk by phone every other day. So, the  
19 level of interaction was frequent.

20 Bob was someone that I very much  
21 valued bouncing ideas off of, testing ideas.  
22 And when you are the CEO of a large company,  
23 there are very few people that you can do  
24 that with. But Bob's background and his  
25 general knowledge of the world was very

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2 significant, and so I would bounce lots of  
3 different ideas off of him.

4 Q You mentioned Mr. Rubin having a  
5 role in the strategic direction of the  
6 company.

7 Were there any particular areas  
8 that he focused on in terms of strategic  
9 direction, any particular areas of the  
10 business?

11 A Well, I would say no.

12 If you were to step back and look  
13 at our company from a distance, you would  
14 see that we had that three or four basic  
15 groups of activities. One would have been  
16 our international business, which was quite  
17 large and quite important. One would have  
18 been our U.S. consumer business, and one  
19 would have been our corporate and securities  
20 business.

21 We have we had private banking  
22 activity, that probably would not have been  
23 quite as high on the list. But those first  
24 three groupings, each of which of course is  
25 broken down into dozens of individual

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2 businesses, I would say he spent a fair  
3 amount of time on each of them.

4 Q Mr. Prince, it seemed from --  
5 please correct me if I am wrong -- it seemed  
6 from some of the reports and P and Ls that I  
7 have seen that the investment bank, CMB,  
8 grew substantially from 2003 to 2007.

9 Was Mr. Rubin involved in any  
10 strategic decisions that helped grow that  
11 bank?

12 A Well, I am not sure whether  
13 capital markets and banking grew -- I am  
14 thinking about the premise of your question  
15 if I may and then I will come to the actual  
16 question itself.

17 Q Sir, please, if at any time any  
18 of my premises are incorrect, we are on a  
19 fact finding mission, so correct me, please.

20 A I am trying to make sure we have  
21 the full answer and the correct answer.

22 Q Yes, sir.

23 A I think that capital markets and  
24 banking, I don't remember that in that  
25 period of time growing in relationship to

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2 the company. Its size of the pie, if you  
3 understand what I mean by that, I don't  
4 remember it growing significantly, going  
5 from X percent to two X percent or something  
6 of the company.

7 It may have been that the entire  
8 industry grew and the company grew. So, I  
9 remember it not as growing in a dramatic  
10 sense. The numbers may suggest you are  
11 right. I apologize if I am wrong there.

12 In terms of Bob's influence and  
13 growth and so forth, obviously Bob's  
14 background from Goldman Sachs and his long  
15 history in the securities business gave him  
16 a pretty special feel for that business as  
17 compared to say our consumer business.

18 But, on the other hand, Bob was  
19 long removed from being a trader. He hadn't  
20 been a day-to-day trader for a long time.  
21 And so it was much more of where do we want  
22 the business to go in three years and  
23 five years and ten years than it was in the  
24 next six months let's try to do more of X,  
25 if you understand the distinction I am

1 Interview - CHARLES PRINCE

2 drawing.

3 So, with that overview, you know,  
4 Bob was very much involved in all of our  
5 strategic activities. I am sure there were  
6 dozens of things that he participated in. I  
7 am hard pressed to pull out one to tell you.  
8 I am sorry.

9 Q As CEO, who directly reported to  
10 you? I am trying to distinguish between,  
11 you know, at the end of the day I assume  
12 every one in the company ultimately reports  
13 up to the CEO.

14 A All 350,000 people.

15 Q Yes, sir.

16 But who directly reported; in  
17 other words, who were the direct reports to  
18 you as CEO?

19 A We had a group that we called the  
20 Business Heads group. And in many companies  
21 it would have been called a Management  
22 Committee or an Executive Committee. We  
23 called it Business Heads for reasons which  
24 aren't particularly pertinent to the  
25 question. And that is a good grouping, to

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2 answer your question. It would have been  
3 the most senior leaders of line operations.  
4 So the head of our consumer business, the  
5 head of our corporate investment bank, the  
6 person who ran our business in Asia, that  
7 sort of grouping, as well as our most senior  
8 staff people. So, the head of risk, the  
9 head of legal, our chief administrative  
10 officer, our chief operating officer. It  
11 was more or less 10, 11, 12 people,  
12 something in that range.

13 Q How often would the Business  
14 Heads group meet? How often would you meet  
15 with the Business Heads group?

16 A Every Monday morning.

17 Q How long approximately would  
18 those meetings go?

19 A Seemed like forever sometimes.  
20 But it was officially for -- first an hour,  
21 then an hour and a half, then two hours as  
22 we wanted to cover more and more. So I  
23 would say for overview purposes an hour and  
24 a half to two hours.

25 Q Would this be a situation where

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2 people would go around the room and report  
3 on their various areas, or would there be a  
4 set agenda for these type of meetings?

5 A You are very intuitive. There  
6 would be both. In other words, it was  
7 intended first and foremost as information  
8 sharing. We had lots of businesses, lots of  
9 areas, some of them the people who ran them  
10 were physically separated from each other:  
11 Uptown, downtown, Europe and so forth. And  
12 it was important for those people to  
13 interact frequently so that I knew what you  
14 were doing, you knew what I were doing, we  
15 could collaborate as necessary.

16 The first half of each meeting  
17 would typically be a going around the table,  
18 what is going on in your business, what is  
19 going on in my business and so forth.

20 The second half of the meeting  
21 would typically be involved with special --  
22 or what is the right way to put it -- one  
23 off kinds of activities.

24 It might -- I am just picking  
25 examples at random. It might be in the



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2 second hour we would talk about the budget  
3 process for next year. So we are going to  
4 do this then, this then and this then and so  
5 forth. Or we might talk about an upcoming  
6 meeting with an employee group in Japan and  
7 what are we going to accomplish in this  
8 particular area. Or we might talk about an  
9 acquisition for the company. We acquired  
10 companies right along. That sort of thing.

11 So first half, a go-around, the  
12 second half a one off kind of activity.

13 Q Would you give a presentation or  
14 have a role in that meeting? Say at the end  
15 of the meeting would you share your  
16 thoughts? Or what was your participation in  
17 the meeting, in those meetings typically?

18 A It was a pretty informal meeting.  
19 So I would typically start by saying here  
20 are three or four things that are on my mind  
21 this morning. And then we would go around  
22 the table, and then we would have this  
23 special project or one-off activity. But it  
24 wasn't a formal meeting and it typically  
25 wouldn't have a formal agenda. We might

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2 have a follow-up from last week or something  
3 like that. But it wasn't a formal meeting  
4 with prepared remarks or anything like that.

5 Q Mr. Prince, you mentioned a few  
6 persons by title, and I just wanted to put  
7 some names with those titles.

8 You said the most senior risk  
9 officer. Is that the chief risk officer?

10 A Yes, Dave Bushnell.

11 Q He would have been during the  
12 relevant time period of 2003 to 2007?

13 A Yes.

14 Q Head of legal, is that Mr.  
15 Helfer?

16 A Yes, Michael was the general  
17 counsel that whole time. I am not sure  
18 whether Michael was on the Business Heads or  
19 not.

20 MR. KARP: He was not.

21 THE WITNESS: Lou Kaden was on  
22 and Lou Kaden was the chief  
23 administrative officer and also a  
24 lawyer. And Lou represented the  
25 legal, the audit, and the foundation

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2 and certain other functions.

3 BY MR. BONDI:

4 Q I've noticed Mr. Kaden's name in  
5 board minutes and several documents that  
6 your counsel has produced.

7 What was his role as chief  
8 administrative officer?

9 A Yes. Chief administrative  
10 officer would typically be -- and would be  
11 the case for Kaden -- would typically be  
12 someone who managed the administrative  
13 functions. And so that would typically be  
14 all of the staff functions, legal, audit,  
15 public relations, the foundation.

16 In many companies, in most  
17 companies it would also include risk. But  
18 in our company when I became CEO in 2003, I  
19 think literally the first thing I did that  
20 day, literally, was to put David in that job  
21 and to change the reporting structure so  
22 that he no longer reported to the chief  
23 administrative officer and the risk function  
24 no longer reported to the business units.  
25 Before that, it had reported inside the

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2 business units.

3 And from that time through my  
4 whole tenure, the chief risk officer was a  
5 member of our Business Heads group and was a  
6 direct report to me.

7 Q Why did you make those changes  
8 with respect to the chief risk officer?

9 A The two changes, one putting him  
10 in the job and then making it separate.

11 I thought that the fellow who was  
12 the chief risk officer before David whose  
13 name was Petros, P-E-T-R-O-S, Sabatakakus  
14 (phonetic) . Just do the best you can, but  
15 it sounds, it spells sort of like it sounds,  
16 Sabatakakus. He was a very good fellow but  
17 did not have any understanding, detailed  
18 understanding of how the securities business  
19 worked. And I was very concerned that  
20 Petros would not be able to adequately  
21 manage the risk function as it related to  
22 our securities business. And so Petros was  
23 going to retire, and so he retired. We put  
24 Bushnell in the job, I put Bushnell in the  
25 job, to make sure that we had someone at

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2 chief risk officer level who understood how  
3 those businesses worked.

4 David had been a trader much  
5 earlier in his life and understood the  
6 mechanics of how the business worked.  
7 Making it independent of the businesses, I  
8 think most people nowadays do that. I am  
9 grateful that we were a little ahead of that  
10 making it independent. It didn't get paid  
11 based on the profits of the business unit,  
12 it didn't get paid based on volumes or  
13 revenues. And I think that is just good  
14 corporate governance.

15 Q Would Mr. Bushnell as chief risk  
16 officer have a normal reporting role at this  
17 Business Heads group meeting? Would he  
18 provide a report?

19 A Yes. He would be part of the  
20 go-around.

21 Q You mentioned the chief operating  
22 officer. Who was that during the 2003 to  
23 2007 time frame?

24 A I don't know when Bob Druskin  
25 became chief operating officer, but it was

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2 at least halfway through. And so for the  
3 last couple of years at least, maybe the  
4 whole time, but at least the last couple of  
5 years Bob Druskin was the chief operating  
6 officer.

7 Q What did Mr. Druskin do as the  
8 chief operating officer?

9 A Well, his job, like most chief  
10 operating officers, is to focus on, focus a  
11 hundred percent of his time on the inside  
12 part of the job, running the company. The  
13 various business units reported to me and I  
14 was responsible for the overall direction of  
15 the company and so forth. But there was a  
16 lot of travel involved in my job. And  
17 someone needed to be at the desk every day  
18 making sure the trains ran on time, to use a  
19 cliched phrase, and that was Bob's job.

20 Q When you first became CEO in  
21 2003, were there some regulatory problems  
22 that were immediately on your radar?

23 A There were, there were regulatory  
24 problems at many times, so I am not sure  
25 which ones in particular you are referring

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2 to.

3 Q What I was getting at is we have  
4 read about problems in Japan, problems with  
5 bond traders in Europe.

6 Were those problems that were in  
7 your focus when you became CEO in 2003, or  
8 did they come about later?

9 A Okay, I understand the question  
10 now, sorry.

11 When I became CEO in 2003, I  
12 thought that the most important thing I  
13 needed to focus on was turning the company's  
14 focus from an acquisition driven strategy to  
15 more of a balanced strategy involving  
16 organic growth. If you look at the history  
17 of the company and how it combined and so  
18 forth, we had been very, very busy with  
19 acquisitions. And the larger the company  
20 became, the harder it is to grow a company  
21 through acquisitions, just by definition.

22 If you have a business that  
23 makes -- I am making up examples -- that  
24 makes \$100 and you want to grow ten percent  
25 a year, you have to buy something that makes

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2 \$10. If you have a business that makes a  
3 million dollars in this example and you want  
4 to grow ten percent a year, then you  
5 obviously have to buy a much larger company.  
6 And so and the company became larger and  
7 larger and larger, it became clear to me  
8 that relying as much as we had historically  
9 on acquisitions was not an appropriate  
10 course going forward and we had to have more  
11 balance and have more organic growth.

12 Q Why wasn't it an appropriate  
13 model going forward, this expansion model  
14 that you have described?

15 A I apologize. I thought I  
16 explained it. Let me try it again.

17 The larger the size of the  
18 entity, the more difficult it is to grow by  
19 buying things. That is, you have to buy  
20 more and more and more as your absolute size  
21 gets bigger.

22 So to use very rough numbers,  
23 during my tenure the company had about a  
24 hundred billion dollars of revenue a year,  
25 80 to 100 billion dollars of revenue year.



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2 So if you wanted to grow ten percent a year,  
3 so you wanted to grow your revenues from a  
4 hundred to 110, okay, just a simple math  
5 like that, you would have to go out and buy  
6 \$10 billion of revenue somewhere. There  
7 aren't a lot of companies that have  
8 \$10 billion of revenue. And so identifying  
9 them, courting them, and negotiating that  
10 and integrating that, it gets more and more  
11 difficult as the absolute size of the  
12 organization gets bigger.

13 So an acquisition strategy, if  
14 you are small, you can double and triple and  
15 quadruple in size just by acquiring things.  
16 If I can, can I give an analogy?

17 Q Please.

18 A If you had a law firm --  
19 everybody here is a lawyer except this nice  
20 lady. Everybody here is a lawyer.

21 Q Karen is not.

22 A She is going to be a lawyer some  
23 day. Everybody here is a lawyer or is going  
24 to be a lawyer.

25 If you have a law firm of 500

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2 lawyers, which is not a small law firm, a  
3 medium sized law firm, and you wanted to  
4 double in size, you would have to go find  
5 another 500 lawyers somewhere. Maybe one  
6 firm of 500 or maybe two of 250, something  
7 like that. And there would be the  
8 appropriate complications of doing that:  
9 Finding them, negotiating with them,  
10 integrating them into a culture and so  
11 forth.

12 If you had a law firm of 5000  
13 lawyers and you wanted to double in size, it  
14 would be almost impossible to do that  
15 because there aren't 5000 lawyers out there  
16 somewhere to find and integrate. And then  
17 if you did that and you had 10,000 lawyers,  
18 then you wouldn't have anybody you could  
19 double with. You sort of run the string out  
20 as it were if you understand what I mean as  
21 I am trying to describe it.

22 So in that context, we had grown  
23 very rapidly and very well, I think, and our  
24 growth pattern had been quite good. But it  
25 sort of topped out in terms of the ability

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2 to do that in just a practical sense. And  
3 so my judgment was that at that point we  
4 needed to continue to do acquisitions, but  
5 make sure that the businesses we had on  
6 their own were growing to contribute to  
7 that. So, maybe instead of growing --  
8 again, I am making up these numbers, just as  
9 an example.

10 Instead of growing ten percent  
11 through acquisitions, we would grow five  
12 percent through acquisitions and five  
13 percent through organic growth. So more of  
14 a balance. Does that make sense?

15 Q Yes, sir.

16 A So that is what I thought going  
17 in. Now your question was what about the  
18 regulatory issues.

19 What happened was that almost  
20 immediately we got diverted into these  
21 regulatory problems. So, in 2003, we had a  
22 regulatory problem with our consumer  
23 business here in the States. And then I  
24 think it was in early 2004 that the Japan  
25 situation began to unfold in complicated

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2 ways. And then the MTS trade you mentioned  
3 in Europe was I think in the fall of 2004.  
4 Dim recollection.

5 So we had -- in 2004, we had two  
6 or three instances which in a cumulative  
7 sense caused various regulators to stop and  
8 say: Gosh, you guys got to tighten up your  
9 ship here a little bit.

10 Q Was one of those regulators that  
11 suggested that you tighten up the ship, was  
12 that the Federal Reserve when they put a  
13 hold on the acquisitions in growth that  
14 Citigroup could do?

15 A Yes.

16 Q What was their reason for putting  
17 a hold on acquisitions in growth at  
18 Citigroup, external growth?

19 A I have to think back now. That  
20 was quite a while ago.

21 My recollection of it is that  
22 they were -- let me think now to make sure I  
23 am recalling it correctly.

24 I believe that their reasons were  
25 to make sure that our regulatory processes

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2 were robust enough that they would have a  
3 reasonable prospect for preventing the kinds  
4 of issues that had come up in Japan and in  
5 Europe.

6 The Japan private bank episode  
7 was one in which -- as I recall it, one of  
8 the bankers in Japan had engaged in some  
9 inappropriate activities with a client that  
10 was a charity or something like that. And  
11 the regulators over there became very  
12 focused on regulatory processes in Japan.  
13 And then as that was unfolding, the MTS  
14 trade happened in Europe.

15 The Japan issue was a pretty  
16 clear regulatory violation in Japan. The  
17 MTS one was less clear as to whether it was  
18 a violation, but it provoked quite a  
19 controversy. I believe that the Fed did not  
20 want those kinds of incidents to occur and  
21 wanted us to, in colloquial terms, take a  
22 time out and to make sure that everything  
23 was working very properly inside the company  
24 and to make sure that we had very robust  
25 regulatory processes.

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2 Q During that time out as you have  
3 described, what did you do to address the  
4 Federal Reserve Board's concerns?

5 A We did lots of things. If I can  
6 give you a summary answer, and then you can  
7 ask anything further from that.

8 We obviously had quite a process  
9 of increasing our regulatory functions: The  
10 lawyers, the audit function, the control  
11 functions.

12 We also embarked on what we  
13 called the five-point plan, which was an  
14 all-employee program. All 350,000 employees  
15 had to go through training sessions in which  
16 we emphasized the company's core values. We  
17 emphasized long-term results over short-term  
18 results. We emphasized protecting the  
19 reputation of the company. Everyone had to  
20 go through this training; everyone had to  
21 certify that they had gone through this  
22 training.

23 We had anonymous 360 reviews of  
24 all of our managers so that if anybody had a  
25 concern that their manager was engaging in

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2 inappropriate activity they could report  
3 this and so forth and so on. The five-point  
4 plan was a quite large undertaking. We had  
5 progress points against it that we reported  
6 on to the Fed and others.

7 Q Was that five-point plan a success?

8 A Well, whenever you are talking  
9 about changing culture or reinforcing  
10 culture, it is something that is judged over  
11 the long term. I believe that since that  
12 2004, 2005 time period we have not had -- to  
13 my knowledge, we have not had the kind of  
14 regulatory eruptions or problems that we had  
15 in the 2003, 2004 time frame. And if the  
16 goal of the program was to prevent those  
17 from recurring and if they have not  
18 recurred, then I think you would say it  
19 probably was successful.

20 Q In this time frame from 2003 and  
21 2005, approximately how much of your time  
22 was devoted to addressing these types of  
23 regulatory issues that we have been talking  
24 about and implementing the five-point plan?

25 A It is hard to say. Well, over 50

1 Interview - CHARLES PRINCE

2 percent.

3 Q Approximately how many  
4 subsidiaries or affiliates did Citigroup  
5 have during your tenure at CEO?

6 A I have no idea.

7 Q Over hundred or so?

8 A Well, over a hundred, yes. They  
9 are all listed in the 10-K filing, pages and  
10 pages and pages of them.

11 Q How many countries did you  
12 operate in?

13 A My recollection was that we  
14 operated in 102 countries. I don't know  
15 whether that was exactly right. I never  
16 went and counted each 102, but we always  
17 said it was 102.

18 Q How did you ensure out of the 102  
19 countries and the many subsidiaries that  
20 Citigroup had, how did you ensure that  
21 critical information was reported up to you  
22 that needed to be reported up to you?

23 A That is a very good question, and  
24 something that any manager of a large  
25 organization needs to focus on. We focused



1 Interview - CHARLES PRINCE

2 on that a lot and tried to ensure that we  
3 had multiple pathways for information.  
4 Again if I can I will describe three or four  
5 to give you a sense of it.

6 One way of doing that was through  
7 what you might think of as a normal  
8 management structure. So all of our  
9 operations, all of our people, all of our  
10 countries were organized into some kind of a  
11 management hierarchy. So this business  
12 reported to this person, reported to this  
13 person and up to someone who was on the  
14 Business Heads Group. Or this region, this  
15 country and this region reported to someone  
16 up on the Business Heads group. And so the,  
17 in a management hierarchy sense, the person  
18 on the Business Heads was responsible for  
19 managing his or her business down to the  
20 bottom of that level, that vertical level of  
21 activity. That is one. In some ways that  
22 was the primary or central method of  
23 management flows.

24 We also had our various staff  
25 functions. So legal, audit, risk, in some

1 Interview - CHARLES PRINCE

2 ways our public relations function had  
3 parallel vertical structures.

4 So, to take an example, if we had  
5 a business operation in India, there would  
6 be a risk person assigned to them. There  
7 would be a lawyer assigned to that in India.  
8 There would be an audit person assigned to  
9 that in India. And those people would  
10 report up their own vertical management  
11 chains parallel to the business vertical  
12 chain up to someone who was at a reporting  
13 level with the Business Heads.

14 So lawyers would report up their  
15 legal management chain up to the general  
16 counsel and then to the chief administrative  
17 officer, the audit function in a similar way  
18 and so forth. So, we had our management of  
19 business chain, we had our several  
20 administrative function chains, and then we  
21 had a wide range of direct to the employee  
22 communications. So, we would do once a year  
23 an employee survey, an anonymous employee  
24 survey, which would ask various questions  
25 which could then be collated and reported on

1 Interview - CHARLES PRINCE

2 and so forth.

3 We had anonymous hotlines for  
4 reporting concerns or problems. Most of  
5 that turned out to be about employee issues,  
6 but some of it related to the business and  
7 it was certainly promoted as for the  
8 business.

9 So these are just several  
10 examples. We were constantly looking for  
11 additional ways to get information up and to  
12 get information across because these  
13 vertical structures I have described, you  
14 don't want the information to sit inside  
15 those. You want them to go across as much  
16 as you can.

17 Q In the 2007 year immediately  
18 preceding the financial difficulties in the  
19 market starting in the summer and during  
20 that time frame of summer through November  
21 2007, did you feel as CEO sufficient  
22 information was reaching you so that you  
23 could evaluate the situations at Citigroup?

24 A I certainly thought so at the  
25 time. We had lots of information on lots of

1 Interview - CHARLES PRINCE

2 different scores. We are sitting here three  
3 years later almost looking back at one very  
4 significant issue. But at the time in the  
5 summer of 2007, we were looking at lots of  
6 issues. I mean what turned out to be the  
7 CDO problems in our fixed income business  
8 were not the biggest issue on the list of  
9 things we were looking at in the summer of  
10 2007.

11 And so if you imagine lots of  
12 information flowing on lots of different  
13 subjects in lots of different geographies, I  
14 thought we had pretty good information flow.

15 Q I know we are sitting here three  
16 years later. And so in retrospect, was  
17 there any information in retrospect that you  
18 wish you had sooner?

19 A You know, that is a hard question  
20 to answer because the fundamental issue --  
21 and I know we will get into this I'm sure in  
22 great detail later. But the fundamental  
23 issue was that the believed strength or  
24 credit worthiness of the so-called super  
25 senior tranches of these securitized

1 Interview - CHARLES PRINCE

2 products, that that belief was incorrect.

3 And when you say to yourself would you have  
4 liked to have had more information about  
5 that, I am not sure at the time that more  
6 information would have changed anyone's  
7 belief.

8 Instruments were downgraded in  
9 the middle of October, and I think until  
10 that point most of the people thought they  
11 were very, very, very safe.

12 So, your question is there any  
13 information I wish I had gotten earlier is a  
14 hard question to answer because of that. It  
15 wasn't so much a flow of information as it  
16 was wrong conclusions about the information  
17 that people had.

18 Q Who made the wrong conclusions?

19 A Well, we have to talk in more  
20 detail about that. I mean the rating  
21 agencies, the people in the business, the  
22 regulators, everybody made the wrong  
23 conclusions.

24 Q We are jumping ahead of ourselves  
25 I know, Mr. Prince?

1 Interview - CHARLES PRINCE

2 A I am sorry.

3 Q No, that is my fault, sir. I do  
4 want to talk to you in length about the CDO  
5 business and what happened there.

6 A Right.

7 Q But let me get back to more about  
8 the business and how it operated.

9 I have seen a report that said  
10 that you used to joke about not having one  
11 good culture but five or six good cultures.

12 Is that something that you would  
13 joke about, is that true that you said  
14 something like that?

15 A I am sure I said that in jest at  
16 some point.

17 Q What did you mean by five or six  
18 good cultures there?

19 A The company had grown through  
20 acquisition, as I said. As we got bigger,  
21 many of the acquisitions were quite large.  
22 And any company that you acquire which is  
23 large and has its own historical base of  
24 activities will have its own culture. And  
25 so if you look at various companies that

1 Interview - CHARLES PRINCE

2 were component parts of Citigroup, they had  
3 come to be part of Citigroup through  
4 acquisition. So we had started with  
5 Commercial Credit, let's say. That was one  
6 culture. We had the Travelers Insurance  
7 culture when this was part of the company.  
8 We had the Citibank culture, which was part  
9 of the company. We had the Salomon Brothers  
10 culture, which was part of the company. And  
11 so forth and so on.

12 Merging those cultures into a  
13 single culture, into a Citigroup culture,  
14 what we tried to described in our five-point  
15 plan as the one-Citi initiative, a one-Citi  
16 culture as opposed to a confederation. That  
17 was what I was trying to describe.

18 Q I don't have much spare time, but  
19 in the little that I do, I like to do some  
20 reading. And as you can imagine, most of my  
21 reading these days is focused on the  
22 financial crisis.

23 A I can recommend many other good  
24 books for you.

25 Q Yes, sir.

1 Interview - CHARLES PRINCE

2 One book that I recently read was  
3 former secretary Paulson's book. And there  
4 was something in that book about Citigroup  
5 that struck me.

6 He said that -- and I will  
7 represent that this was from the book. But  
8 he said that "Citigroup had an unwieldy  
9 organizational structure." And then he went  
10 on to say: "It lacked a single unifying  
11 culture or clear business strategy."

12 What is your reaction to that  
13 statement?

14 A Well, I don't have much reaction  
15 to that statement. People have points of  
16 view. Hank is a decent person, and if that  
17 is his point of view, then good for him.

18 Q I take it you don't share that  
19 point of view?

20 A Well, when I ran the company I  
21 didn't share that point of view. Now I  
22 don't have a point of view. I am a retiree.

23 But I am not trying to avoid the  
24 question. Look, we were trying to develop a  
25 more robust culture for the company. There



1 Interview - CHARLES PRINCE

2 is no question that was part of our effort  
3 in the five-point plan. And as I said, we  
4 were trying to move from a confederation of  
5 companies and confederation of cultures to a  
6 more unified culture.

7 In terms of an unwieldy -- I  
8 don't know, it didn't seem unwieldy to me.

9 Q In retrospect was it unwieldy?

10 A No, it didn't feel unwieldy to  
11 me. Probably did work as well as the  
12 Treasury Department.

13 MR. BONDI: I would like to  
14 show you a document.

15 (Thereupon, the e-mail Bates  
16 numbered Citi FCIC E 31616 was marked  
17 CR Exhibit 1 for Identification, as of  
18 this date.)

19 BY MR. BONDI:

20 Q For the record for her point, I  
21 showed you what is Bates numbered Citi FCIC  
22 E 31616, which appears, sir, to be an e-mail  
23 from you to Mr. Druskin copying David  
24 Bushnell and Mr. Crittenden and Mr. Kaden.  
25 I want to focus your attention, sir, on what

1 Interview - CHARLES PRINCE

2 you say in your e-mail that is dated October  
3 2nd, 2007. And please, you know, there is  
4 e-mails underneath that and please feel free  
5 to read the entire context. But I did want  
6 to focus your attention on that first  
7 statement or the, excuse me, your e-mail  
8 that, says, "Incredible lack of  
9 coordination. We really need to break down  
10 the silos," exclamation point. What is the  
11 context there of your statement?

12 A Let me just read this.

13 Q What was the context of your  
14 statement there about "incredible lack of  
15 coordination. We really need to break down  
16 the silos," exclamation point?

17 A Well, I don't remember the e-mail  
18 exchange. But what I see in reading it is  
19 that someone in our consumer business -- I  
20 can identify the names if you would like.  
21 But someone in our consumer business was  
22 looking at some new business in the credit  
23 card area, apparently something called  
24 Revolution Money. And our credit card  
25 people, the consumer business people, were

1 Interview - CHARLES PRINCE

2 looking into this somehow and in the course  
3 of looking at it, perhaps to buy it or  
4 something like that, it turns out that this  
5 company that they were examining actually  
6 had quite a detailed relationship with our  
7 corporate side business. And so that came  
8 to my attention, that one of our entities  
9 was pursuing an outside group that it turned  
10 out another entity inside the company had a  
11 great relationship with or some kind of a  
12 relationship with. And I expressed a sense  
13 of frustration that that information wasn't  
14 being shared across business lines, across  
15 the silos.

16 You remember a moment ago I  
17 talked about the importance not only of  
18 information flow going up the vertical  
19 columns but going across. And it would have  
20 been nice, I apparently thought, if other  
21 consumer people had checked with our  
22 corporate people: Do you know anything  
23 about Revolution Money? Or if our corporate  
24 people had turned to our consumer people and  
25 said we are doing business with this company

1 Interview - CHARLES PRINCE

2 Revolution Money, you ought to take a look  
3 at them instead of it working out the way it  
4 worked out here. But I'm inferring all this  
5 from reading. I don't have any independent  
6 recollection of it.

7 Q In relation with the events in  
8 the fall of 2007 relating to challenges in  
9 the marketplace, did you observe any other  
10 silos at Citigroup?

11 A In the fall of 2007, the issues  
12 that we are examining here today were pretty  
13 much contained inside the fixed income  
14 business and didn't involve so much cross  
15 business activities.

16 Q Was there any silos within the  
17 investment banking business that you  
18 observed?

19 A Oh, sure. Sure.

20 Q Did the silos in the investment  
21 bank pose any challenges during the  
22 financial crisis or leading up to the  
23 financial crisis?

24 A I have to give you a slightly  
25 long answer; I am sorry for that.

1 Interview - CHARLES PRINCE

2 In the summer of 2007, not the  
3 fall of 2007, the summer of 2007, the  
4 biggest issue we were focused on was the  
5 deterioration in the leveraged lending  
6 business, the loaning of money to KKR,  
7 Carlyle, people like that.

8 The CDO problems, which in the  
9 fall of 2007, then came to have such serious  
10 impact and which we are talking about today,  
11 were not the highest thing on the list in  
12 the summer.

13 The leveraged lending activity  
14 related both to our fixed income business or  
15 our lending business on the one hand. And  
16 our advisory business in the investment  
17 bank, different from the fixed income  
18 business, the investment business, and so  
19 those were silo issues as it related to  
20 leveraged lending between those two parts of  
21 the corporate and investment bank.

22 The CDO business, which in the  
23 fall came to have such prominence, didn't  
24 have those kinds of cross business issues  
25 inside the corporate and investment bank.

1 Interview - CHARLES PRINCE

2 It was pretty exclusively inside the fixed  
3 income business.

4 Is that clear?

5 Q Uh-huh.

6 To shift gears, I want to ask you  
7 about another area of our focus and that is  
8 the mortgage origination business.

9 (Thereupon, the printout of  
10 remarks of April 19, 2007 to the  
11 Greenlining Institute's 14 Annual  
12 Economic Summit in Los Angeles,  
13 California was marked CR Exhibit 2 for  
14 Identification, as of this date.)

15 BY MR. BONDI:

16 Q Mr. Prince, I am showing you what  
17 I will represent is a printout from some  
18 remarks that you gave on April 19, 2007, to  
19 the Greenlining Institute's 14 annual  
20 economic summit in Los Angeles, California.

21 I wanted to ask you about a few  
22 of the statements you made. And if you  
23 could look to page two of that, I will draw  
24 your attention to the bottom half of that  
25 document. In particular, the paragraph that

1 Interview - CHARLES PRINCE

2 starts with: "And so" and I will just read  
3 the statement for the court reporter and the  
4 record and ask you to comment on it.

5 "And so the combination of two or  
6 three factors, several of them good: Excess  
7 liquidity and the desire for homeownership  
8 have combined with one, which I think is not  
9 so good which is the arbitrage of regulatory  
10 responsibilities and have led to very  
11 aggressive, very exotic mortgage products  
12 which are then pumped into some of our  
13 communities where they are clearly not  
14 appropriate. And then when the housing  
15 bubble naturally tips over, we go through  
16 cycles all the time, then it is exposed that  
17 those products were not appropriate, but  
18 there was no regulatory framework which they  
19 went through."

20 What do you mean aggressive, very  
21 exotic mortgage products?

22 A Well, there are a number, but  
23 there are two in particular that I think  
24 would fit that category. One is the  
25 negative amortization mortgage product and

1 Interview - CHARLES PRINCE

2 the other was the adjustable ARM product. I  
3 am sure you know what those are. I won't  
4 bother explaining them. But I think in both  
5 cases they posed real concerns for people  
6 getting in over their heads.

7 Q Why were they posing concerns for  
8 people getting in over their heads? Was it  
9 the type of the product? Was it who they  
10 were being marketed to? What was the  
11 concern there?

12 A Well, because they weren't based  
13 on what I would call traditional lending  
14 criteria but were based in large part upon  
15 an expected appreciation in home value, they  
16 had the potential, potential, for being  
17 oversold. That is, sold to people who  
18 wouldn't necessarily qualify for those  
19 mortgage products unless the future  
20 appreciation would occur. And with the  
21 process of regulating the origination of  
22 mortgages, then and now, being as spotty as  
23 it is, it led to the possibility of very  
24 aggressive brokers going out in a largely  
25 unregulated way and selling these products



1 Interview - CHARLES PRINCE

2 into communities, to people, who probably  
3 shouldn't have had them and who were  
4 susceptible to the overselling of these  
5 aggressive brokers.

6 Q Generally, do you know if the  
7 products that you have described, were they  
8 part of an originate-to-hold model where  
9 that the mortgage brokers would hold them on  
10 their books, or were they part of a model  
11 that would distribute them on to the  
12 secondary market for securitization, or do  
13 you know?

14 A The latter.

15 Q What role did financial  
16 institutions like Citigroup play in terms of  
17 this secondary market demand for the  
18 mortgages that you have described?

19 A What I was describing here of  
20 course as you see in the next paragraph, I  
21 say. "We have not participated in that. We  
22 have not been a lender of exotic, aggressive  
23 mortgages. We have not done option ARMs or  
24 negative amortization products in the  
25 subprime community."

1 Interview - CHARLES PRINCE

2 "And our businesses -- " and I  
3 was focused here particularly on our  
4 consumer finance business and our mortgage  
5 business," -- were not in the business of  
6 originating those mortgages." And that part  
7 of our business was an originate and hold  
8 business.

9 Q Were there mortgage types,  
10 mortgage products, that your securitization  
11 business would purchase for securitization  
12 purposes into RMBS that your mortgage  
13 origination business would not originate?

14 A Yes.

15 Q What did you see in terms of  
16 Citigroup's role in the demand for those  
17 products if it was securitizing these  
18 products from other originators?

19 A There is a continuum of activity  
20 in my judgment at one end of which I would  
21 see our activities as being inconsistent  
22 with what I have described here in this  
23 speech. And at the other end of the  
24 activity as not being inconsistent with that  
25 description in my speech.

1 Interview - CHARLES PRINCE

2 By that I mean that if we have a  
3 situation where our fixed business is buying  
4 and trading with other institutions  
5 securities which are traded in the  
6 marketplace and those securities have  
7 characteristics that relate to these  
8 activities, I would not see that as  
9 inconsistent with what I have said here in  
10 the speech. That is, I would not see us as  
11 participating in that business.

12 At the other end of the spectrum,  
13 if we were funding directly people who were  
14 doing this so that someone could say we were  
15 indirectly doing it instead of directly  
16 doing it, I would say that was not  
17 consistent with what we wanted to do as a  
18 company.

19 So, the activity you asked about  
20 would depend for me on where it was in that  
21 continuum. And one way to think about it is  
22 the closer we got to the actual origination  
23 of these products, the more uncomfortable I  
24 would feel with that. If it was already out  
25 in the marketplace and it was trading among

1                   Interview - CHARLES PRINCE  
2           institutions who were trading lots of  
3           different securities and this is one of the  
4           securities they were trading, it is in the  
5           public marketplace, then it is already out  
6           there. It is being traded and we are just  
7           participating in a trading activity.

8                   But if we are actually getting  
9           really close to the origination process, if  
10          we were enabling the origination process,  
11          then I would see that as inconsistent with  
12          the direction that we had laid out for the  
13          whole company which was not to originate  
14          these products.

15                   Does that answer your question.

16           Q        I think so. Let me ask a few  
17           questions based on that.

18                   With respect to RMBS,  
19           securitization of mortgages in the RMBS,  
20           would you say that that is closer to the  
21           origination than say purchase of RMBS on a  
22           structuring desk for CDOs?

23           A        I am not sure I can pars the  
24           middle part of that continuum. I am not  
25           sure I can say well, one notch to the left

1 Interview - CHARLES PRINCE

2 is okay and one notch to the right is not  
3 okay. So I am not sure I am going to be  
4 able to answer the question with that degree  
5 of specificity.

6 For the company as a whole we had  
7 laid down the prescription that we did not  
8 want to be involved in the origination of  
9 these mortgages. And so I can't -- in part  
10 because the mechanics that you are  
11 describing are pretty discreet mechanics  
12 inside the way the trading desks worked. I  
13 am not sure I can answer as specifically as  
14 that question would suggest.

15 Q I have a more general macro  
16 question.

17 In your opinion, what role did  
18 Wall Street investment banks and large  
19 financial institutions play in promoting  
20 very aggressive, exotic mortgage products  
21 that were originated by brokers, mortgage  
22 brokers, and then sold off to investment  
23 banks and financial institutions for  
24 securitization?

25 A Well, that is a very broad

1 Interview - CHARLES PRINCE

2 question. It is a very good question and  
3 from a policy standpoint it is the right  
4 question to ask.

5 I think that the right way to  
6 think about that question is this: In the  
7 middle of the decade, the middle of 2000 to  
8 2010 decade, the investing environment was  
9 one where there were what seemed to be  
10 historically artificially low interest  
11 rates. That is, investing professionals  
12 thought that we were in a period where rates  
13 were unusually low.

14 Some people thought that was  
15 because of the way that capital flows worked  
16 with China and other companies buying  
17 treasuries at such significant amounts that  
18 is it reduced interest rates. Some people  
19 thought it was because the Fed had lowered  
20 interest rates after the tech bubble burst  
21 and after 9/11 to save the economy. But for  
22 whatever reason on any kind of historical  
23 basis, rates seemed unusually low.

24 Some people thought -- and I  
25 believe Alan Greenspan's been quoted -- that

1 Interview - CHARLES PRINCE

2 there was a new parodyne of risk, that in  
3 other words it was not a temporary  
4 phenomenon, but it was going to be a more  
5 extended phenomenon.

6 In that context, the growth of  
7 securitized products securitized products --  
8 the securitized products grew and the growth  
9 of it became quite strong as the industry  
10 was trying to create through financial  
11 engineering safe, higher yielding assets.

12 In that context the need for raw  
13 material to securitize was high almost in  
14 the way that securitization could be seen as  
15 a factory line. You needed raw material to  
16 put in the front end of that.

17 I believe that in hindsight, the  
18 lack of adequate regulation of the  
19 origination of mortgages created a situation  
20 where the demand side, the pull side of that  
21 equation found a place where more raw  
22 material could be created than could be  
23 created safely. So that as more and more  
24 and more of these subprime mortgages were  
25 created as raw material for the

1 Interview - CHARLES PRINCE

2 securitization process, not surprisingly in  
3 hindsight more and more of it was of lower  
4 and lower quality.

5 And at the end of that process,  
6 the raw material going into it was actually  
7 bad quality, it was toxic quality, and that  
8 is what ended up coming out the other end of  
9 the pipeline. Wall Street obviously  
10 participated in that flow of activity.

11 Q Did Citigroup participate in that  
12 flow of activity?

13 A I think in hindsight, some of the  
14 structures we did at the end were not on a  
15 point in the continuum that I was  
16 comfortable about with when I found out  
17 about them. That is, I think at the end of  
18 the process, in hindsight, as I understood  
19 what was in some of those, I think that our  
20 team was closer to the wrong end of the  
21 continuum that I had set forth than, in  
22 hindsight, I was comfortable with.

23 Q If I can get you to elaborate on  
24 what products you are speaking about there  
25 that you said your team you thought was on



1 Interview - CHARLES PRINCE

2 the wrong end of the spectrum.

3 A Well, I have described a  
4 continuum where at the level of publicly  
5 trading securities, I did not have a problem  
6 with that level of activity. And that the  
7 closer we got to the origination function  
8 itself of these mortgages, the less  
9 comfortable I was with that. And if we were  
10 close to the origination of that, then I  
11 would be uncomfortable with that.

12 I found out at the end of my  
13 tenure, I did not know it before, that we  
14 had some warehouse lines out to some  
15 originators. And I think getting that close  
16 to the origination function being that  
17 involved in the origination of some of these  
18 products is something that I wasn't  
19 comfortable with and that I did not view as  
20 consistent with the prescription I had laid  
21 down for the company not to be involved in  
22 originating these products.

23 (Thereupon, the document Bates  
24 marked Citi FCIC 91764 and 91765  
25 continuing on to 765, which purports

1                   Interview - CHARLES PRINCE  
2                   to be the warehouse lines of credit  
3                   with mortgage originators from 2000 to  
4                   2010 was marked CR Exhibit 3 for  
5                   Identification, as of this date.)

6                   BY MR. BONDI:

7                   Q        Mr. Prince, I am showing you what  
8                   was produced by Citigroup's counsel and has  
9                   been Bates marked Citi FCIC 91764 and 91765  
10                  continuing on to 765, which purports to be  
11                  the warehouse lines of credit with mortgage  
12                  originators from 2000 to 2010. Have you  
13                  ever seen this document?

14                  A        I have not.

15                  Q        You spoke a few minutes ago about  
16                  concern over warehouse lines. Did any of  
17                  the originators on this list cause you  
18                  concern?

19                  A        The only name that I recognize is  
20                  Ameriquest and that was a business that our  
21                  guys wanted to buy. And I told them we  
22                  couldn't buy it unless after they bought it  
23                  they did not originate any more of these  
24                  loans. Other than that I don't recognize  
25                  any names on the list, I'm sorry.

1 Interview - CHARLES PRINCE

2 Q Prior to the Ameriquest acquisition --

3 A I recognize Banco Popular, but  
4 that is a bank.

5 Q Prior to the Ameriquest  
6 acquisition, were you aware that Citigroup  
7 had warehouse lines of credit extended to  
8 Ameriquest?

9 A I think just before, I think just  
10 before. I think, I think just before they  
11 proposed buying it they said we had some  
12 lines out to them. I don't remember the  
13 size of the lines or that detail, but I  
14 remember them saying we had some lines out  
15 to them. They were struggling with this and  
16 that, and we wanted to buy them because  
17 after the credit crisis, they had a good  
18 platform for originating good mortgages.  
19 And I said we, I wouldn't permit them or  
20 approve them buying it unless they agreed  
21 that from the day we bought it going  
22 forward, they wouldn't originate any more of  
23 these bad loans, which they eventually said  
24 yes to and I think they went ahead and  
25 bought it.

1 Interview - CHARLES PRINCE

2 Q How did you feel when you learned  
3 that Citigroup had warehouse lines to  
4 Ameritrust originate bad loans?

5 A I think as I said just now, I am  
6 just going to repeat myself, I think the  
7 closer we got to originating loans, the more  
8 I thought that was inconsistent with my  
9 direction for the company.

10 Q In let's just say January 2007,  
11 in January 2007, would you have known about  
12 these warehouse lines of credit that had  
13 been extended to Citigroup? Was this  
14 something that was on your radar?

15 A Extended by Citigroup, no.

16 Q I have roughly totaled up the  
17 initial facility size of over \$11 billion.

18 Would it have caused you concern  
19 if in January 2007 someone came to you and  
20 said we have over \$11 billion in facilities  
21 to mortgage originators?

22 A Well, to mortgage originators who  
23 are originating these bad products, yes.

24 Q Do you know what kind of products  
25 were being originated by the mortgage

1 Interview - CHARLES PRINCE

2 originators on this list?

3 A I don't.

4 Q But you later learned that  
5 Ameriquest in your words were originating  
6 bad loans.

7 A Well, again, my judgement was  
8 these were not the kind of loans we wanted  
9 to originate. I will call them the exotics.  
10 Bad could mean bad credit. I am not focused  
11 on the credit quality at this point. I am  
12 focused on the type of loan they were  
13 originating, the exotic loans that I  
14 referred to in my speech that you gave me a  
15 moment ago.

16 And when the Ameriquest  
17 acquisition was presented to me, it was  
18 presented in the context that they were  
19 having some difficulties, it was an  
20 opportunity to buy something at a lower  
21 value because they were having difficulties  
22 I think in a regulatory sense, and that  
23 those regulatory issues related to these  
24 exotic loans that they had been originating.  
25 And I said we can't buy it if they are going

1 Interview - CHARLES PRINCE

2 to originate these exotic loans going  
3 forward; we don't do that.

4 MS. BUERGEL: Just to be clear,  
5 each warehouse line is governed by  
6 several written agreements that  
7 specify the types of loans that can be  
8 put into the line. So the lines don't  
9 extend to just any activity of each of  
10 the warehouse originators. They each  
11 have very specific agreements that  
12 govern.

13 THE WITNESS: You asked me if I  
14 would be surprised if we had lines out  
15 to people originating, I have no idea  
16 whether these people originated  
17 exotics, whether our lines with them  
18 allowed them to put exotics with it, I  
19 have no idea. You gave me a list of  
20 names and numbers, I don't know how  
21 they connect at all.

22 BY MR. BONDI:

23 Q In other words, as CEO you didn't  
24 approve the warehouse lines?

25 A Good heavens, no, no.

1 Interview - CHARLES PRINCE

2 Q I noticed New Century on the  
3 warehouse line list here. It states there  
4 was an opening date of the warehouse  
5 facility of August 1st, 2006 and a  
6 termination date of March 8, 2007.

7 During that time frame of  
8 August 1st, 2006, to March 8, 2007, were you  
9 aware that Citigroup had a warehouse  
10 facility with a warehouse line to New  
11 Century?

12 A No.

13 Q And on this list there is several  
14 times where it is listed nonagency whole  
15 loans.

16 A Right.

17 Q What is a nonagency whole loan?

18 A In the mortgage business there  
19 are agency loans and nonagency loans.  
20 Agency loans are those you can put on to  
21 Fannie and Freddie. So there is a buyer of  
22 those.

23 Nonagency loans are those that  
24 Fannie and Freddie won't buy for I don't  
25 know what reason. There is some set of

1 Interview - CHARLES PRINCE

2 criteria by which they will do it. So the  
3 agency business is a business that has much  
4 more of a flow activity to it. The  
5 nonagency business doesn't have that same  
6 purchaser on the other end.

7 Q Are nonagency loans securitized  
8 in the RMBS?

9 A I don't know the answer to that.

10 Q I want to ask a few more  
11 questions if you don't mind before we take  
12 break if you are okay.

13 A Sure.

14 Q You mentioned the decision to  
15 acquire Ameritrust. Who at Citi was  
16 involved in that decision to acquire  
17 Ameritrust?

18 A It was presented to me by Tom  
19 Maheras.

20 Q What did Mr. Maheras say when he  
21 presented this as a potential acquisition  
22 for Citigroup?

23 A I will just repeat what I said a  
24 moment ago.

25 I think, my recollection is that



1 Interview - CHARLES PRINCE

2 he said that this was a platform for  
3 originating mortgages, meaning a company  
4 with offices around the country with a  
5 technology base, with trained people and so  
6 forth. And that this platform was available  
7 for us to purchase, that at the time we were  
8 looking at it, the mortgage business had  
9 some difficulties, but in his judgement,  
10 those would be temporary. And that when the  
11 temporary difficulties in the mortgage  
12 business was over, this would be a very  
13 valuable platform to have as part of the  
14 company.

15 Q How did you become comfortable  
16 with the decision?

17 A There with two aspects to the  
18 decision. One is the financial aspects, we  
19 are going to pay so much, we are going to  
20 make so much and so forth. And the second  
21 was whether or not we would buy something  
22 which had this history of doing these  
23 things. And as I said a moment ago, I said  
24 we wouldn't buy it if they were going to  
25 continue to originate those. We weren't

1 Interview - CHARLES PRINCE

2 going to be in that business. We had  
3 suffered the revenue loss in our consumer  
4 side of not being in that business for  
5 several years. And we weren't going to  
6 start now. And the financial side of it,  
7 that is how much we paid and the return on  
8 the investment and so forth, I don't  
9 remember the details of that, but it came  
10 out well enough. And on the basis of those  
11 two things being right, my recollection is  
12 that we approved it and they went ahead.

13 Q Was the motivation to purchase  
14 Ameriquest driven in any part by Citigroup's  
15 potential exposure to Ameriquest?

16 A I don't remember that, no.

17 Q Did Mr. Maheras ever express  
18 concern over Citigroup's exposure to  
19 Ameriquest leading into the transaction to  
20 purchase Ameriquest?

21 A I don't remember that. I  
22 remember it being an opportunity to buy  
23 something during what he thought would be a  
24 temporary dip in the mortgage market.

25 Q Did you ever see any reports that

1 Interview - CHARLES PRINCE

2 were presented to you during the  
3 negotiations to acquire Ameriquest  
4 expressing concern over the loan qualities,  
5 loan quality of the files at Ameriquest?

6 A I don't remember it, but I am  
7 sure in the context of it. Remember, we  
8 were going to buy something that had a  
9 history of problems. We weren't buying a  
10 gold-plated business. We were buying a  
11 business that had difficulties. And we were  
12 buying, trying to buy it because it was  
13 inexpensive reflecting those difficulties.  
14 So, I am comfortable without recalling it  
15 that there was a strong examination of the  
16 loan book and that David and his people were  
17 heavily involved in that, but I don't recall  
18 it independently.

19 Q In retrospect, was the decision  
20 to acquire Ameriquest a wise decision, a  
21 wise investment?

22 A My guess is no. But the honest  
23 answer is I don't know what happened to it.  
24 I think, I think we bought it in 2007,  
25 didn't we? Is that right?

1 Interview - CHARLES PRINCE

2 Q Yes, sir. I believe the  
3 transaction closed in September of 2007.

4 A Yeah. Well, it wasn't part of  
5 the company very long on my watch, so I am  
6 not sure whether it was good or bad.

7 Q Do you want to take a break?

8 MR. KARP: Sure. That will be  
9 fine.

10 MR. BONDI: Thank you. We will  
11 take a break.

12 (Brief break.)

13 MR. BONDI: We will go back on  
14 record.

15 BY MR. BONDI:

16 Q I wanted to get your thoughts on  
17 the concept of originate-to-hold versus  
18 originate-to-distribute mortgages.

19 Because earlier we talked about  
20 how Citigroup's mortgage origination  
21 generally held these mortgages in their  
22 portfolio.

23 Do you think that an  
24 originate-to-hold model versus an  
25 originate-to-distribute model results in

1 Interview - CHARLES PRINCE

2 higher quality mortgages being made?

3 A There is much public talk about  
4 that. That is a question posed for policy  
5 makers.

6 I think that if you look at the  
7 starkest version of it and you look at an  
8 institution that at one end of the spectrum  
9 originates and holds everything, and you  
10 look at the other end of the spectrum at an  
11 entity which originates and doesn't hold  
12 anything, in the starkest terms, the first  
13 one, the originate and hold, has to care  
14 more about the quality of assets than the  
15 one that originates and doesn't hold. That  
16 is at the starkest level.

17 I don't remember the names of the  
18 institutions, but I remember reading about  
19 several brokers who originated mortgages,  
20 went out of business, sort of fly by night  
21 kind of people, and then showed up two weeks  
22 later, same guys, different corporate name,  
23 originating, so forth. And I read an  
24 article that said some of those people now  
25 are setting up shop to refinance mortgages.

1 Interview - CHARLES PRINCE

2 If you think about that at that level, then  
3 I think that the point is well taken. There  
4 is another category of institutions that  
5 originate and distribute where the  
6 institutional consequences of distributing  
7 bad products are quite negative.

8 So, take Lehman brothers as an  
9 example or Bear Stearns as example. These  
10 are firms where there is an institutional  
11 interest, or there was an institutional  
12 interest, in continuing to do business, in  
13 continuing to have a good reputation as a  
14 counter party.

15 And for institutions like that, I  
16 would say those folks would be one step  
17 removed from the starkest version of  
18 originate and distribute, doesn't  
19 necessarily care about the quality of the  
20 products.

21 So, clearly the more you hold,  
22 the more you are going to care about it.  
23 But I don't think it is an either/or  
24 necessarily, I think it could be either/or  
25 or maybe a little bit in the middle.

1 Interview - CHARLES PRINCE

2 Q I would like to show you what has  
3 been marked as Exhibit 4.

4 (Thereupon, the presentation  
5 Bates Citi 7657 was marked CR  
6 Exhibit 4 for Identification, as of  
7 this date.)

8 BY MR. BONDI:

9 Q And for the record, I will  
10 identify that it is Bates Citi 7657 and it  
11 was produced by Citigroup's lawyers to us.  
12 First of all, just looking at the cover  
13 page, do you recall if you ever received or  
14 saw this presentation?

15 A I have seen it. Can I say I have  
16 seen it in preparation?

17 MR. BIRENBOIM: Yes.

18 THE WITNESS: Do I violate  
19 something if I say that?

20 MR. BIRENBOIM: No.

21 THE WITNESS: I have seen it in  
22 preparation.

23 BY MR. BONDI:

24 Q Prior to preparing for today's  
25 interview, did you ever see this document?

1 Interview - CHARLES PRINCE

2 A I don't recall seeing it before  
3 that, no.

4 Q If you could take a look at what  
5 is the third page marked 7659, which looks  
6 to be another title page, another cover page  
7 from perhaps the earlier time this was  
8 presented, do you recognize this  
9 presentation or receiving this presentation?

10 A I would give you the same answer.

11 Q I ask you to flip to page seven  
12 of this presentation, which I will represent  
13 was the presentation given to the SEC in  
14 June of 2007.

15 A So I am clear, page seven is  
16 "Overview, Where Exposure is Found"?

17 Q Yes, sir.

18 A Thanks.

19 Q If you look in the section, the  
20 bullet, direct your attention to the bullet  
21 titled. "Super Senior and Liquidity Put  
22 Positions."

23 The first subparagraph there,  
24 "The CEO desk has exposure to subprime  
25 collateral in ABS CDOs through its purchase



1                   Interview - CHARLES PRINCE  
2           of so-called super senior tranches of  
3           transactions."

4                   In the time frame of April 2007  
5           to June 2007 when this presentation was  
6           given to the SEC, were you aware that the  
7           CDO desk at Citi had exposure to subprime  
8           collateral in ABS CDOs through its purchase  
9           of so called super senior tranches of  
10          transactions?

11                  A     I don't recall having that  
12          information then, no.

13                  Q     You weren't aware that Citigroup  
14          had super senior positions on its books in  
15          April or June of 2007?

16                  A     No, I don't think so.

17                  Q     The next sentence says, "The  
18          probability of default is deemed by rating  
19          agencies to be extremely small, so this  
20          exposure is not aggregated in our totals."

21                         In the time period of April  
22          through June of 2007, would you have been  
23          aware that the exposure from the super  
24          senior tranches were not aggregated in your  
25          totals?

1 Interview - CHARLES PRINCE

2 A No, I don't think I had any  
3 exposure to or discussion of or knowledge of  
4 the area until it sort of came up in  
5 September.

6 MS. BUERGEL: To be clear, the  
7 totals being referred to there are the  
8 totals in the deck, in this  
9 presentation, and I think your  
10 question implied your totals as in  
11 your Citigroup totals, and I just  
12 think that is an unfair way to ask the  
13 question. The totals are the totals  
14 in this deck.

15 BY MR. BONDI:

16 Q The next paragraph refers to  
17 liquidity puts. In the time period of April  
18 to June 2007, were you aware of liquidity  
19 puts associated with asset backed commercial  
20 paper which was associated with super senior  
21 tranches of CDOs?

22 A I would give you the same answer,  
23 which is no.

24 Q Going back to both of these, when  
25 did you first become aware that Citigroup

1 Interview - CHARLES PRINCE

2 owned super senior positions in CDO  
3 tranches?

4 A I think that the first time it  
5 came to my attention as any kind of an issue  
6 would have been in the September 2007 time  
7 frame. As I said earlier in the summer, the  
8 focus was as it related to the corporate  
9 investment bank, which again was only one  
10 part of the company -- we had a lot of  
11 things going on in the company, but as far  
12 as it related to that part of the company,  
13 the focus was on the leveraged lending  
14 portfolio. And I think the issues of the  
15 CDOs and super seniors so forth came up as  
16 any kind of an issue was in September, came  
17 up to me as any kind of an issue.

18 Q Prior to September 2007, were you  
19 even aware that Citigroup held positions in  
20 super senior tranches of CDOs?

21 A No.

22 Q There is reference here to  
23 liquidity puts?

24 A Uh-huh.

25 Q Was your understanding of

1 Interview - CHARLES PRINCE

2 liquidity puts in this context? Do you have  
3 one?

4 A Well, as I have come to  
5 understand it since, a liquidity put is  
6 something which obligates the company,  
7 obligates the bank, to fund someone if they  
8 can't find liquidity to fund it themselves.

9 So, in this case if someone owned  
10 something and was funding it through selling  
11 commercial paper to the outside world and  
12 for some reason they couldn't sell the  
13 commercial paper, then Citigroup would be  
14 obligated to provide the funding for them.

15 Now, that is a general answer.  
16 And that is the level of my understanding of  
17 it. There may be more detailed  
18 complications mechanically, but that is my  
19 understanding of it.

20 Q When did you first become aware  
21 that there were liquidity puts associated  
22 with commercial paper sold by Citigroup  
23 relating to the super senior tranches of  
24 CDOs? Would that have been September 2007  
25 as well?

1 Interview - CHARLES PRINCE

2 A Yes, that was probably later than  
3 September. The CDOs were the first things  
4 that came up and then the liquidity puts  
5 came up afterwards.

6 Q What was your reaction when you  
7 heard about the liquidity puts?

8 A Well, it is hard to give an "as  
9 of then" answer because so much has happened  
10 since which has colored that. But if can, I  
11 will put it in a little context.

12 The banks, financial  
13 institutions, are in the business of  
14 providing liquidity. It is not at all  
15 unusual for a financial institution to  
16 provide a liquidity support, one of the main  
17 lending instruments for a bank is a  
18 commercial paper back-up line. So all of  
19 the major companies in the U.S., the  
20 manufacturing company, industrial companies,  
21 fund themselves through commercial paper.  
22 And they take out back-up lines from banks  
23 to guarantee that if the commercial paper  
24 market seizes up, they can go borrow money  
25 from the banks. Commercial paper back-up

1 Interview - CHARLES PRINCE

2 lines. Every bank issues them, every major  
3 company has them to back up their commercial  
4 paper issuance. It is a way of getting the  
5 benefit of the lower cost of short-term  
6 funding without taking the risk of the  
7 short-term funding.

8 From the bank's standpoint, the  
9 risk of the liquidity guarantee for  
10 commercial paper being called upon is quite  
11 low. And so you make some money off of  
12 that, but you don't have a huge exposure.

13 So, the notion of a liquidity  
14 guarantee extended someone else is not an  
15 unusual notion, not one which is strange or  
16 which would cause one's eyebrows to raise.

17 In the context of the CDO  
18 business of course it turned out to be quite  
19 a negative. But at the time this first came  
20 to my attention in the September time frame,  
21 even at that point people believed that the  
22 super seniors would not have any losses.

23 So, again, I am reconstructing  
24 what happened in September for you because  
25 sitting here today looking backwards, you

1 Interview - CHARLES PRINCE

2 would have an entirely different view. But  
3 in reconstructing what happened then, the  
4 notion that there were these better than  
5 triple A rated instruments out there, that  
6 we were providing liquidity support for,  
7 those words would not have excited anyone.

8 As it turned out, when the rating  
9 agencies downgraded everything multiple  
10 steps in a single several days, that changed  
11 the world. But when it first came up, I  
12 don't remember it being a moment of great  
13 excitement.

14 Q When you talk about it first  
15 coming up, that was in September?

16 A To me, yes, first coming up to me  
17 in September.

18 Q September 2007?

19 A Yes, middle. As I said I think  
20 the CDO issue came up in the middle of  
21 September. The liquidity puts came up a  
22 week or so later.

23 Q If you could flip to the page 11  
24 of this deck, which is Bates Citi 7673.

25 A Yes.

1 Interview - CHARLES PRINCE

2 Q Direct your attention to the  
3 first part where it is under super senior  
4 book, the second dash.

5 "This so-called super senior  
6 tranche is viewed by the rating agencies to  
7 have an extremely low probability of  
8 default, less than 0.01 percent."

9 Was that what was represented to  
10 you in September 2007 from persons at  
11 Citigroup?

12 A I am going to give you a long  
13 answer that is yes. The long answer is I  
14 don't know whether they used these words, I  
15 don't know whether they used this percentage  
16 number of one basis point, but the context  
17 of this sentence is what was represented.

18 Q Direct your attention to the  
19 fifth dash down under that section super  
20 senior book, states: "Our current open  
21 position as 14.6 billion."

22 Do you recall in September 2007  
23 being told the amount of the open position  
24 on super seniors that Citigroup held?

25 A I can't reconstruct it that



1 Interview - CHARLES PRINCE

2 finely, meaning that I have had so much --  
3 it has been such an issue since then, and  
4 all of the information and the conversations  
5 have telescoped, that I can't reconstruct in  
6 my mind whether in late September when  
7 people first talked to me about this they  
8 said and the number is X. I can't  
9 reconstruct that, I am sorry.

10 Q Take me back to September 2007  
11 when you were first told about the super  
12 senior tranches. Who told you?

13 A My best recollection is that at  
14 one of our Business Heads meetings Tom  
15 Maheras brought it up.

16 Q Why did Mr. Maheras bring it up?

17 A I can't put myself in his head.  
18 I don't know the reason for that.

19 Again, as I am reconstructing  
20 that time period, we had spent several  
21 months talking and focussing on the  
22 leveraged lending book. And, again, it is a  
23 little bit of speculation on my part, but my  
24 guess is that in that context, Tom said at  
25 one of the meetings, you know, we should

1 Interview - CHARLES PRINCE

2 also think about the CDO book. He brought  
3 it up then. That is my recollection of how  
4 it came up.

5 Q As you sit here today, what  
6 precisely do you remember Mr. Maheras saying  
7 about the super senior tranches?

8 A Again, I can't reconstruction it  
9 because so much has happened. The intensity  
10 of the next 30 days, more or less, sort of  
11 collapses everything in my mind. And I  
12 don't -- because it wasn't presented at the  
13 time in a startling fashion, you know, you  
14 remember things if they startle you, if they  
15 surprise you, if they stand out in your  
16 memory.

17 This one didn't start that way.  
18 This was: Let me also mention this. And  
19 then it got bigger and bigger and bigger  
20 obviously over the next 30 days. So if you  
21 look back to the first one, there is nothing  
22 about that first conversation which with  
23 stand out in your mind.

24 Q At what point did the super  
25 senior positions cause you alarm?

1 Interview - CHARLES PRINCE

2 A Well, let me, if I can, turn  
3 around at the end and back it up. It might  
4 be an easier way to answer the question.

5 The super seniors really, the  
6 whole process around the super seniors  
7 really collapsed when the rating agencies  
8 downgraded, all the rating agencies down  
9 graded thousands of securities from triple A  
10 to basically junk in a day or two. And  
11 that, that kind of collapse in the judgment  
12 of the rating agencies was a precipitous,  
13 meaning like a big explosion.

14 If you back up from that, that  
15 was as I recall middle of September kind of  
16 time frame, middle of October kind of time  
17 frame. If you back up from that a week or  
18 so, so maybe the first week of October, we  
19 were engaged in a dialogue -- me, Tom  
20 Maheras, several of our other people -- of a  
21 round of almost daily telephone calls and  
22 meetings, what is happening in the market as  
23 it relates to these kinds of securities.  
24 And those meetings or telephone calls would  
25 involve myself, Tom Maheras, Randy Barker,

1 Interview - CHARLES PRINCE

2 several of their people at a lower level in  
3 the organization. Bob Rubin was in a number  
4 of them. Bob Druskin was in a number of  
5 them. Lou Kaden was in a number of them.  
6 This is in the couple of weeks, as I recall  
7 it, ten days before the rating agency  
8 downgrades.

9 During that period of time, I had  
10 convened these daily meetings and calls  
11 because I was more uncomfortable with the  
12 situation. And yet during that period of  
13 time, Tom had said and said till his last  
14 day at work: We are never going to lose a  
15 penny on these super seniors. We are never  
16 going to a lose penny on these super  
17 seniors. And of course we were going  
18 through accounting closings, you would close  
19 a month, you would close a quarter and so  
20 forth.

21 And when you do that, you have to  
22 engage in certain decision-making processes  
23 as it relates to valuations. And so there  
24 was a natural, driven by the calendar, a  
25 natural internal dialogue about this. And

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2 as we went along and I was more and more  
3 uncomfortable with this and more and more  
4 uncomfortable with Tom's conclusion on  
5 ultimate valuations, that is when I really  
6 began to have some very serious concerns  
7 about what was going to happen.

8 Q What was making you feel more and  
9 more uncomfortable with Tom Maheras'  
10 conclusion that Citigroup would never lose a  
11 penny on its super seniors?

12 A Well, the external environment  
13 during those 30 days, three or four weeks  
14 time frame, it was obviously continuing to  
15 deteriorate and all of the, all of the  
16 indicators that I could see that related to  
17 certain trading indices, what other people  
18 in the industry were to doing, et cetera, et  
19 cetera, you know, as you look around the  
20 world, the things you see happening  
21 suggested a further deterioration. And Tom  
22 and Randy and others were pretty resolute  
23 that we were thinking about this in the  
24 wrong way, that these instruments had been  
25 structured in way that they would hold their

1 Interview - CHARLES PRINCE

2 triple A value, that we wouldn't lose any  
3 money, I would say leading right up to when  
4 the rating agencies collapsed.

5 Q For the record, Mr. Maheras, at  
6 the time he said this, was the CEO of the  
7 investment bank?

8 A I think at that point Tom and,  
9 Tom Maheras and a fellow named Michael Klein  
10 were co-CEOs of the investment bank,  
11 corporate and investment bank.

12 Michael focused on the investment  
13 banking side of the house. And Tom Maheras  
14 focused on the fixed income or trading side  
15 -- fixed income equities, sort of the  
16 trading side of the house versus the  
17 investment bank side of the house.

18 Q You mentioned Randy. Is that  
19 Randy Barker?

20 A Yes, sorry.

21 Q What was Mr. Barker's role in  
22 September 2007?

23 A As best I can recollect it,  
24 Barker was the head of the fixed income  
25 business under Maheras. So, again, I'll

1 Interview - CHARLES PRINCE

2 make sure I am as clear as I can be.

3 Maheras and Klein were co-heads  
4 of an entity and the entity basically had  
5 two halves and Klein had the half which was  
6 the investment banking side and the  
7 corporate lending side. And Maheras had  
8 the, all the trading businesses. So fixed  
9 income and equities and commodities and so  
10 forth.

11 And under Maheras, then, on this  
12 side of the -- there were various  
13 businesses. As I membered, fixed income,  
14 equities, commodities, rates and currencies  
15 and so forth. And I think that Barker was  
16 the head of the fixed income part of that  
17 trading side of the business. Maheras had  
18 been the head of the fixed income business  
19 before he stepped up to being the co-head of  
20 the whole thing.

21 Q In terms of this belief that  
22 Citigroup was not going to lose any money on  
23 its super senior CDO positions, that was a  
24 belief that was shared by Mr. Maheras and  
25 Mr. Barker?

1 Interview - CHARLES PRINCE

2 A I believe so, yes.

3 Q Who else shared that belief?

4 A Gosh, I don't know. There were I  
5 am sure other people inside fixed income who  
6 shared that belief. I am not sure that  
7 anyone else of the people that I mentioned  
8 on these calls and meetings that I set up  
9 that were outside of the fixed income  
10 business ever expressed that. I think that  
11 was pretty well contained to the fixed  
12 income business, but of course they  
13 understood it better than, or were supposed  
14 to understand it better than the rest of us.

15 Q How early in September would Mr.  
16 Maheras have shared this belief that  
17 Citigroup was not going to lose any money?  
18 Was that contemporaneous with the first time  
19 he presented the super senior positions as  
20 being on the books to you, or was that at a  
21 different time?

22 A What I remember about that is  
23 that throughout the entire time period we  
24 discussed this, meaning till the last day  
25 and any time before that, it was here are



1 Interview - CHARLES PRINCE

2 these positions, this -- somebody says this  
3 might be an issue or this indicator suggests  
4 it might be an issue or something like that,  
5 but don't react to that. We are not going  
6 to lose any money on these positions; they  
7 are good.

8 Q Your reference to the last day.  
9 When was the last day?

10 A Well, Tom left the business in  
11 the second week in October, I think,  
12 something like that, of 2007?

13 Q And then following that time  
14 period, the belief that Citigroup was not  
15 going to lose money on super senior  
16 positions was no longer expressed within the  
17 organization? I am just trying to get a  
18 sense --

19 A I think what happened after that  
20 was that we changed management when Tom left  
21 and then basically over the -- then I think  
22 either just before he left or just after he  
23 left, the rating agencies collapsed and then  
24 there was a fairly short period of time,  
25 maybe it was a week, maybe it was ten days,

1 Interview - CHARLES PRINCE

2 during which the analysis of the positions  
3 vis-à-vis the new lowered ratings was done  
4 up and then that led to the time when I  
5 resigned.

6 Q When Mr. Maheras first expressed  
7 to you that Citigroup was not going to lose  
8 a penny on its super senior CDOs, did you  
9 ask to see any stress testing?

10 A I can't -- I can't reconstruct  
11 the time frame during which we did that  
12 because as we were going through the end of  
13 September and closing the books, there was  
14 some stress testing done by Gary Crittenden  
15 and others working with Maheras.

16 I am confident, without  
17 remembering, that the first time Tom brought  
18 it up, he didn't say and here's a stress  
19 test to prove what I'm saying. I mean, he  
20 didn't do that. But whether or not a couple  
21 days later or a week later there was stress  
22 testing or whether that was two or  
23 three weeks, later I can't separate those in  
24 my mind.

25 But it was not a situation where

1 Interview - CHARLES PRINCE

2 the first time it came up at our Business  
3 Heads meeting, if that is how I recall it,  
4 he would have had a big, you know, brief in  
5 support, it wouldn't have been that kind of  
6 a situation.

7 Q When Maheras first said that  
8 Citigroup was not going to lose a penny on  
9 its super senior position, was Mr. Bushnell  
10 present?

11 A It was a Business Heads meeting.  
12 David would have been at the meeting.  
13 Whether he was absent that day for some  
14 reason, whether he was out of the room or  
15 not, I can't remember. But it was at a  
16 meeting at which David would have been  
17 present.

18 Q Do you ever recall Mr. Bushnell  
19 expressing his belief on the super senior  
20 positions?

21 A I think that David -- David was  
22 part of these daily telephone calls and  
23 meetings we had during that interim period.  
24 So, again, I can't reconstruct carefully  
25 enough the first time Tom mentioned it

1 Interview - CHARLES PRINCE

2 versus the next day versus the next day.

3 But I think if you take the 30  
4 days from mid September to mid October,  
5 clearly by the time sort of the second week  
6 in October was coming along, so two thirds  
7 of the way through their process, we are in  
8 these daily meetings and calls and so forth,  
9 I think David was cautioning that I am not  
10 sure Tom is right about this. I can't  
11 remember him saying those exact words so I  
12 am not suggesting that.

13 But the tonality, if I can use  
14 that word, of the people was Tom and Randy  
15 were resolute, you know, don't, don't do  
16 something here which you are going regret,  
17 you not going to lose money on those things.  
18 Don't take a huge write down or a big  
19 reserve. And I would say that Gary  
20 Crittenden and David Bushnell -- if I can  
21 put it sort of at the other end of the  
22 figurative table -- were saying, you know, I  
23 am not sure that is right; I think we should  
24 test this a little bit more. It was that  
25 kind of a dynamic.

1 Interview - CHARLES PRINCE

2 Q What was the nature of Mr.  
3 Maheras' departure from Citigroup?

4 A I have actually tried to  
5 reconstruct that in my mind, and it is a  
6 little fuzzy around the edges. But here's  
7 the essence of it.

8 There came a point in time when  
9 it was my judgment that Randy Barker should  
10 leave the company. And that judgment was  
11 based on my view that we were going to end  
12 up losing money on these positions and that  
13 someone else should manage the process of  
14 recovering what we could from that issue.  
15 It is very customary in the banking world  
16 that if someone makes a loan, any kind of a  
17 loan, and it goes bad, that the work out of  
18 that loan should be managed by someone other  
19 than the person who put it on the books,  
20 someone who is objective and doesn't have  
21 any history with it, so on. And so that was  
22 my judgment, that that should happen.

23 Maheras and Barker were quite  
24 close personally. And I would say it is  
25 fair to report that Tom resisted that. But

1 Interview - CHARLES PRINCE

2 I insisted that that be the case. And as  
3 part of the restructuring process that  
4 resulted from Barker leaving the company, so  
5 not that day but within several days  
6 afterwards, Maheras came to me and said that  
7 he thought he did not want to continue. And  
8 those were the circumstances of him leaving.

9 Q So it was your decision to  
10 terminate Mr. Barker?

11 A Yes.

12 Q Did you consult anyone else on  
13 the decision to terminate Mr. Barker?

14 A I am sure I did. I am sure I  
15 talked to Druskin, I am sure I talked to  
16 Rubin, I am sure I talked to a number of  
17 people, but it was my decision, not theirs.

18 Q And did you decide to terminate  
19 anyone else in connection with this CDO  
20 business?

21 A I don't remember anybody else  
22 that I took action on personally, no. I  
23 mean I know a number of people were  
24 terminated, but I don't think anyone else I  
25 acted on personally.

1 Interview - CHARLES PRINCE

2 Q I want to ask you about the  
3 liquidity puts that are also referenced in  
4 this document.

5 Can you tell me what you recall  
6 about the time you first were told about the  
7 liquidity puts associated with the asset  
8 backed commercial paper issued from the,  
9 secured by the super senior tranche?

10 A I can't really. Again, I want to  
11 put it in the context of what was happening.

12 We spent the summer thinking  
13 about the leveraged lending book. Then in  
14 the middle of September Tom Maheras says  
15 well, you know, we also have to think a  
16 little bit about these CDOs and so forth.  
17 And then that sort of the separate channel  
18 started happening. And then my best  
19 recollection is that a week or two later  
20 somebody said well, the CDOs are X, but also  
21 have liquidity puts relating to the CDOs.  
22 But it in my mind sort of folded into the  
23 same issue, and it wasn't as if a third  
24 train of activity went along as compared to  
25 it just being a larger second train of

1 Interview - CHARLES PRINCE

2 activity if that makes sense to you.

3 So, it is not as if somebody came  
4 up one day and said ah, liquidity puts, and  
5 I said oh, liquidity puts. It wasn't that  
6 sort of a moment. It was sort of adding on  
7 to existing discussion.

8 Q When do you recall being informed  
9 or were you informed about the size of the  
10 exposure associated with the liquidity puts?

11 A I can't remember the specifics of  
12 when that number was put on the table or not  
13 put on the table.

14 Q Do you recall ever being  
15 eventually told of the number associated  
16 with that?

17 A Sure. Obviously in hindsight I  
18 have read all the papers and I know what  
19 happen and so forth. But I can't  
20 reconstruction in my mind a particular time  
21 when someone came in and said here's the  
22 number and that sticks out in my mind.

23 Q The commercial paper that was  
24 associated with the liquidity puts, do you  
25 recall being told that the commercial paper



1 Interview - CHARLES PRINCE

2 was now back on Citi's books?

3 A I am not sure whether that  
4 happened when I was there or not. I mean  
5 there was quite a discussion about taking  
6 these things back on to Citi's books, but I  
7 thought that happen after I left.

8 Q I would like to show you another  
9 document which has been marked number five.

10 (Thereupon, the documents Bates  
11 Citi FCIC 24594 were marked CR  
12 Exhibit 5 for Identification, as of  
13 this date.)

14 BY MR. BONDI:

15 Q I am showing you what has been  
16 produced to us by Citigroup, it is Bates  
17 Citi FCIC 24594 and it is some attachments  
18 along with a cover e-mail from a Christina  
19 Pretto to you dated July 30, 2007.

20 First, who is Christina Pretto?

21 A She was one of our PR people.

22 Q Do you recall receiving this  
23 e-mail on or about June 30, 2007?

24 A I don't.

25 Q I would like to turn your

1 Interview - CHARLES PRINCE

2 attention to the second attachment here,  
3 second attachment to the e-mail. It is  
4 Bates Citi FCIC 24607 and it is a Power  
5 Point deck entitled Tracking the Twin Storms  
6 Catalyst of Market Volatility.

7 A Got it.

8 Q Do you recognize this document,  
9 sir?

10 A I am sure I have seen it, but I  
11 can't remember in what context I saw it, I  
12 am sorry.

13 Q Do you recall seeing it during  
14 your tenure as CEO at Citigroup?

15 A I am sorry, I can't place it as  
16 to whether I saw it then or whether I saw it  
17 during preparation.

18 Q I would like to draw your  
19 attention to the first page of the  
20 presentation on the executive summary.

21 A Yes.

22 Q The third bullet down states,  
23 "The value of investment grade CDOs built up  
24 out of subprime mortgages has declined  
25 dramatically leading to significant losses.

1 Interview - CHARLES PRINCE

2 Total damage has been estimated at 50 to 100  
3 billion."

4 Do you recall having the, do you  
5 recall hearing that statement or reading  
6 that statement in or about July 30, 2007?

7 A I don't, but the -- it was clear  
8 that in the summer of 2007, many of the CDOs  
9 had, many parts of the tranches of the CDOs  
10 were declining in value. I want to  
11 distinguish that between the super seniors.  
12 Super seniors, at that point no one thought  
13 had any issues. In fact, no one thought  
14 those had any issues until October. But it  
15 is clear that some of the lower tranches had  
16 declined in value by the summer. So, do I  
17 remember seeing that at the time, no. I  
18 mean I see it on the piece of paper now.

19 MR. KARP: Just so the record  
20 is clear, because the quote would not  
21 revealed this, this is for the entire  
22 industry.

23 A For the entire industry.

24 Q I think the presentation in fact  
25 is titled Catalyst of Market Volatility.

1 Interview - CHARLES PRINCE

2 In the summer of 2007, did it  
3 case you any concern that there were  
4 significant losses looming in the CDO  
5 business in general? When I am talking  
6 about business, I am talking about industry  
7 business, not necessarily Citi specific.

8 A At the time, people believed that  
9 the housing market would decline to a  
10 certain degree. Without having read the  
11 document, you can see in the little box on  
12 this page under "consumer" that it says,  
13 "Subprime foreclosure delinquency will  
14 likely impact less than one percent of U.S.  
15 housing stock."

16 And at the time, people believed  
17 that the housing market would be affected in  
18 ways where some of the lower or lowest of  
19 the tranches of CDOs would be affected. I  
20 think at the time no one had any or I know  
21 at the time no one had any idea or hint that  
22 the housing decline would be as significant  
23 or as broad as it turned out to be. So,  
24 your question was about CDOs, I didn't think  
25 about CDOs at that point in time. We were

1 Interview - CHARLES PRINCE

2 thinking much more broadly about how would  
3 it affect the real estate business  
4 generally, how would it affect our consumer  
5 business, which has an originate and hold  
6 strategy. The parts of the CDOs that would  
7 be affected based on our thinking at the  
8 time wouldn't be things that we owned at  
9 all. So, the answer to your question is no,  
10 but it is a very long no.

11 Q So, in the summer of 2007, it was  
12 your understanding that you did not, you  
13 meaning Citigroup, did not hold the lower  
14 tranches of CDOs that were being affected?

15 A That was my understanding, yes.

16 Q In the summer of 2007, did you  
17 ever ask Mr. Maheras or any of his  
18 colleagues in the investment bank, what  
19 tranches do we hold or what is our exposure?

20 A You know, in hindsight that is an  
21 excellent question. At the time, it  
22 wouldn't have occurred to anyone to do that.  
23 And if someone had asked the question, the  
24 answer that would have been given wouldn't  
25 have in any way given you different

1 Interview - CHARLES PRINCE

2 information.

3 I believe it is true that not  
4 only the risk function, but the management  
5 of the business believed that our holdings  
6 and our activities were a hundred percent  
7 mark to market on a daily basis, so that we  
8 had no nonmarked risk.

9 I believe that at the time people  
10 felt that there were almost literally no  
11 scenarios under which the super seniors  
12 could be touched, so it wouldn't have  
13 occurred to anyone either to ask the  
14 question or to volunteer the information to  
15 say now don't forget, we also have these  
16 super seniors which are triple A and there  
17 is no chance in the world that they will  
18 ever be touched. That wouldn't have come up  
19 in a normal context.

20 Looking back, I mean it is very  
21 easy to see that is the one issue that you  
22 should have asked. I understand that. But  
23 at the time, you have to deal with what was  
24 reality at the time and whether it was the  
25 presentation that you just showed me to the

1 Interview - CHARLES PRINCE

2 SEC or the internal dynamics of marking to  
3 market, the super seniors were not thought  
4 to be of subprime character, as I have gone  
5 back now and looked at that time.

6 Obviously at the time it wasn't a  
7 topic of discussion. But as I looked at it  
8 in hindsight, it is clear that people didn't  
9 think of it as being in that character or  
10 that category at all.

11 So, your question was did anyone  
12 examine Tom Maheras on what the other  
13 categories were we hold and how do you think  
14 about it and so forth, that wasn't part of a  
15 real world situation at the time.

16 Q In the summer of 2007 when events  
17 were unfolding in the market as described in  
18 this presentation, did you ask anyone at  
19 Citigroup to run any stress test to see how  
20 is Citi going to fair if events unfold in  
21 the market, if things deteriorate in the  
22 market?

23 A I didn't have to. People ran  
24 stress tests all the time. There is an  
25 index of -- and I can't remember the name of

1 Interview - CHARLES PRINCE

2 it -- of housing prices around the country  
3 which is used by everyone.

4 Q ABX?

5 MS. BUERGEL: Case-Shiller.

6 A Case-Shiller. And people would  
7 run stress tests off of that. And they  
8 would say okay, if Case-Shiller is down five  
9 percent, what does it mean? If it is down  
10 three percent what does it mean? If it is  
11 down five percent in so many cities, what  
12 does it mean and so forth? And I remember  
13 vividly David and others saying to me -- and  
14 I remember vividly the conversation. I  
15 don't remember what time frame, but it could  
16 easily have been in this time frame. People  
17 saying to me: Gosh, housing rises would  
18 have to go down 30 percent nationwide for us  
19 to have, not a problem with CDOs, but for us  
20 to have, quote, problems. And that has  
21 never happened since the Depression. I  
22 remember it vividly, those conversations.

23 So, it wasn't a situation where I  
24 could have commissioned stress tests. We  
25 had stress tests all the time.



1 Interview - CHARLES PRINCE

2 Q If I could get you look at one  
3 additional page on this document here, which  
4 is the next page, 24609.

5 A Yes.

6 Q And it says, the title, Tracking  
7 the Twin Storms. Highlighting the  
8 Parallels. And to your counsel's point, I  
9 believe this is describing the market as a  
10 whole?

11 A Yes.

12 Q There is a section on the left,  
13 the subprime mortgages, it says, "Which  
14 securities are involved?" It says, "CDOs  
15 built out of subprime mortgages."

16 At the time you got this  
17 presentation in July of '07, summer of '07,  
18 did you realize that Citi had CDOs that were  
19 built out of subprime mortgages?

20 A You know, I can't honestly  
21 recall. As I said, the first time that CDOs  
22 came up as any kind of an issue for us, any  
23 kind of a problem or concern, was in the mid  
24 September time frame. This was I think  
25 talking about the industry as a whole. I

1 Interview - CHARLES PRINCE

2 don't remember anybody saying: And don't  
3 forget, Chuck, we got some of these as well.  
4 I don't remember that as well.

5 MR. LERNER: For the record, I  
6 don't think he said he remembered  
7 receiving it at that time.

8 MR. BONDI: I understand that.

9 Q I was asking you if you  
10 understood at the time, though, generally,  
11 not based on this presentation, but  
12 generally the CDOs that Citigroup had were  
13 built out of subprime mortgages?

14 A I am not sure that I at that  
15 point in time even had any specific  
16 understanding of our, of the mechanics of  
17 our CDO business. This was, this was a very  
18 small part of one part of one division of  
19 the company. I mean, we had a large  
20 business. There would be no reason, unless  
21 I happened to have worked in the fixed  
22 income business, for me to have any  
23 familiarity with that detailed level of  
24 product activity.

25 Q On this same page, there is a

1 Interview - CHARLES PRINCE

2 section called, looks like What Went Wrong?  
3 Under subprime mortgages it says, "Lax  
4 lending standards, high LTVs, piggyback  
5 loans, low or no doc and teaser rates."

6 Are the description of the  
7 mortgage types on this presentation here the  
8 types of mortgage products that we talked  
9 about earlier in connection with your  
10 Greenlining Institutional speech that you  
11 had some concerns about?

12 A Some yes and some no. The ones I  
13 mentioned earlier as examples of exotic  
14 mortgages were the negative amortization and  
15 the adjustable ARMs, which have to do  
16 fundamentally with how much you are required  
17 to pay back on a current basis. And by  
18 deferring how much you have to pay on a  
19 current basis, you are really betting on  
20 home price appreciation rather than the  
21 ability of the borrower to pay.

22 These items that are referred to  
23 here, some of these relate to that and some  
24 don't: So teaser rates or a category of ARM  
25 mortgages, but they are not necessarily

1 Interview - CHARLES PRINCE

2 adjustable ARMs. Adjustable ARMs are you  
3 the borrower can decide how much you want to  
4 pay fundamentally.

5 A teaser rate could be that, or  
6 it could be simply it is two percent for the  
7 first 12 months and then it jumps to  
8 12 percent. So you don't get to decide. It  
9 is an automatic, it is a formulaic change.  
10 So it could be similar or it could be  
11 different.

12 A low or no doc loan is one that  
13 doesn't have to do necessarily with you the  
14 borrower deciding how much you can pay back  
15 on a current basis, but could simply be that  
16 you say you have so much income and you  
17 don't have so much income. Or the appraisal  
18 saying that the house is worth a hundred  
19 thousand dollars and it is really only worth  
20 \$50,000. So it could be a different  
21 category of issue than the ability to pay  
22 issue.

23 High LTVs and piggyback loans  
24 basically go to how much of the value of the  
25 house is loaned against. Some of the -- in

1 Interview - CHARLES PRINCE

2 the old days, you would have an 80 percent  
3 LTV. You couldn't borrow more than  
4 80 percent of the value of the house. And  
5 then it would go to 90 percent, then  
6 95 percent and then a hundred percent. In  
7 some cases people were doing 105 and 110  
8 percent LTV. And so that is a different  
9 issue. It is a related issue.

10 And if you put them altogether,  
11 that is really the worst possibility. If  
12 you have something where the borrower says I  
13 make so much money, but they really don't,  
14 and you have a situation where the appraisal  
15 says it is worth a hundred thousand dollars  
16 and it really isn't. And then you are  
17 lending 110 percent LTV against an inflated  
18 LTV, then you are really in trouble. And  
19 that is basically, you know, if you pick an  
20 example of a horrible loan, at the end of  
21 the process, you had borrowers who had no  
22 income borrowing 105 or 110 percent of an  
23 inflated LTV value, and then walking away  
24 from the loan, and not surprisingly the loan  
25 didn't have much value.

1 Interview - CHARLES PRINCE

2 Q Mr. Prince, is it fair to say  
3 based on what you testified earlier that  
4 during your tenure at Citigroup, you  
5 wouldn't have known if any of these mortgage  
6 types high LTV, big piggyback loans, no or  
7 low doc or teaser rates were somehow in the  
8 CDOs that Citigroup had created?

9 A Well, I think that is correct.  
10 The reason I am hesitating a tiny bit in  
11 answering is I think at the very end, in the  
12 last week or so of my tenure, there were  
13 some suggestions that there was a little  
14 more of this, not a lot, but a little more  
15 of this in some of our originations or some  
16 of our CDO products than I had understood  
17 before. But if you take that caveat, that  
18 one week a little more information, a little  
19 more -- if you take that caveat to your  
20 question, the answer would be yes.

21 Q I am going to ask you, sir, to  
22 take a look at another document.

23 I am going to show you what has  
24 been produced to us by Citigroup, Citi FCIC  
25 E 24768. And it is an e-mail chain. At the

1 Interview - CHARLES PRINCE

2 top of the e-mail chain is an e-mail from  
3 you to Mr. Druskin dated August 3rd, 2007.

4 (Thereupon, the e-mail chain  
5 Bates Citi FCIC E 24768 was marked CR  
6 Exhibit 6 for Identification, as of  
7 this date.)

8 BY MR. BONDI:

9 Q It is responding to an earlier  
10 e-mail to you from Mr. Druskin.

11 First, at the bottom of this  
12 e-mail, let's talk about the first e-mail  
13 here, there is an e-mail from William  
14 Kister.

15 A Yes.

16 Q Looks to a distribution list, and  
17 it is titled Citi Markets and Banking  
18 Revenue Highlights for August 2nd, 2007.

19 A Yes.

20 Q And July Update.

21 First off, would is William  
22 Kister?

23 A I have no idea. I am sure he is  
24 a very valuable employee of the company,  
25 though.

1 Interview - CHARLES PRINCE

2 Q Is this an e-mail that you  
3 received?

4 A Yes. This is our daily report.  
5 The markets and banking business would,  
6 because of the kind of business it is, had  
7 to close their books every day and so every  
8 day you would get the results from the day  
9 before of activity. And so we would get one  
10 of these every day. This one happened to be  
11 for that particular day.

12 Q And you would get these e-mails  
13 on a daily basis during your entire tenure  
14 as CEO?

15 A Yes.

16 Q Were these e-mails that you would  
17 have read on a daily basis?

18 A You bet, you bet.

19 Q Looks like Mr. Druskin in  
20 response to this e-mail says to you, "This  
21 looks like water torture, just awful." And  
22 you respond, "Worse."

23 A Yes.

24 Q What was he referring to and what  
25 were you referring to in your response, if



1 Interview - CHARLES PRINCE

2 you know what he is referring to and what  
3 are you referring to?

4 A The -- there are some unusual  
5 aspects to running a securities business,  
6 both in the way that people participate and  
7 in the way you manage the business.

8 In most businesses, you have a  
9 budget forecast, you do certain activities  
10 to generate revenue, you try to hold down  
11 your costs, you try to make a profit. And  
12 most of those activities, if you are  
13 building refrigerators or something, have  
14 some level of predictability to them, some  
15 level of direction to them. You have long  
16 term contracts with suppliers, you have long  
17 term contracts with customers, you have an  
18 ability to see into the future a little bit.

19 In the securities business, your  
20 ability to see is measured on a daily basis.  
21 You have a budget for the year, you have a  
22 budget for the month, for the quarter. You  
23 have analysts who are predicting what you  
24 are going to make without knowing what the  
25 markets are going to do. And you are held

1 Interview - CHARLES PRINCE

2 to the standards of your earnings estimates.

3 So, today as we sit here there is  
4 an earnings estimate out for Citi that says  
5 at the end of the first quarter, their  
6 earnings ought to be X. And a large part of  
7 Citi's earnings today relate to the  
8 securities business.

9 The people who put those analyst  
10 estimates together have no idea whether the  
11 markets are going to be up, down or sideways  
12 between now and the end of March and yet  
13 they have estimates out there. So on a  
14 day-by-day basis, inside the company, your  
15 reviewing the progress of your business day  
16 by day by day against your budget, against  
17 the outside world's estimates and some days  
18 the markets will be way up and you make lots  
19 of money and you feel great. And some days  
20 the markets are way down and you lose lots  
21 of money and you feel awful.

22 So, on this particular day if you  
23 look at the first line of the first e-mail  
24 in the chain under "daily commentary," it  
25 says, "Fixed income markets lost \$66

1 Interview - CHARLES PRINCE

2 million, \$100 million below forecast.

3 Meaning that we for that day had hoped to  
4 make 166 million I guess, right? No, if we  
5 -- we hoped to make \$34 million that day,  
6 more or less, and instead we lost \$66  
7 million that day. All right? And then  
8 there are a series of sub-bullets below that  
9 which break to fixed income business down by  
10 components.

11 And then you go down a little bit  
12 and you see the next heading is fixed income  
13 underwriting, gained \$2 million, but that is  
14 still 6.8 million below forecast. And then  
15 the next heading was equity markets made  
16 almost \$6 million, but that is still  
17 \$9 million below forecast. So, when you put  
18 the whole thing together -- is there a total  
19 at the bottom? I haven't read these in a  
20 long time. Here it is at the top.

21 The revenue for August 2nd, day 2  
22 of 23 -- so we are measuring it for the  
23 month -- was a loss of \$49 million, 162  
24 million below forecast. Month to date  
25 revenue -- so again we are measuring how we

1 Interview - CHARLES PRINCE

2 are doing against the month's budget was a  
3 loss of twenty-five, two hundred fifty one  
4 below forecast.

5 So, this is a daily snapshot that  
6 comes out. It came to, it comes to 10 or 11  
7 people, mostly in the corporate banking  
8 business and to a couple of us at  
9 headquarters. And Druskin got his and said  
10 these daily losses are awful; they are like  
11 water torture, meaning day after day after  
12 day. And I apparently sent back something  
13 saying that it wasn't worse than water  
14 torture. I can't recall exactly the context  
15 in which I said that, but it may be self  
16 evident.

17 Q In other words, this wasn't a  
18 typical time period in the market?

19 A Oh, for all I know, this is day  
20 two of 23 and there is a cumulative, for all  
21 I know week before that we made a bunch of  
22 money. So this is one snapshot on one day.

23 Q This is reacting to that  
24 particular point in time?

25 A Right.

1 Interview - CHARLES PRINCE

2 Q But were you concerned about  
3 conditions more broadly than just that day  
4 in this August time frame here? Were you  
5 concerned more generally about the direction  
6 that the market was heading?

7 A Well, sure is the answer. But  
8 again I would ask you to put this in  
9 context.

10 When we reported our results at  
11 the end of the second quarter -- so this is  
12 now mid-July, early July for the end of the  
13 second quarter, we reported both on a  
14 quarterly basis the second quarter and for  
15 the first six months of the year, the first  
16 and second quarters together, the best  
17 results in the company's 200-year history,  
18 the first quarter of 2007 -- first half of  
19 2007 was the best six months in the 200-year  
20 history of the company. This is now 30 days  
21 after we reported the results. So was I  
22 concerned about where the markets were  
23 heading? Sure. But the markets are  
24 typically slow in August.

25 In hindsight of course it got

## 1 Interview - CHARLES PRINCE

2 much worse, but I am trying to recollect how  
3 I felt at that point in time. We were doing  
4 great in the first six months of the year.  
5 And in July we recorded those results, we  
6 had our annual off-site with the board in  
7 July. We as a group, as a company felt very  
8 good about where we were. And then August  
9 came, it was a little slow. Then in  
10 September the leveraged lending thing went a  
11 little more south on us, et cetera.

12 So I would not see this even  
13 recalling it now, this is not a canary in a  
14 mine signalling some great calamity coming.  
15 It is daily report that Druskin and I both  
16 complained gosh, we had a bad day yesterday.

17 Q What was the, as you put it, the  
18 canary in the coal mine? What was it to you  
19 that you thought these aren't normal  
20 conditions, we are headed to awful times  
21 ahead?

22 A When the rating agencies collapsed.

23 Q That was the October time frame?

24 A Mid October.

25 Q 2007.

1 Interview - CHARLES PRINCE

2 What in your view is the  
3 significance of the rating agencies to the  
4 overall financial crisis?

5 A Well, I mentioned earlier an  
6 overview that I have of the currency flows  
7 and the artificially low interest rates, you  
8 remember all that.

9 I think as part of that the  
10 increase in structured products resulted in  
11 an increase the complexity of financial  
12 products almost by definition. The  
13 structured products were more complex than  
14 simpler products. And I think as investors  
15 were looking for enhanced yields in an  
16 artificially low yield environment and as  
17 the industry created more structured  
18 products to try to satisfy that demand, the  
19 rating agencies performed an absolutely key  
20 go, no-go, kind of role.

21 If the rating agencies hadn't  
22 approved the products, hadn't certified them  
23 as it were, people wouldn't have bought  
24 them. The more complex the instruments are,  
25 the more people rely on the ratings. And so

1 Interview - CHARLES PRINCE

2 it is two sides of the same coin to say that  
3 as products became more complex, ratings  
4 became more important.

5 And as the industry grew in those  
6 four, five years in the middle of the  
7 decade, the structuring business grew, the  
8 ratings became more and more and more  
9 important. And that is why when the rating  
10 agencies collapsed and downgraded, you know,  
11 swathes of securities, not one, not one  
12 grades, not two grades, but collapsed them  
13 to junk bond status, it destroyed really, it  
14 was the precipitating event in the financial  
15 crisis.

16 Q How much did Citigroup rely on  
17 ratings for its own decisions with respect  
18 to its for instance CDO holdings?

19 A I don't know the answer to that.  
20 I mean I wasn't involved in those decisions.  
21 My belief is that the team did not rely  
22 exclusively on the ratings, they didn't rely  
23 primarily on the ratings because I think our  
24 people were better than that. But I don't  
25 know is the answer.



1 Interview - CHARLES PRINCE

2 Q Why is that your belief, though,  
3 what is the basis for your belief to say  
4 that you didn't believe your team relied  
5 exclusively or primarily on ratings?

6 A Salomon Brothers, Tom Maheras and  
7 his team, were widely thought of as the best  
8 fixed income house on Wall Street and had  
9 been for a long time.

10 I was frequently told by the  
11 regulatory agencies that David Bushnell was  
12 the best risk manager on Wall Street. It  
13 would have been inconceivable in that  
14 circumstance for people with those levels of  
15 experience and activity to primarily rely or  
16 exclusively rely on some third party to do  
17 their due diligence. It is inconceivable to  
18 me that would be the case.

19 Q In July of 2007, in an article  
20 with the Financial Times, you were quoted as  
21 saying, "When the music stops in terms of  
22 liquidity, things will be complicated. But  
23 as long as the music is playing, we have got  
24 to get up and dance. We are still dancing."  
25 What did you mean by that quote?

1 Interview - CHARLES PRINCE

2 A Well, I thank you at least for  
3 the courtesy of using the entire quote. The  
4 Financial Times likes that so much and  
5 applies it so broadly that they don't put in  
6 the first part about liquidity stopping and  
7 being complicated.

8 This was a quote, or part of an  
9 interview I gave in Japan, as I recall it,  
10 to an FT reporter. And what I was referring  
11 to was the leveraged lending business. And  
12 you will recall that I said a couple of  
13 times that in the summer of 2007, the  
14 problem child focus in our corporate and  
15 banking business was on leveraged lending.

16 Let me back up a step there.

17 In the leveraged lending  
18 business, we and other members of Wall  
19 Street had been in the business of lending  
20 money to the private equity firms. And the  
21 private equity firms had pushed the banks to  
22 the point where the terms and conditions of  
23 that lending were quite favorable to the  
24 private equity firms and were quite  
25 unfavorable for the banks. And all this has

1 Interview - CHARLES PRINCE

2 been widely reported.

3 The -- and widely recorded in the  
4 context of these were really quite unusual  
5 circumstances for the banks to loan money to  
6 the private equity firms on these kinds of  
7 terms.

8 In talking about this private  
9 equity lending business in the context of  
10 this interview, what I was trying to convey  
11 was the sense that for a number of reasons,  
12 it was impossible, in my view, for any one  
13 major participant on its own to stop doing  
14 those kinds of loans. Nothing illegal about  
15 these loans. The question was were they on  
16 good terms for the lender, were they smart  
17 for the lender to do? And it was my  
18 judgment then and it is my judgment now that  
19 it was impossible for any individual  
20 institution to simply say I am not going to  
21 to that anymore.

22 And of course if I had called my  
23 counterparts at the other banks and said  
24 let's all say we are not going to do it this  
25 way, smart lawyers would have said you are

1 Interview - CHARLES PRINCE

2 going to go to jail if you do that.

3 So, my notion was -- and I guess  
4 it was either unartfully phrased or too  
5 artfully phrased that as long as that  
6 situation obtained, as long as the music was  
7 playing, that you had to, you had to dance  
8 to that music. You had to be part of that  
9 activity level. Although, I did point out  
10 that when this excess liquidity driven  
11 situation for the industry changed, it would  
12 be complicated. But this was, I want to  
13 emphasize, this was all in the context of  
14 the lending to the private equity firms. It  
15 had nothing to do with the mortgage  
16 business, it had nothing to do with what  
17 turned out to be CDOs. That was not part of  
18 my thinking or on the radar screen at all.

19 Q Appreciate that clarification.

20 Something you said that struck me  
21 as interesting again from the book that I  
22 referenced earlier from Mr. Paulson.

23 A You marked that up quite a bit,  
24 those tabs.

25 Q You should see my other books.

1 Interview - CHARLES PRINCE

2 This is a reference on page 69 of  
3 Secretary Paulson's book, and I do want you  
4 to know I read other books beside Secretary  
5 Paulson's books.

6 MR. KARP: I see you read  
7 Chairman Bernanke's books.

8 MR. BONDI: And other, and  
9 others.

10 BY MR. BONDI:

11 Q Secretary Paulson is referring to  
12 an event, a dinner at the New York Fed in  
13 June 26th of 2007. About a month or so  
14 before this quote it seems like, June 26,  
15 2007.

16 And he recounts this dinner, says  
17 that you were present. Do you remember  
18 being at a New York Fed dinner on June 26,  
19 2007 with Secretary Paulson?

20 A I don't remember the date, but it  
21 was common for then Chairman Geithner of the  
22 New York Fed to have dinners for the Wall  
23 Street CEOs at which Secretary Paulson or  
24 others would come.

25 Q On the bottom of page 69, he

1 Interview - CHARLES PRINCE

2 writes, "Chuck Prince, the Citigroup CEO,  
3 asked whether given the competitive  
4 pressures there wasn't a role for regulators  
5 to tamp down some of the riskier practices."

6 Basically, he asked, "Isn't there  
7 something you can do to order us not to take  
8 all these risks?" And he goes on to say,  
9 "Not long after I remember Prince was quoted  
10 as saying: As long as the music is playing,  
11 you have got to get up and dance."

12 Do you remember expressing in  
13 form or substance to Secretary Paulson this  
14 question of isn't there something you can do  
15 to order us not to take all these risks?

16 A Yes.

17 Q Can you elaborate on the context  
18 of that question?

19 A I am not sure I understand your  
20 question.

21 Q What was your conversation that  
22 you recall with Mr. Paulson about can't  
23 regulators do something to prevent us from  
24 taking all those risks? What was the  
25 context of Mr. Paulson's quote of you and

1 Interview - CHARLES PRINCE

2 this conversation you had, do you recall  
3 having a conversation to that nature?

4 A We were -- Geithner had organized  
5 this dinner. And again I am not sure of the  
6 exact date, so I am not -- I don't know  
7 whether that was the date or not. But there  
8 was a dinner in the summer of that year at  
9 which almost all of the heads of the various  
10 banking and security houses were present. I  
11 was present, and Paulson was up to visit to  
12 talk to people. It was part of his normal  
13 outreach of staying connected with the  
14 industry and so forth.

15 And in the course of that, there  
16 was a discussion about the lending to the  
17 private equity firms and how some of those  
18 terms had, through a process of competition,  
19 had gotten to a point where they were really  
20 quite unfavorable for the lenders. And I  
21 remember expressing my view in this group  
22 context that none of us could individually  
23 back away from that business for a number of  
24 reasons, which I thought were important.  
25 And that as a result -- and that we couldn't

1 Interview - CHARLES PRINCE

2 agree among ourselves not to do it. And  
3 that I thought it was an appropriate role  
4 for the regulators, since they recognized  
5 this unfavorable situation for the banks and  
6 the lenders and that the Fed directly and  
7 the Treasury Department perhaps indirectly  
8 had some oversight responsibility for the  
9 industry, that since we couldn't do it  
10 individually, we were prohibited from doing  
11 it as a group, that given their mandates,  
12 that they ought to consider directing us to  
13 tighten up. And that was the context.

14 Q So again it was in the context of  
15 leveraged lending?

16 A Yes.

17 Q Mr. Prince, I am showing you  
18 another document that was produced by  
19 Citigroup, Bates Citi FCIC 4648.

20 (Thereupon, the document Bates  
21 Citi FCIC 2648 was marked CR Exhibit 7  
22 for Identification, as of this date.)

23 A Yes.

24 Q And I note for the record that  
25 there are two identical cover pages in this



1 Interview - CHARLES PRINCE

2 production. I will represent that it  
3 appears that this letter was sent, identical  
4 letter was sent to multiple people. There  
5 are two cover letters with this particular  
6 exhibit; one is to Mr. Rubin and one is to  
7 Mr. Thomas. And the letter is, it appears  
8 to be signed by you.

9 First of all, do you recall  
10 sending this letter on August 15, 2007?

11 A Well, you have just handed me  
12 something and I haven't read it, but it  
13 appears to be the monthly letter that I  
14 would send to the board. That is why you  
15 have two cover letters, because it would  
16 have been sent, an identical letter would  
17 have sent to each person on the board. And  
18 I would typically send this along either  
19 with the materials for the next upcoming  
20 board meeting. Or if we didn't have a board  
21 meeting coming up, I would simply send a  
22 stand alone letter. And this was a practice  
23 to find a way to give a little more of a  
24 narrative or my thoughts about how the  
25 company was doing to our board members

1 Interview - CHARLES PRINCE

2 because we sent them so much information for  
3 their meetings that there was no overview or  
4 there was no context. There wasn't enough  
5 of a context, I was concerned.

6 So, I got into the habit of  
7 saying you are going to get a big a stack of  
8 materials, but before you read that, here's  
9 a, how I am viewing the company and how we  
10 are doing right now. That is the context  
11 for these letters and this appears to be the  
12 one I sent in August of '07.

13 Q Directing your attention up --  
14 first before we to that, Mr. Thomas was a  
15 member of the board?

16 A Yes.

17 Q And Mr. Rubin was a member of the  
18 board, obviously?

19 A Yes.

20 Q Page two of the letter which is  
21 Bates 4651, draw your to the paragraph that  
22 is next to the heading Credit Markets.

23 A Yes.

24 Q And you state, "You have read a  
25 great deal about the credit markets.

1 Interview - CHARLES PRINCE

2 Whatever you have read, the reality is  
3 probably worse."

4 And then you go on at the end of  
5 that paragraph to say it is a very difficult  
6 and dangerous situation with few historical  
7 precedence.

8 What was on your mind in terms of  
9 this paragraph? And please read the entire  
10 paragraph. I have only drawn two sentences  
11 out of the paragraph. But what was your  
12 thinking, what was on your mind when you  
13 wrote that paragraph?

14 A Well, I am not sure I can  
15 reconstruct it except to say that I was  
16 trying to give a context for what they were  
17 reading in the papers. And, again, I don't  
18 have in mind exactly what was in the papers  
19 then. But it is clear as I read this  
20 paragraph that I was trying to give them a  
21 sense that as directors of the company,  
22 these are quite difficult issues, quite  
23 complicated issues.

24 And at the time -- this is early  
25 August. At the time, my guess is that what

1 Interview - CHARLES PRINCE

2 was in the papers was probably not as -- it  
3 was probably mixed, as is often the case in  
4 the papers where you have some people saying  
5 it is going to be really bad or this could  
6 be quite difficult. And you have other  
7 people saying oh, it is a great buying  
8 opportunity and so forth.

9 And what I was trying to give  
10 them was a sense that there is really, there  
11 are really issues here that we are looking  
12 at very carefully.

13 Q In the next paragraph, you state,  
14 "There are two basic credit issues facing  
15 the market. The leveraged lending problem  
16 and the subprime problem."

17 Were these the two basic areas  
18 that you were focused on at the time that  
19 this letter was written in August 2007, that  
20 the leveraged lending problem and then the  
21 subprime problem?

22 A Well, I guess the short answer is  
23 I hope so. If I told the board these were  
24 the two issues, I would hope those were the  
25 ones I was focused on.

1 Interview - CHARLES PRINCE

2 As you go through it -- I am just  
3 sort of skimming the balance of the next  
4 couple of pages -- you can see that the  
5 first thing I talk with is leveraged  
6 lending. And I have got a couple of  
7 paragraphs on that. And then at the bottom  
8 of page three, I say, "We have exposures in  
9 both leveraged lending and to a more limited  
10 degree in the subprime area. We consciously  
11 did not originate these aggressive products,  
12 but did purchase some as part of portfolio  
13 acquisitions" and so forth.

14 And so I think this is very  
15 consistent with what I told you earlier  
16 about in the summer, our primary focus was  
17 on the leveraged lending or the private  
18 equity lending kind of area. And only in a  
19 subordinate sense with what was happening in  
20 the mortgage markets and there my belief was  
21 that we didn't have as much exposure.

22 Q And this was belief because you  
23 were not aware at the time of the super  
24 senior positions?

25 A And frankly, if I had been aware

1                   Interview - CHARLES PRINCE  
2           of the super senior -- the short is yes,  
3           that is correct. If I had been aware, there  
4           is nothing about the super seniors at that  
5           point in time which would have suggested to  
6           anyone including me that we would have had a  
7           big loss from this.

8           Q       At the time you wrote this  
9           letter, you also weren't aware of the  
10          liquidity puts and the exposure from the  
11          liquidity puts?

12          A       That is correct.

13          Q       We talked about earlier this twin  
14          storms presentation that was sent to you on  
15          e-mail on July 30, 2007.

16          A       Yes.

17          Q       That seems to have been a couple  
18          weeks before this letter to the board of  
19          August 15, 2007. The twin storms  
20          presentation that had been sent to you two  
21          weeks earlier on e-mail refers to industry  
22          losses and CDOs of 50 to a hundred billion  
23          dollars.

24                   I didn't notice anywhere in the  
25          letter to the board that you mentioned CDOs

1 Interview - CHARLES PRINCE

2 or exposure to CDOs. Why not?

3 A Well, again, I doubt if I had in  
4 mind that we had any CDOs at all or any CDO  
5 exposure at all. I think the closest you  
6 get to that is on the bottom of page three,  
7 that last paragraph there. And again I  
8 think this pretty accurately reflects my  
9 thinking at the time. I was always very  
10 candid with the board. The worse thing you  
11 can do is try to not tell them things. And  
12 I wanted them to have my thinking as they  
13 got ready for our board meeting so that when  
14 they showed up, they at least understood how  
15 I viewed the issues. And I think this is a  
16 pretty good, pretty accurate, pretty candid  
17 summary of how I viewed the problem in  
18 whatever date this was, mid August.

19 Q You were chairman of the board at  
20 the time you wrote this letter?

21 A I was.

22 Q Just to be complete for the  
23 record, the paragraph that you referred to  
24 on the bottom of page three, I will just  
25 read it for the record so it is complete,

1 Interview - CHARLES PRINCE

2 you said, you wrote, "We have exposures in  
3 both leveraged lending and to a more limited  
4 degree in the subprime area. (We  
5 consciously did not originate these  
6 aggressive products in our U.S. consumer  
7 group, but did purchase some as part of  
8 portfolio acquisitions and, in CMB, we did  
9 underwrite mortgage backed securities  
10 representing subprime products originated by  
11 others.)"

12 A Close paren, period. Sorry.

13 Q Oh, yes, close paren period.

14 Yes, sir.

15 A Old lawyers never die. I am  
16 sorry.

17 Q I just wanted to be complete that  
18 we got that.

19 A Yes.

20 Q What was your basis, though,  
21 because earlier -- I am just trying to  
22 understand.

23 Earlier you had testified that  
24 you weren't aware of the super senior  
25 positions, but here you did write, "We



1 Interview - CHARLES PRINCE

2 purchased some as part of the portfolio  
3 acquisitions." What was your basis to say  
4 that we, for that statement we did purchase  
5 some as part of portfolio acquisitions?

6 A I think it is important to -- in  
7 answering your question I think it is very  
8 important to understand the way this  
9 parenthetical is constructed, please.

10 Q Please.

11 A I am going to paraphrase it, if I  
12 may. We didn't originate these products in  
13 our U.S. consumer business but did purchase  
14 some as part of portfolio acquisitions.  
15 That is all referring to the U.S. consumer  
16 business. And then I turned to capital  
17 markets and banking. And in our corporate  
18 business, we did underwrite mortgage backed  
19 securities, et cetera, et cetera, et cetera,  
20 right?

21 So when you referred to purchase  
22 some as part of the portfolio acquisitions,  
23 that was still in our consumer business.  
24 That had nothing to do with the fixed income  
25 business.

1 Interview - CHARLES PRINCE

2 Q I see?

3 A I am sorry to be very specific,  
4 but you have to read the sentence very  
5 carefully that way.

6 Q I appreciate the clarification  
7 and I am glad that you pointed that out.

8 So that part, the some as part of  
9 our portfolio acquisitions had nothing to do  
10 with CMB or fixed income?

11 A Right. That was our retail  
12 mortgage business which bought all kinds of  
13 mortgages and almost always sold them to  
14 Fannie and Freddie as part of that whole  
15 flow of the mortgage business nationally.

16 Q Appreciate that. Thank you.

17 MR. BONDI: Let me mark this  
18 eight.

19 (Thereupon, the e-mail chain  
20 Bates marked Citi FCIC E 36374 was  
21 marked CR Exhibit 8 for  
22 Identification, as of this date.)

23 BY MR. BONDI:

24 Q Mr. Prince, I am showing you what  
25 was produced by Citigroup and marked Citi

1 Interview - CHARLES PRINCE

2 FCIC E 36374. It is an e-mail chain between  
3 yourself and Mr. Rubin. And I would like to  
4 first direct your attention to the first  
5 e-mail in this chain. At the bottom is one  
6 from yourself to Mr. Rubin dated Sunday  
7 September 9th where you begin with "Dear  
8 Bob, welcome back from Korea."

9 A Uh-huh.

10 Q There is a section that says a  
11 question regarding rescheduling.

12 A Uh-huh.

13 Q And the first star says, "Had  
14 good first meeting with Tom Maheras," et  
15 cetera, "re: CMB results."

16 What are you referring to about  
17 "good first meeting" there?

18 A The context of this e-mail chain  
19 is that I had set up these meetings, which  
20 started as a Tom, I want you and your folks  
21 to come and explain to me exactly what the  
22 situation is with these securities. I  
23 understand your point of view on them, but I  
24 want to understand the detail of them very  
25 carefully.

1 Interview - CHARLES PRINCE

2 That eventually migrated from a  
3 one or two or three sets of meetings to  
4 becoming almost a daily update on the  
5 markets. But this was at the beginning of  
6 the: I want to understand much more  
7 carefully than your representation of what  
8 is going on here.

9 And what I am doing here in this  
10 bottom e-mail is telling Bob who was in  
11 Korea for the first meeting apparently, that  
12 we had a good first meeting and I would like  
13 to schedule two more follow-ups before our  
14 board meeting. And so Bob, what is your  
15 schedule like? Druskin is in this place,  
16 that place. I want to do it on Wednesday.  
17 Can you make the second meeting we are  
18 having with Tom and his people?

19 Q Just so I'm clear, what prompted  
20 your desire to have a greater understanding  
21 about this business and schedule these  
22 meetings? What was the precipitating event  
23 or events?

24 A I think I said earlier that in  
25 the time frame of the September into

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2 October, I began to be more uncomfortable  
3 with Tom's representations on these issues  
4 and began to press him more on these and to  
5 inquire into more and to say I want  
6 understand this better. I want to be much  
7 more detailed about this and so forth.

8 This would have been in the  
9 context of him mentioning at that Business  
10 Heads meeting I mentioned to you. And so  
11 that was the context in which I shifted  
12 focus from the private equity lending and  
13 said okay, I want to really look at this  
14 much more carefully. That is how these came  
15 about.

16 Q Were these meetings held in the  
17 library outside your office?

18 A The first couple of them were.  
19 Then we had one or two that were downtown  
20 where that business is located so that we  
21 didn't -- we wanted to have a broader group  
22 of people. So if Maheras wanted to bring  
23 six or seven of his people, instead of  
24 having them all traipse uptown, the three or  
25 four of would go downtown. I wanted to see

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2 them in person, judge them in that way. And  
3 then after a while we began to do them on  
4 the telephone as we were more monitoring  
5 market activities.

6 Q Do you recall Mr. Maheras at this  
7 first meeting quantifying the exposure to  
8 Citigroup associated with CDOs?

9 A You mean from a position?

10 Q Yes, sir.

11 A I don't remember. I don't know  
12 whether he did or not is what I am saying.

13 Q The next e-mail up is a response  
14 from Mr. Rubin to you dated also  
15 September 9th, 2007.

16 And he says, "According to Lou,  
17 Tom never did provide on on clear and direct  
18 answer on the super seniors. If that is so,  
19 and the meeting did not bring that to on on  
20 head, isn't that deeply troubling not as to  
21 what happened -- that is a different  
22 question that is also troubling, but as to  
23 providing full and clear information and  
24 analysis now?"

25 What do you understand Mr. Rubin

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2 to have meant by those statements?

3 A He was reflecting, apparently, on  
4 comments from Lou Kaden who was in the  
5 meeting and who had worked with Bob Rubin  
6 for many, many, many years.

7 Apparently, Kaden had talked to  
8 Rubin after the first meeting that Rubin was  
9 not in and had said to Rubin that -- I am  
10 just, based on what Bob says here, Kaden  
11 must have said that Maheras wasn't a hundred  
12 percent forthcoming or something like that.  
13 And Bob was reflecting that comment, Kaden's  
14 comment to Rubin, back to me.

15 Q Did you share that belief that  
16 Mr. Maheras was not forthcoming?

17 A Well, the top of the e-mail chain  
18 is my response to Rubin, so that really is  
19 how I reflected that, how I reacted to that  
20 comment.

21 Q For the record you responded, "I  
22 thought for first meeting it was good. We  
23 weren't trying to get final answers, so I  
24 didn't see Tom avoid any questions. Also,  
25 want more back channel with Dave B and he

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2 was only on phone for Friday."

3 First of all I best, what do you  
4 mean by we weren't trying to get final  
5 answers, final answers for what?

6 A Well, for, you know, we were  
7 examining what was going on with these  
8 positions and so forth. We were examining  
9 Tom's view of the positions, his judgments  
10 on the positions. And my view was that at  
11 that first meeting to do that, we had had a  
12 good first meeting. Apparently Kaden  
13 thought we didn't have a good first meeting.  
14 But I thought for -- it wasn't a once and  
15 only meeting. It was the start of a  
16 process. And I thought for that first  
17 meeting it was a good meeting and my back  
18 channel reference to Dave B, which is David  
19 Bushnell, was I wanted to have private  
20 conversations with David, not in front of  
21 people. But I wanted to say now David  
22 without anybody else in the room, tell me  
23 how you feel about this. That is what I  
24 meant by back channel conversations with  
25 David. And I had not had a chance to do



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2 that because he was obviously traveling.

3 Q Did you ultimately have these as  
4 you described it back channel conversations  
5 with David Bushnell?

6 A Yes.

7 Q And can you tell me what those  
8 conversations entailed? What did you ask  
9 and what did he say?

10 A Again, I testified briefly, but  
11 I'll do it in more detail.

12 Throughout this period, it was a  
13 continuum, it was an evolving process in  
14 which the outside environment suggested that  
15 the CDO market or the CDO securities, that  
16 the water level would rise on these tranches  
17 and that the lowest level would be hit and  
18 then well maybe the next level might be hit.  
19 And maybe then the next level might be hit.  
20 And throughout that whole process, Tom in  
21 mid September some time said well, we have  
22 got some of these super seniors up here, but  
23 they will be a hundred percent fine.

24 And as figuratively the water  
25 level was rising, I began to be more

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2 concerned about that. And as I said earlier  
3 in a figurative sense Tom Maheras and Randy  
4 Barker were figuratively at one end of a  
5 table and Gary Crittenden and Dave Bushnell  
6 were figuratively at the other end of a  
7 table with Maheras and Barker saying you are  
8 never going to lose a penny. These are  
9 structured in a way that no matter how high  
10 the water level gets, it is not going touch  
11 these super seniors.

12 And Gary and David were saying we  
13 ought to be pretty cautious about this. I  
14 don't know. I don't know about that. We  
15 ought to think about that. That was the  
16 context. And so my conversations with David  
17 fit into that context. I would say well  
18 David, Maheras says X; what do you think  
19 about that? How do you think about this  
20 index deteriorating from so forth to so  
21 forth? And so but those are the context of  
22 the discussions.

23 Q And what was Mr. Bushnell saying  
24 to you in response to those back channel  
25 conversations?

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2 A What I can't do, unfortunately,  
3 is I can't disaggregate what happened in day  
4 by day sense. This was a period of time of  
5 no more than 30 days. Maybe less, maybe it  
6 was three weeks. It was very intensive. It  
7 was not the only issue that we were dealing  
8 with for the company. And so I can't, I  
9 didn't keep a diary, I don't have any way of  
10 saying well this on date David said this and  
11 then the next day he said that. And on that  
12 date Maheras said this versus that, I can't,  
13 I can't disaggregate any of that.

14 (Thereupon, the Power Point  
15 deck Bates marked FCIC 99654 was  
16 marked CR Exhibit 9 for  
17 Identification, as of this date.)

18 Q Mr. Prince, I am showing you what  
19 has been produced by Citigroup Bates Citi  
20 FCIC 99654 and it appears to be a Power  
21 Point deck CEO discussion on global credit  
22 markets dated September 12, 2007. Do you  
23 recall ever seeing this document?

24 A I have clearly seen it in  
25 preparation. And I remember being surprised

1 Interview - CHARLES PRINCE

2 because of the cover which says CEO  
3 discussion. Because I never made any kind  
4 of presentation that even looked like this  
5 and then I realized it was somebody  
6 presenting to me.

7 I have a vague recollection of  
8 the document, but I am very clear that  
9 whether it was this document or something  
10 like this document, this kind of information  
11 would have been presented to me in about  
12 that time frame.

13 Q Do you recall having a meeting on  
14 or about Wednesday, September 12, 2007, in  
15 the library outside your office with Mr.  
16 Maheras and Mr. Barker and Mr. Bushnell and  
17 others?

18 A I am sure that happened and I am  
19 sure that was one of the meetings that I  
20 referred to in my previous answer.

21 Q I would like to draw your  
22 attention, sir, to the page 99657.

23 A Yes.

24 Q And it is entitled Global Credit  
25 Trading.

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2 What is meant by global credit  
3 trading?

4 A That would have been the  
5 reference to that part of the business that  
6 was involved, what we would call fixed  
7 income.

8 Q Fixed income?

9 A Yes.

10 Q There is a heading called what  
11 Happened in July and August?

12 A Yes.

13 Q And there is a bullet that says  
14 "poor risk management and balance sheet  
15 management."

16 What do you understand by that  
17 statement, poor risk management and balance  
18 sheet management?

19 A What I think they meant by that  
20 was -- because the subsequent sub bullet  
21 says note that no limits were breached. So,  
22 it is not -- it is a little bit of, in my  
23 view, the senior people in the business  
24 saying the junior people shouldn't have had  
25 these positions.

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2 Q Who were the senior people you  
3 are referring to and who were the junior  
4 people?

5 A Maheras and Barker were the  
6 senior people and you can see a couple lines  
7 below that, it says "invoked complete  
8 overall of trading management" and it  
9 mentions three names of people who are,  
10 quote, gone.

11 Q Those names Higgins, Pichler and  
12 Choi, who are these people?

13 A I have no idea.

14 MS. BUERGEL: Just understand,  
15 Mr. Prince gave his understanding of  
16 what global trading credit was. That  
17 actually was a subset of the fixed  
18 income business run by Mr. Higgins and  
19 Mr. Pichler. It was a very specific  
20 trading desk known as global credit  
21 trading. So, this slide actually  
22 refers to that business which was not  
23 the CDO business and not the leveraged  
24 lending business, but a separate  
25 trading operation.

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2 THE WITNESS: Uh-huh, okay,  
3 thank you.

4 MS. BUERGEL: It also, if you  
5 look at the third quarter Q, took  
6 significant losses in the third  
7 quarter.

8 BY MR. BONDI:

9 Q If you will flip the page to the  
10 next page, sir.

11 A Yes.

12 Q Titled This Page is Global  
13 Structured Credit.

14 A Uh-huh.

15 Q Global structured credit is the  
16 CDO business within global structured  
17 credit?

18 A Well subject to my counsel's  
19 better thinking, I think so.

20 Q The first bullet talks about the  
21 CDO market experienced extremely high growth  
22 rate over the last three years, about the  
23 volumes increased 95 percent from 2005 to  
24 2006. And then the next bullet I want to  
25 draw your attention to, "Citi consistently

1 Interview - CHARLES PRINCE

2 ranked number one or two in the overall CDO  
3 business."

4 Were you aware of Citi's  
5 approximate rating as compared to its  
6 competitors in the CDO business through your  
7 tenure as CEO? Is that something that would  
8 have been on your radar, that Citi was  
9 ranked number one or number two?

10 A No. The CDO business was a  
11 product deep inside our fixed income  
12 business, and we would have measured our  
13 fixed income business three or four ways  
14 competitively. But we wouldn't have gone  
15 down to that lower level in terms of product  
16 activity in terms of what came to me or  
17 senior management.

18 Q From 2003 up until September 2007,  
19 would people in the business meeting have  
20 said to you along the lines of: Our CDO  
21 business is getting a lot bigger or we are  
22 getting a lot better? Is that something  
23 that would have come up at Business Heads  
24 meeting with you?

25 A Too small.



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2 Q And the next, the next bullet  
3 says: "Deal volume grew 50 percent from  
4 2005 to 2006 with a 30 percent increase in  
5 revenues."

6 Is that something you of that  
7 known prior to September 12, 2007, that the  
8 deal volume grew 50 percent from '05 to '06  
9 with a 30 percent increase in revenues?

10 A Too small.

11 Q You indicate that that business  
12 was too small.

13 A To be reported on it at that  
14 senior level.

15 Q To be reported to you at a senior  
16 level.

17 But it ultimately caused some  
18 significant losses to Citigroup.

19 A Correct.

20 Q In retrospect, should the CDO  
21 business and its operations have been  
22 elevated up to your level prior to  
23 September 2007?

24 A Well, that is obviously a  
25 fundamental question.

1 Interview - CHARLES PRINCE

2 I think that you would have to  
3 ask it in a slightly broader way.

4 If someone had elevated to my  
5 level that we were putting on a \$2 trillion  
6 balance sheet, \$40 billion of triple A  
7 rated, zero risk paper, that would not in  
8 any way have excited my attention.

9 So, the simple question of should  
10 I have been told about that business, if I  
11 may, that question by itself doesn't lead  
12 anywhere. What has to happen is that there  
13 has to be a way for risk professionals going  
14 forward to think about the possibility of  
15 risk in ways which are useful. In other  
16 words, it is not useful for -- it wouldn't  
17 have been useful for someone to come to me  
18 and say now, we have got \$2 trillion on the  
19 balance sheet of assets. I want to point  
20 out to you there is a one in a billion  
21 chance that this \$40 billion could go south.  
22 That would not have been useful information.  
23 There is nothing I can do with that because  
24 there is that level of chance on everything.

25 It turned out that the

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2 possibility of risk for these assets was not  
3 understood. So, people would have had to  
4 give me information not only about the  
5 position, but about the risk characteristics  
6 which information would have been useful to  
7 me.

8 So I am sorry to give you a long  
9 answer, but simply telling me that our  
10 volume grew from X to Y wouldn't have really  
11 told me anything. And in fact, the proof of  
12 that is that as late as middle October, Tom  
13 Maheras -- best fixed income guy on Wall  
14 Street -- was telling me you are never going  
15 to lose a penny on these instruments.

16 So, if somebody had come to me in  
17 September and said now don't forget you  
18 got... it wouldn't have made any difference.

19 Q There is a section on that same  
20 page, it says Lessons Learned. The second  
21 bullet says, in quotes, "Market standard"  
22 end quote, "Warehouse agreements were not  
23 robust. Practical limitations in our  
24 ability to enforce them." What does that  
25 mean?

1 Interview - CHARLES PRINCE

2 A What I think that means -- and I  
3 am not a hundred percent sure, so I am going  
4 to give you my best thought on it.

5 What I think that means is that  
6 the warehouse means that we -- as I have  
7 understood subsequently, we get mortgages  
8 and put them in sort of a holding pen, a  
9 warehouse as it were. And then from that  
10 warehouse of mortgages, create structured  
11 products. And that the market standard  
12 warehouse agreements in hindsight were not  
13 as creditor lender bank friendly as they  
14 should have been.

15 So the ability to say to an  
16 originator, we are going to give you back  
17 the mortgages; we are not going to keep them  
18 in our warehouse; we are not going to sell  
19 them out to the market; we are going to put  
20 them back to you, those agreements were not  
21 as, quote, robust, didn't have lender  
22 friendly enough standards.

23 And practical limitations on our  
24 ability to enforce them, which I think  
25 refers to the fact that if the originator

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2 goes bankrupt, then you don't have anybody  
3 to put them back even if your agreements say  
4 if they don't meet these standards, I can  
5 give them back. I think that is what that  
6 sentence means.

7 Q The next bullet says,  
8 "Implemented significant changes to risk  
9 management in January; i.e., Donald Quinton  
10 in CDO business and Mickey Batia in ABS  
11 correlation," end of paren. Dash, "However,  
12 not completely built out by time of market  
13 disruption."

14 What do you understand to be  
15 meant by that bullet?

16 A I don't know who the people are.  
17 I think this falls under the heading of the  
18 more senior people, Maheras and Barker,  
19 saying we have changed the people. But them  
20 saying -- as they did on the previous page.  
21 But them saying here: We were caught in  
22 between making the change, I didn't and  
23 still don't put much stock in that sentence  
24 having much relationship to anything.

25 Q Next bullet, "Business model not

1 Interview - CHARLES PRINCE

2 well diversified," dash "too much reliance  
3 on one asset class. One of the primary  
4 initiatives for 2007 was to increase mix of  
5 asset classes-consummated in time."

6 What do you understand, sir, to  
7 be meant by that bullet point?

8 A I don't know what that means. I  
9 mean I can read the words, but I don't  
10 understand it in this context.

11 Q And two pages later, Bates  
12 numbered 99660, titled Lessons Learned/  
13 Opportunities Under Global Structured  
14 Credit, talks about, there is a bullet that  
15 says, "Redeployment of resources. Time  
16 frame within six weeks."

17 What was being done there or what  
18 was being contemplated there?

19 A I don't remember. I remember  
20 actually in this meeting them saying we are  
21 going to do something in the next weeks. I  
22 frankly can't remember what it was and of  
23 course in hindsight whatever it was it  
24 didn't make much difference. But I don't  
25 remember what it was. I am sure the people

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2 who put it together can tell you, but I  
3 don't.

4 Q And last question on this one, it  
5 says, "Redefine constraints and structures  
6 with risk management."

7 What do you understand by that  
8 bullet?

9 A I think it relates to the first  
10 bullet, which says, "Focused on resizing  
11 given revenue opportunities."

12 What they were saying here was  
13 that the structured business is going to be  
14 significantly smaller. They thought it was  
15 going to be still meaningful but much  
16 smaller than it had been. Turned out, of  
17 course, there isn't any structured business.  
18 And I think what they said was that given  
19 this smaller size, we are going to resize  
20 this, meaning we are going to get rid of  
21 people and make it a smaller business and so  
22 forth. And I think that in that context  
23 they were saying: And risk limits will  
24 shrink correspondingly with a smaller size  
25 of the business.

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2 Q Okay. If I may do one more  
3 document before we take a break for lunch.

4 (Thereupon, the e-mail chain  
5 Bates Citi FCIC E 31582 was marked CR  
6 Exhibit 10 for Identification, as of  
7 this date.)

8 BY MR. BONDI:

9 Q Mr. Prince, I showing you what  
10 has been produced by Citigroup and it is  
11 Bates Citi FCIC E 31582.

12 A Uh-huh.

13 Q It is an e-mail chain. The  
14 bottom e-mail says "from CEO's office corp."

15 A Uh-huh.

16 Q To, it appears to be Mr.  
17 Crittenden and cc yourself dated  
18 September 26, 2007.

19 A Right.

20 Q First, what does this CEO's  
21 office corp. mean? Is that an e-mail that  
22 you would have sent out?

23 A Took me a while to figure this  
24 out myself. Here are the, here's the  
25 Rosetta Stone to figure this out.



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2 In the line you just referred to,  
3 in the bracket, at the end of it it says  
4 "Corporate HQ UTC dot-com." See that?

5 Q Yes?

6 A The very long bottom of it says  
7 "see you then, George." Do you see that.

8 Q Yes.

9 A This is George David, a board  
10 member, who was the CEO or chairman of the  
11 UTC Corporation at the time. So he had sent  
12 something to Gary Crittenden and copying me  
13 either in anticipation of a board meeting or  
14 after a board hearing. But it took me a  
15 little while to figure this out.

16 Q Do you understand this e-mail  
17 seems to be focused on CDOs?

18 A Let me read it again. I am  
19 sorry.

20 Well, as I read it, it seems to  
21 me he is talking about most of the things  
22 that are in the corporate investment bank.  
23 So he talks about the warehouse, he talks  
24 about CDOs, he talks about leveraged lending  
25 commitments, and he talks about trading

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2 inventories of fixed income securities. So  
3 CDO is part of what he is talking about, but  
4 not all of what he is talking about.

5 Q I want to direct your attention  
6 to a statement that he makes in the bottom  
7 of the first paragraph there. It says, "The  
8 rate spikes of the last three to four months  
9 (and associated liquidity), were the three  
10 or four Six Sigma event. So the question is  
11 whether-how our models missed this.  
12 Alternatively, are our models too specific  
13 to individual businesses and/or exposures  
14 such that they don't encompass the big/rare  
15 event affecting the big/combined warehouse  
16 as outlined here."

17 A Uh-huh.

18 Q What do you understand to be Mr.  
19 David meaning by these three sentences?

20 A George ran UTC, and United  
21 Technologies Corporation is a business, as  
22 are many manufacturing businesses, built on  
23 the concept of Six Sigma. While I don't  
24 understand it completely, my understanding  
25 is that Six Sigma relates to a manufacturing

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2 process in which you try to minimize defects  
3 in the manufacturing process to a very, very  
4 small degree.

5 George always thought that it was  
6 a useful thing to try to apply the notion of  
7 how you manage screwing cars together to the  
8 banking business. And so he would say:  
9 Your lending doesn't meet a Six Sigma level  
10 of activity. I never could quite figure  
11 that out, honestly. And so as I read these  
12 two sentences, he seemed to be saying that  
13 there was a three or four Six Sigma event,  
14 whatever that is, and the question is how  
15 our models missed this, et cetera, et  
16 cetera.

17 And I think he was expressing in  
18 language that would be consistent with a  
19 manufacturing business the same, in some  
20 ways the same concept I mentioned just a  
21 moment ago that risk has to think about how  
22 to provide risk judgments on what he would  
23 call a three or four Sigma event; in other  
24 words, a very unusual kind of event. So  
25 that is what I understand him to be saying.

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2 Q As you sit here today, you don't  
3 know what that three or four Six Sigma event  
4 means?

5 A Six Sigma refers to frequency.  
6 Six Sigma is supposed to be the ultimate,  
7 you know, one in a million or one in a  
8 billion or something. And three or four  
9 must be getting close to that level.

10 It is a bad analogy. I analogize  
11 it to the Richter scale. A ten on the  
12 Richter scale was the biggest earthquake  
13 ever. This may be a three or four, meaning  
14 it is a larger rather than a smaller one.  
15 But I don't really understand Six Sigma. I  
16 am sorry.

17 Q In the sentence he says,  
18 "Alternatively, are our models too specific  
19 to individual businesses and/or exposures  
20 such that they don't encompass the big/rare  
21 event affecting the big/combined warehouse  
22 as outlined here. What did you understand  
23 by that sentence?

24 A What I think he meant by that --  
25 and again I'm guessing a little bit. But

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2 what I think he meant by that was do our  
3 risk models measure businesses at a small  
4 individual level without aggregating.

5 So you could have a situation,  
6 for example, where we had real estate  
7 exposure in four or five parts of our  
8 business and because we measured each of  
9 those risks individually, each of the risks  
10 would seem smaller. But if you step back a  
11 little bit and you say well, wait a minute,  
12 you actually got real estate risk in four or  
13 five pockets, when you put the four or five  
14 pockets together in an aggregate base, it is  
15 a much bigger number.

16 That is not what happened here.  
17 We didn't have significant damage from four  
18 or five parts of the business individually  
19 which were small but when you aggregated  
20 them they were big, that didn't happen here.

21 What happened was a very small  
22 part of the business that had enormous  
23 consequences. So his question, which is a  
24 perfectly appropriate question, was are  
25 your, are your risk models, do they

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2 aggregate disparate risks across the  
3 company -- perfectly appropriate question --  
4 was not pertinent to what actually turned  
5 out to be the case here.

6 Q The e-mail above that from a  
7 woman named Karen Lowely (phonetic) to you.  
8 And she says, "I gave this to GC would said  
9 it was a DB issue. Dave called to say he is  
10 available to fill you in on this once you  
11 return." I assume DB is David Bushnell.

12 A Yes.

13 Q And the Dave referred to here is  
14 David Bushnell?

15 A Yes.

16 Q GC is that Michael Helfer?

17 A Gary Crittenden. Karen Lowely  
18 was my assistant, so she saw this come in,  
19 saw my e-mail. I was tied up obviously,  
20 apparently. And she said to me by e-mail:  
21 I gave this to Gary Crittenden, and Gary  
22 said it was Bushnell's issue and Bushnell  
23 called to say he can talk to me when I went  
24 I want. And my e-mail back was tell him to  
25 be prepared to join the 4:30 meeting. We

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2 must have had a meeting with George David.

3 Q You indicate for your assistant  
4 to tell him to be prepared, he meaning David  
5 Bushnell, to be prepared to respond.

6 A Right.

7 Q Did Mr. Bushnell respond to  
8 George David's concerns about the three or  
9 Six Sigma event not being caught by the  
10 models?

11 A I can only assume so in the 4:30  
12 meeting orally. I don't remember being -- I  
13 don't remember this. I mean you showed it  
14 to me, but don't have an independent  
15 recollection of it. I don't remember any  
16 back and forth.

17 Q Do you recall anything about what  
18 Mr. Bushnell might have said at this 4:30  
19 meeting concerning the models?

20 A No.

21 Q Before we go off record, I  
22 understand there might be a scheduling  
23 issue. Do you have a hard stop today, sir?

24 A Well, I guess I would just like  
25 to understand how long we are going to go or

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2 what your thoughts are about that. I have  
3 some things scheduled in sort of the late  
4 afternoon time frame.

5 MR. BONDI: I think hopefully  
6 we will be finished by four, if that  
7 is sufficient by your schedule.

8 THE WITNESS: That would be a  
9 little late, but I will certainly  
10 accommodate that. I will make some  
11 changes during the break.

12 MR. BONDI: I will try my best  
13 to finish earlier.

14 THE WITNESS: Of course. And I  
15 will try to give you yes or no  
16 answers. How is that?

17 MR. BONDI: No, I want you to  
18 give full and complete answers. We  
19 are a fact finding commission here, so  
20 full and complete answers, please.

21 Why don't we take a brief lunch break?

22 (Lunch recess.)

23 BY MR. BONDI:

24 Q Mr. Prince, you described how Mr.  
25 Maheras and Mr. Barker expressed that they



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2 didn't believe that there was any prospect  
3 of loss in the CDOs in September of 2007.

4 A The super senior.

5 Q Super senior CDOs, excuse me.

6 What was Mr. Crittenden's view of  
7 that in September 2007?

8 A I already said, I think he was  
9 cautious about that. I described a couple  
10 times the figurative notion that Randy and  
11 Tom were at one end of a figurative table.  
12 It was actually a round table. But  
13 figuratively, and that David and Gary were  
14 figuratively at the other end of the table  
15 expressing caution about them.

16 Q You described in detail earlier  
17 about when you first learned and had an  
18 understanding of the CDOs and the positions  
19 associated with those CDOs.

20 But my question is: Who should  
21 have in your mind prior to the events that  
22 we have been discussing in the fall of 2007,  
23 who prior to those events do you believe  
24 should have had an understanding of the  
25 positions that were being taken with respect

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2 to super senior tranches on CDOs?

3 A I believe that people at various  
4 levels of the management chain were aware of  
5 this, that is to say I don't believe that  
6 there was at certain levels of the  
7 organization any surprise that we had these  
8 positions. Whether it was the person on the  
9 desk itself or his or her manager, and those  
10 people led up in a management chain  
11 eventually to Randy Barker.

12 I don't know whether this product  
13 was a significant enough product before the  
14 September, October time frame, was seen to  
15 be significant a product that it would have  
16 gotten to Randy's attention. I don't know  
17 the answer to that.

18 My guess is it would not having  
19 been significant enough to be on Maheras's  
20 radar screen. I am not sure whether it  
21 would have been for Barker. But below that  
22 one, two, three layers below that, I am sure  
23 that it was at the right level.

24 The question that you are asking  
25 I think really is in hindsight, given what

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2 has happened to this, even though it was a  
3 very small position in an absolute sense, in  
4 a relative sense, what should have been  
5 known about this, who should have known  
6 about this, and I think that if there had  
7 been any inkling, any suggestion that \$40  
8 billion of assets could go to zero, that we  
9 wouldn't have had those positions.

10 And so the risk infrastructure,  
11 even though in hindsight we had these  
12 horrible problems, the risk infrastructure  
13 was quite robust. Hundreds and hundreds and  
14 hundreds of risk officers, very detailed  
15 risk limits. We had a number of regulators  
16 embedded into the organization. It was a  
17 pretty transparent place as it related to  
18 taking on risk.

19 In hindsight, the problem was  
20 that no one thought that these were risky.  
21 So, if I may, your question of who should  
22 have known about these, as I said earlier in  
23 my case, simply knowing about them wouldn't  
24 have done anything. One would have had to  
25 know about them and to have thought about

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2 them in a way that no one was thinking about  
3 them.

4 On a going forward basis, how  
5 that is accomplished, not only the knowledge  
6 but the character of the knowledge, I don't  
7 know the answer to that. The risk people,  
8 the risk professionals, have to look at the  
9 likelihood in different ways.

10 Risk is composed of the  
11 likelihood of something happening and the  
12 consequences of something happening. Here  
13 the likelihood was quite small, but the  
14 consequences were devastating. So the  
15 question is how do you put that together?  
16 And it is really not just who should have  
17 known, but who should have known what about  
18 it, not just factually, but in a judgmental  
19 way. Who should have had a different risk  
20 judgment about these assets. That is I  
21 think if I may, that is a more complex way  
22 of asking the same question.

23 Q We talked earlier about some  
24 e-mails between you and Mr. Rubin talking  
25 about setting up meetings, one that occurred

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2 before it he got back from Korea and then  
3 several as you describe after he returned  
4 from Korea.

5 Do you recall what the focus of  
6 these meetings that you testified to  
7 earlier? Were they solely on CDOs, or were  
8 they CDOs and leveraged lending and other  
9 matters?

10 A My best recollection is that they  
11 were primarily CDOs and at some point we  
12 hooked in the folks from the U.S. consumer  
13 mortgage business to give their point of  
14 view on the market situation as it related  
15 to real estate. And this was in the context  
16 -- when we had the meetings, we didn't talk  
17 about, quote, CDOs. We talked about the  
18 real estate market. And the impact on the  
19 real estate market would than translate into  
20 the CDOs. So I want to make sure I am clear  
21 about this.

22 We didn't get in a meeting and  
23 say okay, what about the CDOs? We didn't do  
24 that. We would get in the meetings and we  
25 would say we have got these securities

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2 positions, they are supposed to be gold  
3 plated, but the real estate market is  
4 deteriorating. What are you seeing in the  
5 market about this? Who is buying this?  
6 Somebody is willing to pay X cents on the  
7 dollar for that. There was a trade. How do  
8 see that? Is that going to be a getting  
9 better situation or getting worse situation?  
10 I was trying to judge where the market was  
11 moving in that sense.

12 And so we would get input from  
13 the trading desks, we would get input in,  
14 towards the end I remember we would get  
15 input from our real estate people in the  
16 consumer business, certainly from the risk  
17 people. And I think that as part of that,  
18 as part of market color, we would also some  
19 times get trading activity on the leveraged  
20 lending book. So, somebody might say well,  
21 somebody just bought a piece of this private  
22 equity deal for 90 cents on the dollar. So  
23 that would be part of our mix of market  
24 color. But a primary focus would have been  
25 on the real estate market which would then

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2 have translated into the CDO valuations.

3 Q Mr. Prince, I am showing you what  
4 was produced by Citigroup and has been  
5 marked Citi 1611657. It appears to be a  
6 Power Point deck entitled Global Structured  
7 Credit Products, The Way Forward, September  
8 2007, Michael Raynes.

9 (Thereupon, the document marked  
10 Citi 1611657 entitled Global  
11 Structured Credit Products, The Way  
12 Forward, September 2007, Michael  
13 Raynes was marked CR Exhibit 11 for  
14 Identification, as of this date.)

15 BY MR. BONDI:

16 Q Do you recognize this document?

17 A I do.

18 Q How do you recognize this  
19 document?

20 A I remember at one point we were  
21 having these meetings that described. I  
22 said I want to meet the fellow that is doing  
23 this. I want to meet as it turned out  
24 Michael Raynes. And I remember Maheras and  
25 Barker said: What do you need to meet him

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2 for? I said with all that is going on, I  
3 actually want to be able to see the guy. I  
4 don't want to get it indirectly, I don't  
5 want to get it filtered. I want to look at  
6 this person, I wanted him to talk to me  
7 directly about what is going on. So, they  
8 got Raynes to come over and people put this  
9 thing together and he came up and sat in the  
10 library with our group and made this little  
11 presentation.

12 Q Was this the first time you had  
13 met Michael Raynes?

14 A Yes, first and only time. First  
15 and only time.

16 Q Who was Michael Raynes?

17 A He was this guy. I am sorry to  
18 put it this way. He was the guy who ran  
19 this. I didn't know who he was other than  
20 that. I learned since we hired him from  
21 Deutsche Bank. All I knew was he was this  
22 guy.

23 Q What was your impression after  
24 the meeting that they had with Mr. Raynes of  
25 Mr. Raynes?



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2 A I think that Raynes was scared to  
3 death in the meeting. And I have a dim  
4 recollection that Barker told me afterwards,  
5 after the meeting, that Raynes expected me  
6 to fire him in the meeting. And so I think  
7 that my judgment of him in the meeting was  
8 probably not an objective or an accurate  
9 one. That is to say he was under a lot of  
10 pressure, he was under a lot of stress  
11 because of the context of the meeting.

12 He seemed to know the business.  
13 He seemed to have a much more optimistic  
14 view of the long term nature of the  
15 business, much more reflective of we are  
16 going through a dip, quite a large dip.  
17 But, but you know, don't give up  
18 precipitously kind of approach to it. That  
19 is about all I remember.

20 Q Did you ultimately fire Michael  
21 Raynes?

22 A No. The only person I acted on  
23 was Randy Barker.

24 Q Did you ask anyone else to fire  
25 anyone associated with the CDO business?

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2 A No, I think I have answered that  
3 question. The only person I ever acted on  
4 in this context was Randy Barker.

5 Q Just wanted to make clear that  
6 you hadn't asked someone else to fire  
7 someone else.

8 A No.

9 Q Mr. Prince, I would ask you to  
10 turn to the page that is four, five pages  
11 into the deck, Citi 1611661, the topic says  
12 Development and Structured Credit at Citi.

13 A Yes. Okay.

14 Q The first bullet says, "Prior to  
15 June 2006, structured credit products was  
16 managed in silos." What does that mean?

17 A What that means -- and there are  
18 three sub bullets below that -- is that like  
19 any business, the capital markets and  
20 banking business is organized into operating  
21 units. And apparently structured credit  
22 products activities happened in several of  
23 these business units. That is what those  
24 words mean to me. By the way, all of these  
25 units that he mentions are within fixed

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2 income.

3 Q Do you know if the various silos  
4 under structured credit products, cash  
5 versus synthetic, New York versus London,  
6 capital markets versus trading, do you know  
7 if they utilized the same valuation  
8 methodologies for super senior tranches of  
9 CDOs?

10 A I don't. But I would be amazed  
11 if they didn't because we had a risk  
12 function which was separate from the  
13 businesses.

14 Q If you would flip two pages later  
15 to 665?

16 A "Analysis of what went wrong."

17 Q Yes. The analysis of what went  
18 wrong and proposed strategic changes."

19 First point. Significant  
20 dependence on distribution as proxy hedge to  
21 warehoused assets."

22 What do you understand that to  
23 mean?

24 A What that means is that the  
25 belief that Citi would be able to distribute

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2 the products out of the warehouse was the  
3 significant dependence on part of this and  
4 was used in his view as a proxy hedge,  
5 meaning that the assets in the warehouse  
6 weren't otherwise hedged. And that I think  
7 in one of the Barker presentations that we  
8 looked at earlier, there was some reference  
9 to Citi's historical strength in  
10 distribution wasn't sufficient for something  
11 or other, and I think that is the same  
12 point.

13 Q What was your reaction to hearing  
14 that point about the significant dependence  
15 on distribution as a proxy hedge to  
16 warehoused assets?

17 A I don't remember any particular  
18 reaction to this single point on this single  
19 page of the presentation.

20 Q Did you agree with looking at  
21 this page 665 of what went wrong on these  
22 bullets? Did you agree with any of the  
23 analysis as to what went wrong when it was  
24 presented to you?

25 A Well, I don't have any way of

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2 really answering that and the reason for  
3 that is this: In this presentation for this  
4 discussion by Raynes, he wasn't saying  
5 anything different than Maheras or Barker  
6 had been saying. And my, my view of this  
7 meeting was I simply wanted to hear it from  
8 the horse's mouth, if you understand what I  
9 mean. I wanted to make sure that he was  
10 saying this and that he actually believed  
11 it. But I don't think and I haven't  
12 reviewed this carefully obviously; you just  
13 handed it to me, but I don't think there is  
14 anything in here which is different than  
15 what Maheras and Barker was saying.

16 So, it is not as if I was getting  
17 new information. The only new information I  
18 was getting was that the guy running the  
19 desk believed this to be the case.

20 Q The bullet that says, "Unprepared  
21 for draconian meltdown scenario with respect  
22 to largest collateral asset. Risk limits  
23 too high."

24 What do you understand by the  
25 largest collateral asset? Is that the

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2 subprime mortgages?

3 A Yes, I think he said that on an  
4 earlier page actually. As I was turning to  
5 get to this page, he said, I think he said  
6 something to that effect on page 658, the  
7 first page in the deck. "CDO market has  
8 come under significant assault this year  
9 prompted by an unprecedented fall in value  
10 of its largest asset class subprime  
11 mortgages."

12 Q Is reference to risk limits too  
13 high, was that the risk limits on the  
14 positions that could be accumulated on the  
15 books of Citi?

16 A I think that what it is referring  
17 to is if you look across to the right side  
18 of the page opposite that bullet, the  
19 change, the left side is what went wrong.  
20 The right side is what they would propose to  
21 do about it.

22 The change opposite that first  
23 bullet that you referred to is change in  
24 traditional CDO business model with respect  
25 to warehousing and counter party risk. I

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2 think this is the same point that we looked  
3 at a few minutes ago on this different  
4 document or a different document that talked  
5 about our market standard warehouse  
6 agreements weren't robust enough and our  
7 ability to put the loans -- I think that is  
8 what this is really referring to, that on a  
9 going forward basis, we would propose that  
10 our warehouse be much more not at our risk  
11 through the way that the agreements were  
12 structured and through monitoring the  
13 counter parties so that we would have the  
14 ability to put the loans back to somebody  
15 else. We wouldn't be stuck holding the bag  
16 as it were. And that the people we would  
17 put them back to would have to be of  
18 substance. I think that is what that means.

19 So, on the left risk limits too  
20 high, I think what he is referring to is  
21 that the way the warehouse agreements were  
22 structured and the nature of the counter  
23 parties didn't have us, give us the ability  
24 to put things back to people.

25 Q The next bullet, "Utilized

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2 balance sheet specifically on super senior  
3 without a defined hedging strategy but  
4 within risk limits." Is that consistent  
5 with what Mr. Maheras was telling you  
6 earlier?

7 A I am not sure that Tom ever used  
8 those words. But I think it relates to the  
9 first bullet on the page, meaning that our  
10 hedge or our protection against the exposure  
11 wasn't a financial hedge with a counter  
12 party and so forth. But our hedge  
13 effectively was our ability, our historical  
14 demonstrated strong, et cetera, et cetera,  
15 ability to distribute.

16 And that I think what he is  
17 saying here is that because we had such a  
18 long history of being able to distribute the  
19 products out of the warehouse, that we  
20 didn't need, we thought we didn't need, to  
21 put a financial hedge on them while they  
22 were in the warehouse and that that was a  
23 problem. I think that is what he is saying  
24 here.

25 Q Did you have a view whether or



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2 not a financial hedge would have been  
3 appropriate prior to this time period?

4 A Do I have that view thousand or  
5 did I have a view then? I don't understand  
6 the question.

7 Q I will clarify that.

8 When Mr. Raynes was presenting  
9 this to you --

10 A Right.

11 Q -- did you have a view that  
12 there should have been a hedging strategy in  
13 place in the past prior to this point where  
14 he is recommending a hedging strategy?

15 A I understand the question now,  
16 thank you.

17 At the time of this presentation,  
18 which as I recall was in either late  
19 September or early October, he was basically  
20 talking about what went wrong and how we are  
21 going to do it better going forward.

22 At that point in time, it was  
23 already -- I will put it -- becoming clear  
24 that we were going to have at what we  
25 thought at the time were modest losses in

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2 this book. I think at the time -- well, I  
3 think even in mid September we were talking  
4 in the hundreds of millions of dollars. So  
5 at this time it was somewhere between  
6 Maheras' zero and a little bit more than  
7 that. But we thought we were going to have  
8 some modest losses in that area or worried  
9 about it.

10 And so at that point in time, of  
11 course I would have preferred to have had  
12 somebody else with that risk. And of course  
13 I would have preferred to have had somebody  
14 else have hedging exposure to us on what was  
15 in our warehouse.

16 But, the context here wasn't:  
17 Why didn't you have it before, what did you  
18 think about, why didn't you do it before?  
19 The context here was: I know we didn't have  
20 it. The reason we didn't have it was  
21 because we thought we could distribute  
22 everything. Historically we have been able  
23 to distribute everything. But going  
24 forward, we are definitely going to have  
25 hedges in place. That was the context of

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2 the presentation.

3 Q How successful, do you know how  
4 successful Citigroup was in selling super  
5 senior positions?

6 A I don't know the answer. I don't  
7 whether our folks tried to sell a lot,  
8 didn't sell a lot, held them because they  
9 were thought to be so safe, I don't know the  
10 answer to that.

11 Q Flip to two pages later, 667,  
12 title of that page: Where Will The Alpha  
13 Opportunities Be In The Next Six to  
14 Twelve Months? The last bullet,  
15 "Reemergence of better structured CDO  
16 opportunities-finding higher fee potential  
17 given dislocation and potential competitor  
18 shifts."

19 A Uh-huh.

20 Q What do you understand Mr. Raynes  
21 to have meant by that?

22 A Well, this was his: We are in a  
23 dip in the road. And the business will  
24 immerge in a better way, there will still be  
25 structured CD opportunities, we will be able

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2 to charge for more it because a number of  
3 our competitors won't be still in the  
4 business.

5 Q And did you form an opinion about  
6 whether this was a potential in the future  
7 for Citigroup based on what Mr. Raynes was  
8 telling you?

9 A I guess I thought at the time  
10 that it was a very optimistic view, that he  
11 was selling his view.

12 If we were in the mode of saying  
13 we don't think this business is coming back  
14 we are going to shut this business down, he  
15 would have been out of a job. So, just in a  
16 practical sense people don't usually kick  
17 themselves out of a job. So I took this to  
18 be his selling point that look, I know we  
19 are going through a rough patch now, but it  
20 is not going to be that bad and on the back  
21 end of this, it is going to be a much better  
22 business for us.

23 Q Did you feel as a whole, Mr.  
24 Prince, that the business persons such as  
25 Mr. Maheras and Mr. Barker and Mr. Raynes

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2 were painting an overly rosy picture for you  
3 of the CDO business?

4 A Well, it turned out to be overly  
5 rosy. At the time, I didn't think of it  
6 using those words. I obviously didn't  
7 accept what they were saying or I wouldn't  
8 have gone through the process I went  
9 through. But I didn't think of it as being  
10 overly rosy. I thought of it as being much  
11 more of defensive role. People, when they  
12 do something, they are usually pretty  
13 defensive about it. It is very hard for  
14 somebody to say I did X and then to turn  
15 around and say that wasn't a very good thing  
16 to do. It is a very hard thing for people  
17 to do. And it is why I mentioned earlier,  
18 if you have a loan that goes bad you always  
19 put somebody else in charge of the work out.  
20 And I really thought at the time that they  
21 were underestimating the complications or  
22 the difficulties. But I didn't think it was  
23 in an overly rosy sense that they were, you  
24 know, consciously painting it to be better.  
25 I think that they were just sort of dragging

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2 their feet if you understand the distinction  
3 I am drawing, and that is how I thought they  
4 were thinking about it.

5 Raynes I thought was selling.  
6 The other guys I think were thinking, you  
7 know, we have been through a lot of market  
8 dislocations, I don't want our bosses who  
9 are not in the business, haven't been in the  
10 fixed income business for 25 years, I don't  
11 want them to lose confidence or to lose  
12 resolve over a market dislocation. We have  
13 been through lot of these. It is not -- I  
14 know it looks bad now. We always come out  
15 of it. It is always going to be -- it was  
16 that kind of a context.

17 Q And what was your view in  
18 September and October's time frame of Mr.  
19 Bushnell's performance as a chief risk  
20 officer?

21 A I think -- I told you earlier  
22 that I was told many times that David was  
23 the best risk officer on the street. I  
24 believed that then. And I still think very  
25 highly of David's skills. I think that

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2 David has to, has to reflect on what could  
3 have been done differently, what must have  
4 been done differently because I don't think  
5 it is satisfactory to simply say well, these  
6 things happen. But at the time I wouldn't  
7 have traded David for anybody else. So that  
8 is the only way I can answer the question.

9 Q And, Mr. Prince, as a former CEO,  
10 do you reflect on how things could have been  
11 done differently to have avoided or  
12 minimized the losses that Citi experienced?

13 A As CEO?

14 Q Yes, sir.

15 A Well, I have obviously thought  
16 about that a lot. The context I bring to  
17 that analysis is this: We had a \$2 trillion  
18 balance sheet for the company as a whole.  
19 We were involved in lot of different  
20 businesses in lot of different geographies  
21 around the world. We ended up in a  
22 situation where a very, very small relative  
23 dollar value of assets caused great harm to  
24 the company. What could I have done  
25 realistically to have changed that? And I

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2 have turned that over in my mind over and  
3 over and over again, as you might expect.

4 I have said earlier that simply  
5 having the information that was known at the  
6 time, I am not sure would have made much  
7 difference. If David Bushnell would come to  
8 me in June or July or a year earlier, the  
9 end of '06, and said I want you to  
10 understand that we are increasing our  
11 activity in this particular area or had said  
12 we are retaining these super seniors and had  
13 described to me what that meant and what the  
14 quality of the assets were and so forth as  
15 believed by the rating agencies, as believed  
16 by him as a risk professional, I think he  
17 would have pointed to the reported comment  
18 of Alan Greenspan that super seniors were as  
19 safe as U.S. treasuries. I think he would  
20 have pointed to Bernanke's comment that he  
21 did not see a large real estate crisis  
22 coming. I saw something from our chief  
23 economist, Lou Alexander, contemporaneous  
24 which said he not think we were going to  
25 have a serious recession. So I am not sure



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2 what I would have done with that  
3 information.

4 If I had gone to Tom Maheras'  
5 office in the spring of 2007, the spring,  
6 after HSBC had their problems in the early  
7 part of the year with associates, and I had  
8 said Tom, I am nervous about these super  
9 seniors. Let's say I had that information.  
10 And I said I want you to sell these triple A  
11 rated securities. And he would have said  
12 well, why? And I would say because I am  
13 nervous that in the long run, we are going  
14 to see a real estate crisis like we have  
15 never seen since the depression. And I  
16 think that despite all the smart people who  
17 have done all the structuring, that the  
18 flood waters will actually get all the way  
19 up to that super senior level, I think I  
20 would have sounded like a lunatic. No one  
21 thought that would be the case in the  
22 industry.

23 Now, there are some hedge funds  
24 and so forth who bet against the real estate  
25 business, and I have seen that. But our

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2 regulators from multiple regulatory agencies  
3 were fully embedded in our business. The  
4 rating agencies had this stuff rated higher  
5 than triple A. For someone not with a fixed  
6 income background to have gone and made that  
7 kind of direction to the largest fixed  
8 income business on the street, I think I  
9 don't excuse myself by saying that really  
10 wasn't a realistic situation.

11 So then I think well maybe, maybe  
12 it is because you weren't schooled in the  
13 business, maybe because you didn't come up  
14 through fixed income or maybe because we had  
15 a big business and you were worried about  
16 the consumer business or the acquisition in  
17 Latin America that you were working on or  
18 something like that. But I see whether it  
19 is Merrill Lynch or Bear Stearns, Lehman  
20 Brothers, firms that were much smaller, much  
21 more focused, led by people who were long  
22 time traders, market participants, missed  
23 the same issue.

24 So, I think to myself well, if I  
25 were Tom Maheras, would I have made a

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2 different call, if I had that kind of a  
3 background? I don't think he would have.  
4 So that leads me to, well, what could you  
5 have done? I know what I did do, which is  
6 that when the losses went from the hundred  
7 or 200 or 300 that people with talking about  
8 to 8 billion on a day, that I immediately  
9 resigned. I don't know what else I could  
10 have done. I am not satisfied with that  
11 answer. But I don't know sitting here today  
12 what I could have done differently.

13 If I had had information of a  
14 different character about the assets, I  
15 clearly would have acted on that. I turned  
16 down the Ameriquest deal, I turned down a  
17 number of deals where our consumer people  
18 wanted to buy lower quality assets. I  
19 directed our consumer finance people not to  
20 originate these loans. I think if I had  
21 had, if I had had the right information I  
22 would have acted.

23 Q Why did you resign?

24 A Well, this was quite a  
25 significant event, quite a negative event,

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2 and it happened on my watch. How could you  
3 not resign?

4 Q Did someone ask you to resign?

5 A Just the opposite. When I told --  
6 it was in the paper, I am sure you read the  
7 story. When I drove home and Gary called me  
8 and told me it wasn't going to be two or 300  
9 million but it was going to be 8 billion --  
10 I will never for get that call -- I  
11 continued driving, and I got home, I walked  
12 in the door, I told my wife, I said here's  
13 what I just heard and if this turns out to  
14 be true, I am resigning.

15 And I called Rubin that afternoon  
16 or the next morning, I can't remember, and I  
17 told him, and he said you can't do that.  
18 You can't, et cetera, et cetera. And it  
19 turned out to be true on Monday.

20 And so I called our senior, our  
21 lead director Alain Belda, and I handed him  
22 my resignation letter. I would say for that  
23 Monday, Tuesday into Wednesday of that week,  
24 they, several board members argued with me  
25 not to resign. And I told them, I said

## 1 Interview - CHARLES PRINCE

2 look, this is going to be a big problem.  
3 Now, at the time we didn't realize that  
4 other people had very similar problems. I  
5 said this is going to be a big problem. And  
6 I am willing to continue to fight this  
7 fight. But my advice to you, if I were your  
8 lawyer, my advice to you is to accept my  
9 resignation. I said you are going to need a  
10 new person to lead us out of this difficult  
11 situation. You are going to need a new  
12 person who will start with a reservoir of  
13 credibility which where mine will be  
14 exhausted by this and so I will continue to  
15 serve if that is your decision, but my  
16 advise to you is to accept my resignation.  
17 And by about Wednesday afternoon, Thursday,  
18 they had decided to accept my resignation.

19 Q When do you recall first  
20 discussing super senior positions on CDOs  
21 with the board of directors?

22 A I am going to refer back to the  
23 30 days or so that started with the middle  
24 of September and ended with the very end of  
25 October.

1 Interview - CHARLES PRINCE

2 And if you were to fast forward  
3 that loop, if you were to have sort of a  
4 time frame fast forward, you would see that  
5 the issue first came up as a problem on my  
6 radar screen and then moved to a discussion  
7 among our group that I described in the  
8 library group, and then got on to the  
9 board's radar screen and then became an  
10 examination in a very detailed sense with  
11 Gary about valuations and valuation models  
12 and so forth and so on. And then was the  
13 end of the table. So without knowing  
14 specifically, I would have to have people  
15 recreate the paper trail.

16 My sense is that it was probably  
17 in sort of two-thirds of the way through  
18 that process which would have put us about  
19 the second week in October. I could be off.  
20 It wasn't before that 30-day started and I  
21 was gone after that. So it was sometime in  
22 that 30 days or so, and my best guess is it  
23 is about two-thirds of the way through that  
24 process.

25 Q Did any board member ask why

1 Interview - CHARLES PRINCE

2 didn't you tell us about this sooner? Did  
3 anyone express frustration or concern with  
4 not learning about the super senior tranches  
5 sooner?

6 A Well, the answer is sure. As the  
7 thing unfolded, there was much: How did we  
8 get into this position? Why didn't we know  
9 this? How could we not know -- I am talking  
10 about me as well as them. I mean everybody.  
11 How could we have such a small part of the  
12 company with such apparent safety turn out  
13 to be so toxic? How could that be? How  
14 could it possibly be the case that something  
15 that the markets saw as triple A, the rating  
16 agencies saw as triple A, it was way off on  
17 the edges over here, a tiny little thing  
18 really, how could that blow up in this kind  
19 of way? Everybody was saying that.

20 Q Now you alluded to valuations and  
21 valuation models.

22 What were the challenges with  
23 valuing the super senior tranches of CDOs?

24 A These had to be mark-to-market,  
25 and when you have to mark-to-market things

1 Interview - CHARLES PRINCE

2 and there is no market, that becomes  
3 complicated.

4 So, the way the accounting works,  
5 although I am not an accountant, the way the  
6 accounting works is that you use various  
7 models. And as I recall it, we used three  
8 or four models: Discounted cash flow model,  
9 a model that was based on the Case-Shiller  
10 index going from here to here. Three or  
11 four different models like that. At some  
12 point, one of our competitors made a big  
13 write-down, I don't remember who that was,  
14 and so that was -- well, they must have used  
15 a model of X backing into what their  
16 valuations were. So we looked at that as a  
17 model. Gary really led that process. But I  
18 remember there were at least three or four  
19 different models, and I think during the  
20 time I was there we finally settled on one  
21 that sort of averaged all of them across, is  
22 my recollection.

23 Q Were the models that you  
24 described, were they models that already  
25 existed or were these models that were being



1 Interview - CHARLES PRINCE

2 developed by Citigroup and others at the  
3 time?

4 A I don't know the answer to that,  
5 I am sorry. My sense was that they already  
6 existed, but I don't know the answer.

7 Q I would like to turn your  
8 attention to the same document, page  
9 1611679. It is entitled Current Risk  
10 Exposure and Mitigation.

11 A Yes.

12 Q It lists liquidity puts, 24.5  
13 billion, ABS CDO cash inventory 2.3 billion.  
14 And the ABS CDO warehouse of 0.9 billion.

15 Was that your understanding in  
16 September 2007 of the current exposure to  
17 those three items?

18 A I can't really tell you. Again,  
19 during that time frame from mid September to  
20 late October, at some point the numbers were  
21 mentioned to me. My recollection is that  
22 the liquidity puts were a little bit after  
23 the super seniors that were held on the  
24 books. But whether that was new information  
25 the day it was presented, I can't remember.

1 Interview - CHARLES PRINCE

2 Q What is meant by exposure?

3 A Well, it has lots of different  
4 meaning in lots of different contexts.

5 In context in which we are  
6 talking about, it would typically refer to  
7 something that is either where we have a  
8 liability I -- I started to say where we  
9 have exposure. Where we have a liability.

10 So, if you have an asset on your  
11 book, you have exposure to that asset. If  
12 you have someone who has a put to you or you  
13 have a backup line to that person, then you  
14 have exposure to that person and that  
15 amount. It is, it is a liability that is on  
16 your books or could be on your books.

17 MR. BONDI: Mark that, please.

18 (Thereupon, the e-mail Bates  
19 marked Citi FCIC E 16495 was marked CR  
20 Exhibit 12 for Identification, as of  
21 this date.)

22 BY MR. BONDI:

23 Q Mr. Prince, I am showing you what  
24 has been produced by Citi and Bates marked  
25 Citi FCIC E 16495. It appears to be an

1 Interview - CHARLES PRINCE

2 e-mail from Andrew Liveris to you.

3 Who is Andrew Liveris?

4 A Andrew Liveris was on our --  
5 well, still is on their board, is the CEO of  
6 Dow Chemical.

7 Q And below talks, below his e-mail  
8 to you it appears to be another e-mail that  
9 you are on Leah Johnson?

10 A Leah Johnson was the head of  
11 public relations for Citi.

12 Q And it says, subject is Q3  
13 earnings announcement. And it has attached  
14 is a copy of the press release that we plan  
15 to release and a transcript of the  
16 prerecorded call.

17 A Uh-huh.

18 Q I would like to draw your  
19 attention to page three of the recorded call  
20 transcript?

21 A What is the Bates number.

22 Q Bates number is 16498.

23 A Got it, thank you.

24 Q Draw your attention to the  
25 penultimate bullet down there.

1 Interview - CHARLES PRINCE

2 A Uh-huh.

3 Q It says, "Starting in January of  
4 this year, we began to lower our exposure to  
5 the subprime assets as we saw the market  
6 changing. At the beginning of this year, we  
7 had 24 billion of secured subprime exposure  
8 in our lending and structuring business.  
9 That number was 13 billion at the end of  
10 June and declined slightly this quarter."

11 Do you recall Mr. Crittenden  
12 saying that in a recorded transcript call on  
13 October 1st, 2007?

14 A I don't have an independent  
15 recollection of it. I know we did do a  
16 recorded call, and I assume this is  
17 accurate, but I don't have an independent  
18 recollection of it.

19 Q A few minutes ago on the  
20 Exhibit 11, we saw a list of other exposure.  
21 Here Mr. Crittenden said the number was 13  
22 billion at the end of June and declined  
23 slightly this quarter.

24 A Uh-huh.

25 Q Why the discrepancy between the

1                   Interview - CHARLES PRINCE  
2           exposure that was in Mr. Rayne's  
3           presentation of the global structured credit  
4           products, A Way Forward, and what Mr.  
5           Crittenden was saying in this recorded  
6           earnings call on October 1st, 2007?

7           A        I can only try to put these  
8           together based on looking at the two  
9           documents. That is to say, I don't have,  
10          remember having any discussion with Gary  
11          about the number was X, Y or Z. My guess is  
12          that --

13                   MR. BIRENBOIM: I don't think  
14                   you should be guessing.

15                   THE WITNESS: Okay.

16                   MS. BUERGEL: If you don't have  
17                   any understanding of how this is put  
18                   together, Mr. Prince, the recorded  
19                   call transcript and how it relates to  
20                   the deck, then you shouldn't  
21                   speculate.

22                   THE WITNESS: As I said, I  
23                   don't have a recollection of that.

24           BY MR. BONDI:

25           Q        Did you agree as of October 1st,

1 Interview - CHARLES PRINCE

2 2007 that Citigroup's exposure was 13  
3 billion at the end of June and then declined  
4 slightly this quarter?

5 A Again I can't, I don't have an  
6 independent recollection of how Gary came to  
7 these numbers. You have shown me the other  
8 exhibit with a long list of numbers. And  
9 you have asked me why these numbers are  
10 different than those numbers. I don't know  
11 the answer to that.

12 Gary was responsible for putting  
13 all the numbers together. It is not as if  
14 we sat with that exhibit on one side of the  
15 table and this on the other side of the  
16 table. You are very appropriately I guess  
17 putting these together, but I don't recall  
18 how we got to those numbers so I can't  
19 really other than guessing which I have been  
20 asked not to guess, I can't really help you  
21 with that.

22 Q The Raynes presentation from  
23 September 2007 lists substantially more  
24 exposure.

25 MR. BIRENBOIM: What page are

1 Interview - CHARLES PRINCE

2 you referring to?

3 MR. BONDI: I am referring to  
4 page Citi 1611679.

5 MR. BIRENBOIM: Those numbers  
6 are in September?

7 MR. BONDI: In September.

8 MR. BIRENBOIM: This is in  
9 October.

10 MR. BONDI: Correct.

11 BY MR. BONDI:

12 Q Mr. Crittenden this October talks  
13 about exposure being 13 billion at the end  
14 of June and declined slightly this quarter.

15 Did you ever ask Mr. Crittenden  
16 how are you coming up with something less  
17 than 13 billion when internally we are  
18 hearing something a lot more than 13  
19 billion?

20 MS. BUERGEL: Mr. Bondi, there  
21 is a lot whole lot of language about  
22 what exposure means here. You are  
23 plucking that out of a multi-paragraph  
24 transcript. And Mr. Prince, I will  
25 remind you if you don't have actual

1 Interview - CHARLES PRINCE

2 facts to offer, you shouldn't  
3 speculate.

4 MR. LERNER: You can answer yes  
5 or no.

6 THE WITNESS: I don't remember  
7 the question that far yes or no. But  
8 I don't have any independent  
9 recollection of how he got to those  
10 numbers, so all I could do would be to  
11 guess.

12 Q I don't think that was my  
13 question. I will let the court reporter  
14 read it back just to get it right.

15 (Thereupon, the record was read  
16 back by the reporter as recorded  
17 above.)

18 THE WITNESS: No.

19 BY MR. BONDI:

20 Q On November 4th, 2007, Citigroup  
21 announced that it had 55 billion in subprime  
22 exposure mentioning in disclosing the super  
23 senior tranches and the liquidity puts.

24 Do you have any understanding of  
25 how the announced exposure went from 13



1 Interview - CHARLES PRINCE  
2 billion in October to 55 billion on November  
3 4, 2007?

4 A Well, I feel like I am edging  
5 into the same territory we just covered on  
6 the earlier question, so I am hesitating to  
7 see if my lawyers want to say anything.

8 MR. BIRENBOIM: You should  
9 testify to what you have personal  
10 knowledge to, not just to what you  
11 read in the papers afterwards or  
12 speculation.

13 THE WITNESS: What I have  
14 personal knowledge of is the  
15 following: On the Saturday, eight  
16 days before that Monday, Gary  
17 Crittenden called me and told me we  
18 weren't looking at a couple hundred  
19 million bucks, but we were looking at  
20 eight billion dollars.

21 On Monday of that week, so a  
22 Monday before November 4th, I sat with  
23 Gary and as I recall it one or two  
24 people from our securities business  
25 and worked through their analysis of

1 Interview - CHARLES PRINCE

2 how, when I went home on Friday it was  
3 a couple hundred we were possibly  
4 going to have to deal with, and  
5 72 hours later it was 8 billion. And  
6 over the course of that day on Monday,  
7 I became convinced that their  
8 calculation at the end of that day was  
9 correct. And that is when I handed in  
10 my resignation. And really didn't  
11 have any substantive involvement after  
12 that.

13 Q Let's move on to 13.

14 (Thereupon, the document Bates  
15 marked Citi FCIC E 41087 was marked CR  
16 Exhibit 13 for Identification, as of  
17 this date.)

18 BY MR. BONDI:

19 Q Mr. Prince, I am showing you what  
20 was produced by Citi and it is Bates marked  
21 Citi FCIC E 41087.

22 A Correct.

23 Q And it is a cover e-mail  
24 attaching a, appears to be Power Point  
25 presentation. The cover e-mail is from

1 Interview - CHARLES PRINCE

2 Sheffali Welch e-mail on behalf of Gary  
3 Crittenden to you and it is dated  
4 October 14, 2007.

5 "All attached, please find the  
6 audit committee deck for tonight's call at  
7 9 p.m."

8 Do you recall attending the audit  
9 committee call at 9 p.m. on October 14,  
10 2007?

11 A I don't think there was an audit  
12 committee call on the, at 9 o'clock. My  
13 belief is that the 9 o'clock call was a prep  
14 call because it says sent Sunday,  
15 October 14th. The presentation says October  
16 15th. And the list of people it was sent to  
17 would have been the kind of group we would  
18 get together with to prepare for tomorrow's  
19 meeting. And so my guess is that the Sunday  
20 night call assuming there was one, I don't  
21 recall a specific call, but assuming there  
22 was one was a prep call among these various  
23 people.

24 Q Do you recall attending the audit  
25 committee meeting or call on October 15th?

1 Interview - CHARLES PRINCE

2 A Well, I certainly would have gone  
3 to the board meeting. I don't think this  
4 was just an audit committee presentation. I  
5 think this was, I think this was actually  
6 presented to the whole board. It may be  
7 that Gary's assistant misspoke, it may be  
8 that it was presented first to the audit  
9 committee and then to the full board. I  
10 think this was the big presentation to the  
11 board and I don't think it was just an audit  
12 committee. So -- and I am sorry to be  
13 particular. The answer to your question  
14 about the audit committee is no, but I think  
15 it was presented to the full board and I was  
16 there for that.

17 Q On page 37 of the deck, Citi FCIC  
18 E 41124, there is a "lessons learned" page?

19 A Lots of lessons learned pages,  
20 aren't there?

21 Q Yes, sir. And if you wouldn't  
22 mind just reading these six just to yourself  
23 in the interest of time and let me know when  
24 you are finished.

25 A I have read them.

1 Interview - CHARLES PRINCE

2 Q I know we talked about many of  
3 these same lessons, and I just wanted to ask  
4 you on these six lessons learned that were  
5 presented to the board did you agree that  
6 these were lessons learned to Citigroup?

7 A Oh, I don't know. This -- these  
8 quote lessons learned were presented at a  
9 time when the fullness of the issues weren't  
10 completely understood, I think.

11 So if I were sitting here today,  
12 I wouldn't from a policy standpoint try to  
13 determine whether someone's suggestions of  
14 lessons learned put up in October of 2007  
15 were the appropriate ones, whether they were  
16 implemented fully or not.

17 Since the time of this  
18 presentation, there has been almost a  
19 complete change in personnel at the company  
20 in the areas that we are talking about, and  
21 I think I would much more importantly look  
22 at what those new people thought the lessons  
23 learned were as opposed to what people  
24 thought at this point in time.

25 Q Mr. Prince, I am showing you what

1 Interview - CHARLES PRINCE

2 was produced by Citi Bates marked FCIC 2970.

3 (Thereupon, the document Bates  
4 marked FCIC 2970 was marked CR  
5 Exhibit 14 for Identification, as of  
6 this date.)

7 A Yes.

8 Q It is a discussion of October CMB  
9 performance, presentation to the board of  
10 directors October 31, 2007.

11 A Yes.

12 Q Do you recognize this document?

13 A Oh, I don't have an independent  
14 recollection of it, but it certainly looks  
15 like something that was presented.

16 Q Sure. If you wouldn't mind  
17 taking a moment just to flip through it.

18 A Uh-huh.

19 Q To familiarize yourself with it.

20 A Yes, okay.

21 Q If you flip to page eight of the  
22 deck, Citi FCIC 2978, there is a list of  
23 subprime marketing methodology continued and  
24 it lists the ABCP. Did you understand ABCP  
25 to mean the asset backed commercial paper

1 Interview - CHARLES PRINCE

2 associated with the liquidity puts?

3 A Uh-huh, I think so, yes.

4 Q And the high grade ABS CDOs,  
5 mezzanine ABS CDOs and ABS CDO squared  
6 transactions, when this was presented to the  
7 board of directors on October 13, 2007, do  
8 you recall any reaction --

9 MR. BIRENBOIM: October 31st.

10 MR. BONDI: Sorry?

11 MR. BIRENBOIM: I think you  
12 said 13 or maybe I misheard.

13 BY MR. BONDI:

14 Q The presentation to the board of  
15 directors on October 31, 2007?

16 A Yes.

17 Q On page eight when it lists the  
18 various positions that Citigroup had and the  
19 net exposure associated with those positions  
20 as of September 30, 2007, do you recall any  
21 reaction by any of the board members when  
22 they heard this?

23 A The exposures?

24 Q Yes, sir.

25 A You know what I can't do? I

1 Interview - CHARLES PRINCE

2 can't separate the different meetings, as  
3 obviously as the, as the situation  
4 deteriorated, there was more and more  
5 concern. But I can't in my mind remember  
6 whether this meeting had this conversation  
7 or that meeting had that conversation.

8 To the extent of exposures, if,  
9 if the question was more narrowly did  
10 someone say something extraordinary about  
11 the total number on the page or any of the  
12 components that led up to the total, I don't  
13 remember that. But you have to put it in  
14 context, I think. The exposure that we were  
15 looking at here in terms of the impact on  
16 the company was a couple hundred million  
17 bucks and in a company that earned five  
18 billion dollars quarterly, you don't want to  
19 lose \$200 million obviously, but there was  
20 nothing on this page that would have caused  
21 one of the directors to say my gosh, what is  
22 going on here, because that is not the  
23 information that was being presented. And I  
24 know you are on a fact finding mission. Can  
25 I direct you to something?



1 Interview - CHARLES PRINCE

2 Q Please.

3 A If you look at pages four and  
4 five, this is actually a key chart, you can  
5 see the three lines. They were in color on  
6 the original chart, but for here I will  
7 refer to them as the top line, middle line  
8 and the bottom line. The bottom line, it  
9 was the sort of the lowest quality. You can  
10 see in the very bottom, it is the right hand  
11 reference which ends with triple B minus.  
12 And the middle line and the middle reference  
13 is to single A. Do you see that at the  
14 bottom of the page? And the left side of  
15 the page you see the triple A, that is the  
16 top line.

17 And so if you look across, this  
18 is an historical chart on page four, and you  
19 can see that the bottom line, the worst  
20 quality over the course of the first part of  
21 the year going to March '07, you can see  
22 that first vertical line there, March '07,  
23 the bottom line deteriorated and then picked  
24 back up to a kind of a 75 percent level.  
25 And then in June began to deteriorate. And

1 Interview - CHARLES PRINCE

2 in June, but only in June, the single A, the  
3 middle one, started to deteriorate. So up  
4 until, up until June, even the single A  
5 product hadn't really been affected.

6 The top line, the triple A, which  
7 is the super senior kind of quality stuff,  
8 straight as a line across, no impact at all.  
9 It began to waiver a little bit in that  
10 July, August time frame. You can see as we  
11 go into September, you see the line that  
12 says 8/29 and into September, it is trended  
13 back up and it is almost at a hundred  
14 percent again. And then you flip the page  
15 and you see that after the ratings  
16 downgrade, the top line began to deteriorate  
17 in that far right side of the page.

18 Q I am sorry, you are looking at  
19 page five?

20 A Now I am over to page five.  
21 Bates number 975.

22 Q And it is the last box, I  
23 apologize, the copy looks a little bad, it,  
24 looks like 10/11?

25 A 10/11 Moody's something

1 Interview - CHARLES PRINCE

2 downgrade.

3 Q I think it is et al, Moody's et  
4 al downgrade?

5 A Yeah. That was really the only  
6 time -- you can see a little wavering on the  
7 top line in the middle but it actually  
8 recovers into the September time frame and  
9 then when the downgrade happens, that is  
10 when it falls off a cliff.

11 And so I point this out because  
12 this is a very good visual reminder of when  
13 Tom Maheras or somebody says look, the super  
14 seniors are not going to be touched. They  
15 would point at this chart, and they would  
16 say look, you can see that even though this  
17 has gone down, this one is straight as an  
18 arrow. And then in the summer we would say  
19 but it is still going down. And he would  
20 say yeah, it is, but you can see the top one  
21 is coming back up. It will be okay. Don't  
22 panic here. Don't go crazy here. This is  
23 going to be fine.

24 That was the context of the  
25 discussions as we came into the late summer.

1 Interview - CHARLES PRINCE

2 I am sorry to divert you from your question,  
3 but this is a very good pictorial, these two  
4 pages, of what happened over the course of  
5 that summer and into the fall.

6 Q I appreciate that. I thank you.  
7 We definitely are trying to get at the  
8 facts. I appreciate the clarification.

9 Does the, on page eight of the  
10 Power Point where it lists the high grade  
11 ABS, the mezzanine ABS, CDOs, and the ABS  
12 CDO squared, did any of those three  
13 translate to any of these three lines on the  
14 graph on page five?

15 A It would -- the lines on page  
16 five deal with the credit rating. So  
17 anything on page eight that related to  
18 triple A these would relate to. So, if the  
19 high grade ABS CDOs were super seniors, then  
20 they would definitely be in the top line.

21 If the ABS CDO2 transactions  
22 related to super seniors, they would be in  
23 the top line as well. On page eight are  
24 formats that relate to quality of assets.  
25 They are not directly related. It could be

1 Interview - CHARLES PRINCE

2 anything in ABS CDO2 , it could be low or  
3 high grade, but I think all of this related  
4 to the super seniors which may be why the  
5 marks that are shown on page eight, the  
6 projected marks, are so low.

7 Q Mezzanine ABS CDOs, that wouldn't  
8 have been super senior, though, would it?

9 A I don't know the answer to that.  
10 I don't though the answer to that. And the  
11 reason I don't know the answer is mezzanine  
12 could refer to a place on the hierarchy of  
13 the structure, or it could refer to a loan  
14 that is in the middle of credit, a loan  
15 portfolio. In other words -- I am sorry it  
16 is so confusing. You could have a subprime  
17 loan that is structured so that the highest  
18 tranche was thought to be triple A. And  
19 mezzanine could refer to something that is  
20 midway up that tranche. Okay?

21 But it is all based on a subprime  
22 loan at the bottom. You can also have a  
23 situation where a mezzanine loan to a  
24 corporation, to anybody, not real estate, a  
25 mezzanine loan could be structured. And

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2 then you can have a low quality mezzanine  
3 loan, a middle quality mezzanine loan, and a  
4 high quality mezzanine loan. And I don't  
5 know whether this is referring to real  
6 estate in the middle of the structure or to  
7 a type of loan, like an auto loan would be a  
8 loan which would be structured or a credit  
9 card loan could be structured.

10 A mezzanine loan is a kind of a  
11 loan, and I don't know whether it is  
12 referring to that kind of a loan or a  
13 structure in the subprime structuring. I am  
14 sorry. Maybe it can be determined, but that  
15 is why I don't know which one it is.

16 Q This October 11th line pertaining  
17 on page five of the graph pertaining to  
18 Moody's et al downgrades. Seems very  
19 significant.

20 A I will say.

21 Q And I am interested to know, was  
22 your view that Moody's and others got it  
23 right on October 11, 2007, or that they got  
24 this downgrade wrong? Or what is your view  
25 of these downgrades that occurred on

1 Interview - CHARLES PRINCE

2 October 11, 2007?

3 MR. BIRENBOIM: What his view  
4 was at the time or what his view was  
5 looking back now?

6 MR. BONDI: That is a fair  
7 characterization. Let's take those,  
8 both of those questions so we make  
9 sure the record is clear.

10 BY MR. BONDI:

11 Q At the time what was your view of  
12 the downgrades?

13 A At the time what Maheras and  
14 Barker and our folks said was that these  
15 will be accounting marks, not economic  
16 marks. What they meant by that was that  
17 because the ratings are cut, there will be  
18 an accounting loss instead of being marked  
19 on your books at -- I am making up a  
20 number -- a hundred, they will be marked on  
21 your books at 50. But they would say in the  
22 long run, if you hold the instrument, not if  
23 you are trading it, but if you hold on to it  
24 and wait for it to pay out because it is a  
25 bond, that you will be paid all of your

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2 money plus interest. So, in an economic  
3 sense, there won't be an ultimate loss.  
4 There will be an accounting loss, not an  
5 economic loss. That is what they would say.  
6 I would say at this point I don't know  
7 whether that is true or not. In other  
8 words, I don't know whether or not sitting  
9 here today the super senior tranches are in  
10 default. Maybe you know. I don't know.

11 I read something in the paper the  
12 other day about something with Goldman and  
13 AIG where they said that the Goldman -- the  
14 worst Goldman originated tranche had lost  
15 90 percent of its value or something like  
16 that but was not in default. So I don't  
17 know whether in the long run these ratings  
18 reflect economic losses. It may be the  
19 case. I think if Maheras were sitting here  
20 he would say we structured these so that as  
21 the flood waters of default rose, there were  
22 no circumstances under which the waters  
23 would breach into the super seniors.

24 Without knowing, I would bet that  
25 if Maheras were sitting here today he would



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2 say they haven't and they won't. But that  
3 because no one's willing to take the risk  
4 that they won't, no one is willing to buy  
5 them. And because it is a mark-to-market  
6 paper, you have to value it not on the  
7 ultimate, although insurance companies hold  
8 it that way, right, but securities firms  
9 have to mark-to-market. And so in that  
10 sense I don't know whether or not in the  
11 long run the marks are correct or not  
12 correct. I know that it caused a  
13 precipitous drop in value, it caused havoc.  
14 I mean this was the precipitating event that  
15 broke the financial system. And there were  
16 a lot of things that happened since that  
17 could have been done better or worse. But  
18 this is the thing that broke the financial  
19 system.

20 MR. LERNER: I think you ought  
21 to give Mr. Prince a two-minute break  
22 if this is a convenient time.

23 MR. BONDI: Sure.

24 (Brief break.)

25 BY MR. BONDI:

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2 Q We mentioned before the break or  
3 we were talking before the break  
4 mark-to-market accounting.

5 A Yes.

6 Q What role did mark-to-market  
7 accounting play in the difficulties at  
8 Citigroup?

9 A Well, I think for every one on  
10 the street, if you have to mark-to-market  
11 and there is no market, as I said earlier,  
12 it makes it very complicated. And if you  
13 have a temporary liquidity problem and today  
14 the liquidity problem has abated at least if  
15 not solved, but it is abated, if you have a  
16 temporary liquidity problem, then that has a  
17 negative circle or loop that makes things  
18 worse and worse and worse. So, if you can't  
19 sell something at a price, then you have to  
20 mark it lower. If you have to mark it  
21 lower, it makes it harder to sell which  
22 makes it down and down and down and down.

23 So, there is a negative  
24 reinforcing loop from mark-to-market  
25 accounting. You don't have that with loans,

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2 you don't have that in the insurance  
3 business. It is an unusual feature of the  
4 securities business.

5 Q Speaking more generally about the  
6 financial crisis and the markets as a whole,  
7 in your view, what was mark-to-market  
8 accounting's role in the financial crisis as  
9 a whole? Do you view it as a significant  
10 factor in the crisis, a contributing factor,  
11 a minor point? I am just trying to get a  
12 sense of your views in terms of the overall  
13 crisis and mark-to-market accounting's  
14 impact.

15 A I recognize that is a very  
16 controversial subject and you have lots of  
17 views on it. I think that mark-to-market  
18 account was somewhere between a contributing  
19 factor and a significant factor, somewhere  
20 between. And I think it has the effect of  
21 being pro-cyclical, meaning it worsens  
22 things rather than helping to make things  
23 less worse. And that is a negative.

24 Q Are there any lessons learned in  
25 the space of mark-to-market accounting that

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2 you have thought of in terms of what we can  
3 do differently in the future with respect to  
4 mark-to-market accounting or accounting in  
5 general?

6 A I actually have a point of view  
7 on that. The debate is between people who  
8 think that there ought to be mark-to-market  
9 accounting because there is a purity of  
10 that. There is -- you don't want people  
11 hiding things on their books, you don't want  
12 them to be zombie banks and so forth.

13 And people at the other end that  
14 say mark-to-market accounting really causes  
15 the fall in value to be accelerated and to  
16 be so forth, so on.

17 I think that mark-to-market  
18 accounting ought to be treated in much the  
19 same way, a bad analogy, but an analogy,  
20 that pension accounting has created.

21 So, if I have a company and my  
22 pension plan is underfunded, I am not  
23 required to make it all up today. I can  
24 make it up over couple of years. And I  
25 think if you had a situation where

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2 mark-to-market accounting involved stating a  
3 mark, but only having to recognize on making  
4 this up, a third of it, assuming you have  
5 stated an intention to hold the instrument,  
6 and you have to recognize a third of it this  
7 year and a third of it next year and a third  
8 of it -- now the mark market will change as  
9 you go along. So it is a third of whatever  
10 the mark is at that point in time and so  
11 forth. I don't think anybody would do this,  
12 but that is my point of view. You are  
13 asking me my point of view.

14 My point of view is that it is  
15 not an either/or. It is a how do you  
16 recognize the mark. But if you have a  
17 situation where you have a precipitous  
18 event, there is no ability to deal with that  
19 and the damage is accelerated by that  
20 precipitous event.

21 Q Mr. Prince, Citigroup was during  
22 your tenure supervised by the OCC, Federal  
23 Reserve, Federal Reserve Board of Bank of  
24 New York, among other regulators.

25 A The FDIC.

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2 Q The FDIC.

3 Were your regulators in your  
4 opinion asking the right questions of  
5 Citigroup and Citicorp personnel?

6 A That is a very general question.

7 Our regulators were for the most  
8 part embedded in the organization. They had  
9 offices at the company. They were there  
10 full-time. I met with the regulators on a  
11 very frequent basis. They met with our  
12 directors, with the audit committee. They  
13 met with our auditors. They met with Dave  
14 Bushnell frequently. There was nothing that  
15 we were doing that wasn't fully transparent  
16 to the regulators.

17 In the context of what we are  
18 taking about, the question is were they  
19 asking the right questions, they clearly  
20 didn't ask the questions that related to the  
21 ultimate losses on the super seniors.  
22 Neither did Tom Maheras. Neither did the  
23 rating agencies.

24 So, I think that the  
25 regulators -- and I would say this with

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2 great respect. I think the regulators were  
3 in the same category of believing based on  
4 the information they had that these  
5 positions would not turn out to be very  
6 dramatic loss positions for the company.

7 So I don't think it was a matter  
8 them asking the right questions or wrong  
9 questions. It is much like the discussion  
10 we had earlier about information flow. I  
11 think they had the information, but it  
12 turned out to be completely wrong for  
13 everybody.

14 Q A lot of debate, Congress and on  
15 Main Street and Wall Street and elsewhere  
16 about regulations and whether the crisis  
17 that we experienced was a failure of  
18 regulation or regulations. And I wanted to  
19 know, Mr. Prince, do you have a view of  
20 that? Were there regulations that failed  
21 during the crisis or leading up to the  
22 crisis? Were there regulations that were  
23 missing that you believe should have been in  
24 place?

25 A I think clearly -- we talked

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2 earlier about the regulatory structure of  
3 the origination of mortgages. This is done  
4 on a state by state basis. It is very  
5 spotty. In some states it is more robust  
6 than in others. In some states it doesn't  
7 exist at all. And I really think that among  
8 the many causes of what happened, the  
9 increasingly unhealthy nature of the raw  
10 material that went into the securitization  
11 factory was a big contributor. And if we  
12 had had better regulation of the creation of  
13 that raw material, we would have -- I don't  
14 think we would have had the crisis honestly.  
15 That is more the absence of regulation or  
16 the unevenness of regulation, that is an  
17 area that I would focus on. I frankly don't  
18 see much of that talked about.

19 Q How were you compensated at  
20 Citigroup? Was it a metrics? How did your  
21 compensation get developed.

22 A Well, there is very extensive  
23 disclosures in our proxy statements about  
24 the compensation, so I would be reluctant to  
25 summarize all that. I think the best



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2 approach would be to try to read the  
3 disclosures in the proxy statement which had  
4 year by year by year very extensive and  
5 detailed discussions about that.

6 Q There have been much debate over  
7 compensation in general and about the  
8 incentives that go along with compensation.

9 In retrospect, do you believe  
10 that the compensation structure at Citigroup  
11 vis-à-vis the employees in the investment  
12 bank, structured credit, caused or  
13 contributed to some of the decisions that  
14 were being made that ultimately led to  
15 losses to Citigroup?

16 A Let me talk to, let me talk a  
17 little bit about how compensation worked at  
18 our company and make it personal, talk about  
19 me.

20 I had a career with the company  
21 which company and its predecessors was  
22 almost 30 years and was fortunate enough to  
23 be CEO for four years.

24 In that time frame, certainly for  
25 all the periods that were pertinent to my

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2 having a leadership position the last 15,  
3 20 years, our compensation was split between  
4 cash and stock. And for most of that time  
5 frame, we were required to retain so long as  
6 we were employed a hundred percent of the  
7 stock. We had no ability to sell and cash  
8 out.

9 When we merged with Citicorp in  
10 1998, we lowered that requirement from a  
11 hundred percent to 75 percent, meaning you  
12 could sell 25 percent of your stock. In my  
13 case, I didn't do that. I kept a hundred  
14 percent. And over the course of 30 years,  
15 built up because of the percentage of your  
16 compensation that went into stock and the  
17 requirement to hold it, I built up 30 years,  
18 a career's worth of compensation in stock  
19 which I watched go from \$52, \$53 a share to  
20 \$0.97. And virtually every share of stock I  
21 ever got I still own.

22 I think that that compensation  
23 program aligned me pretty well with  
24 stockholders. So I think from the  
25 standpoint of the leadership of the company,

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2 if you have that kind of a program, you are  
3 pretty well aligned. Now, I can't speak to  
4 people who might have sold some of their  
5 stock, might have sold their stock after  
6 they left the company, I didn't do that.

7 At lower levels of the company,  
8 at the level of someone running a particular  
9 desk, there I think that it is possible that  
10 the compensation structure could incent  
11 people to act aggressively.

12 You may remember I talked about  
13 the five-point plan in trying to emphasize  
14 to everyone long term versus short term. In  
15 Japan, don't go for the short term and risk  
16 the reputation of the company.

17 In the MTS trade, don't do that  
18 quick trade at the risk of putting off all  
19 of our clients. And despite all that, I can  
20 see situations where someone might have, do  
21 something because they were incented in the  
22 short run.

23 But I think that is not really  
24 the issue. I think the issue for Wall  
25 Street is there structure of compensation

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2 which incents organizations to go in  
3 directions, not individuals to go in  
4 directions. And all I can speak to is what  
5 happened in my case, and in my case I don't  
6 think it had that effect.

7 Q We have been looking at the  
8 accounting and the losses at Citigroup and  
9 one thing that struck me was the amount of  
10 off balance sheet activity at Citigroup.

11 Do you have any views in terms of  
12 whether the off balance sheet accounting  
13 caused or contributed to any of the  
14 financial problems at Citigroup in terms of  
15 when items came on balance sheet?

16 A That is a very broad and  
17 complicated subject, and I am sorry to  
18 respond that way.

19 The notion of having items off  
20 balance sheet is not in itself an unusual or  
21 complicated item. Almost all financial  
22 institutions have some activities or some  
23 assets that are off balance sheet. It is  
24 not appropriate to do off balance sheet  
25 activities to manage your quarter end. And

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2 I have read in the papers about the Lehman  
3 stuff and so forth. And if it is true that  
4 they did that just for quarter end, that's  
5 not appropriate.

6 But most institutions don't do it  
7 that way. They don't, they don't do it at  
8 the end of a quarter and then back on and  
9 off, on and off. But the notion that having  
10 off balance sheet activities is normal  
11 doesn't answer the question.

12 In Citi's case, as it turned out,  
13 there were certain asset classes that came  
14 back on the balance sheet. Most all of that  
15 happened after I left the company. So, I  
16 can only speak to it in the context of an  
17 outsider. But in that context, I think that  
18 again it is the precipitous nature of  
19 actions more than the actions themselves, I  
20 think. The suddenness of it, the inability  
21 to react, and so in much the same way that  
22 the rating agencies, the collapse of their  
23 thinking about structured products  
24 precipitated the decline of the triple A  
25 tranches, the liquidity crisis apparently

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2 forced these vehicles to be reconsolidated.  
3 And on a going-forward basis, I don't think  
4 that the right answer is to say you can't  
5 have things off balance sheet, but I do  
6 think there has to be a way to think about  
7 dealing with a precipitous reversal of those  
8 activities.

9 Q In December of 2007, after you  
10 had left the company, Citigroup made the  
11 announcement that it would bring on assets  
12 and liabilities associated with the seven  
13 structured investment vehicles out of  
14 London.

15 A Uh-huh.

16 Q The SIVs.  
17 I know that occurred after your  
18 departure, but what role did you have in  
19 discussions concerning those SIVs prior to  
20 your departure?

21 A John Havens on our calls --  
22 remember I said we had these calls  
23 periodically. John Havens was charged with  
24 managing the SIVs and the liquidity of the  
25 SIVs. He had taken that on as part of new

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2 responsibilities. And he would report on  
3 being able to sell an asset here or to roll  
4 over some commercial paper there and when I  
5 left was still reporting that he believed  
6 that we would get through the funding  
7 situation on the SIVs. That is that they  
8 would be self funded. That is the last I  
9 heard of it.

10 MR. BONDI: For this next  
11 exhibit, I think we might not want Mr.  
12 Learner to leave with it given the  
13 nature --

14 MR. KARP: This is the Federal  
15 Reserve April 15th --

16 MR. BONDI: Yes.

17 MR. LERNER: I won't steal it,  
18 I promise. I will give it back.

19 MR. BONDI: Do we have an  
20 understanding you will give it back  
21 after the questioning?

22 MR. LERNER: I will give it  
23 back.

24 (Thereupon, the document Bates  
25 marked FCIC Citi 198 was marked CR

1                   Interview - CHARLES PRINCE  
2                   Exhibit 15 for Identification, as of  
3                   this date.)

4           BY MR. BONDI:

5           Q       Mr. Prince, I am showing you what  
6           is, was produced to us by the Federal  
7           Reserve and it is marked FCIC Citi 198. It  
8           is dated April 15, 2008. It was to the  
9           board of directors, care of Mr. Pandit, your  
10          successor.

11                   I take it, sir, you haven't ever  
12          seen this document?

13           A       I have not received or reviewed a  
14          copy of this.

15           Q       I would like to draw your  
16          attention, sir, to the second page and it  
17          refers to a downgrade to Citi with respect  
18          to its risk management under the summary of  
19          risk management conclusions, Bates number  
20          202?

21           A       Got it.

22           Q       I am going off of the page  
23          numbers at the top.

24           A       I see that now. I apologize.

25           Q       It is Bates number 202.



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2 Under the summary of risk  
3 management conclusions, "The assessment of  
4 Citigroup's overall risk management has been  
5 downgraded from a satisfactory to fair. It  
6 primarily reflects weaknesses in the firm's  
7 is setting and monitoring of its risk  
8 appetite and exposures that led to severe  
9 and unexpected losses and in its marking and  
10 bank business CMB."

11 What is your reaction, sir, to  
12 that statement?

13 A Well, this is, I have not seen  
14 this before. It is a document that appears  
15 to be about 26, 27 pages long. And I don't  
16 know the basis by which this first sentence  
17 of the summary paragraph, on what it is  
18 based, and I don't know what the company's  
19 reaction to this was. So with all those  
20 caveats, you know, I think it is -- I don't  
21 really have a comment on it. I think it is  
22 an unusual thing given the fact that the Fed  
23 was embedded in our organization. But since  
24 I didn't see it and don't know what the  
25 company's position is, I don't really have a

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2 reaction to it.

3 Q Please flip to the third page of  
4 this document, Bates FCIC Citi 203. The  
5 last sentence of the carryover paragraph  
6 reads: "Further, senior management at the  
7 firm allowed its drive for additional  
8 revenue growth to eclipse proper management  
9 of risk while risk management failed to  
10 serve as an effective check against these  
11 decisions.

12 Do you have any reaction to that  
13 statement by the Fed?

14 A I would just give you the same  
15 answer I gave before.

16 Q Next paragraph. "Management did  
17 not correctly identify and assess its  
18 concentration to subprime risk exposures and  
19 its CDO trading book which produced  
20 significant losses that severely eroded the  
21 firm's capital and its reputation."

22 Do you have any reaction to that  
23 statement?

24 A Well, the "did not correctly  
25 identify its concentration," I think is

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2 incorrect. I assume that people knew what  
3 we had there.

4 We did not correctly assess, I  
5 guess that might be closer to it. No one  
6 correctly understood what it meant to have  
7 those exposures in the CDO trading book.  
8 And I would say with respect, the Fed didn't  
9 either.

10 Q The next paragraph, the  
11 penultimate sentence I would draw your  
12 attention to, it begins with "it also did  
13 not properly," the "it" I will submit, if  
14 you carry over from the two prior, three  
15 prior sentences, it appears to refer to the  
16 firm, Citigroup.

17 "It also did not properly  
18 highlight the funding and liquidity  
19 implications of on-boarding assets and in  
20 the case of certain counter-party credit  
21 exposures such as liquidity puts that had  
22 been written to CDO conduits, under measured  
23 their potential impact."

24 What is your reaction to that  
25 statement by the Fed?

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2 A Again, without having read the  
3 whole document and without having read the  
4 company's response to it, all I can say is  
5 that the Fed was embedded in our  
6 organization, understood what we were doing.  
7 And beyond that I don't really have a  
8 comment on this.

9 Q And if you would bear with me,  
10 sir, I have a few more to ask you here.

11 A Sure.

12 Q The next paragraph, "Senior  
13 management, as well as the risk management  
14 function charged with independent monitoring  
15 responsibilities, did not properly identify  
16 and analyze these risks," carrying over I  
17 think from the prior paragraph, "in a timely  
18 fashion and were slow in presenting them to  
19 the board of directors and the audit and  
20 risk management committee."

21 What is your reaction to that  
22 statement?

23 A The first part of the statement I  
24 would have the same reaction I had before.  
25 The second part, slow in presenting them to

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2 the board and so forth, I would disagree  
3 with that. I think that we presented  
4 information to the board in a very timely  
5 fashion.

6 Q The next sentence pertains to the  
7 board itself. It says, "The board of  
8 directors in turn does not appear to have  
9 posed the proper questions to senior  
10 management in the early stages of the  
11 subprime mortgage crisis which otherwise  
12 might have caused senior management to  
13 report more meaningfully and completely on  
14 the potential impact on the firm's risk  
15 exposures and future earnings."

16 Again, do you have any reaction  
17 to that statement?

18 A I simply disagree with it. I  
19 don't think that the board could fairly be  
20 criticized in light of what market  
21 professionals, the rating agencies and the  
22 regulators, in light of the conduct of those  
23 parties over the course of 2007, I don't  
24 think that our board can be criticized for  
25 what they did over the course of 2007.

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2 Q The next paragraph, bear with me.

3 A I understand.

4 Q I want to go through the next  
5 paragraph at the least, please.

6 "Exasperating this situation was  
7 the fact that communication among the  
8 independent risk management function  
9 business line management and senior  
10 management on aggregated inherent subprime  
11 risk across portfolios and products proved  
12 to be inadequate when credit and market  
13 conditions deteriorated in 2007."

14 Do you have a reaction to that  
15 sentence?

16 A I don't think that the issues  
17 that we had in 2007 related to risk across  
18 portfolios and products. I think it was  
19 pretty well encapsulated in the fixed income  
20 business.

21 I think that in 2008, in a broad  
22 consumer slow down, there were products in  
23 different areas, very similar to the rest of  
24 the industry. But I think that in 2007 it  
25 was actually a very narrow product, not a

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2 broad based set of products.

3 Q Do you know if the CDO desks at  
4 Citigroup were communicating with other  
5 entities within the Citigroup umbrella that  
6 had some dealings with mortgages or the real  
7 estate market such as the RMBS  
8 securitization desk or such as the  
9 origination teams at Citi financial? Do you  
10 know if there was communication from the CDO  
11 desk to other areas of the entities?

12 A I don't.

13 Q If there was not, would that have  
14 surprised you?

15 A Communication about what?

16 Q Conditions in the real estate  
17 market and the decline?

18 A I would have expected that anyone  
19 in trading business would have reached out  
20 to as many sources of market information as  
21 one could get. And that you would have a  
22 more welcome reception from members of the  
23 family. So it seems to me logical that all  
24 of the parts of our business that dealt with  
25 mortgages would have had a natural

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2 inclination to call and get market color.

3 That is all I can add.

4 Q Looking back at the document, the  
5 next sentence in that paragraph says: This,  
6 meaning the communication -- strike that.

7 We have already covered I think that  
8 sentence or at that least that concept.

9 The next sentence though, it  
10 starts with, "Senior management incorrectly  
11 discounted the probability that the  
12 deterioration that was becoming evident in  
13 the CDO market and in the subprime credit  
14 conditions during the spring and summer of  
15 2007 would have such a significant  
16 deleterious affect on the firm's valuation  
17 of its assets and its ability to syndicate  
18 problematic assets."

19 What is your reaction to that  
20 statement?

21 A Well, senior management  
22 presumably includes more than just the CEO  
23 and the CFO and so forth. If you include in  
24 that Tom Maheras and Randy Barker, the  
25 people who were running the fixed income



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2 business and had the background and the  
3 responsibility for running that business, I  
4 think it's probably correct to say that they  
5 incorrectly discounted the probabilities  
6 that the deterioration, et cetera, et  
7 cetera.

8 What I would object to or what I  
9 would not agree with is the use of the word  
10 probability instead of possibility.

11 Q What do you mean by that?

12 A The sentence says, "Senior  
13 management incorrectly discounted the  
14 probability that something would happen."  
15 It clearly wasn't probable that something  
16 would happen. It was -- in the spring and  
17 summer of 2007, it was at best remotely  
18 possible. It was at the far end of unlikely  
19 at that point in time, looking at every  
20 external indicator, the documents you have  
21 shown me today proved that.

22 So, it was not a probability that  
23 was discounted in that time period. It was  
24 a remote possibility. I think they did  
25 discount, if I can change the words, they

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2 incorrectly discounted the remote  
3 possibility that the deterioration, et  
4 cetera, et cetera.

5 Without agreeing with every  
6 single word, I think if you were to say that  
7 Maheras and Barker in the summer, not the  
8 spring, but in the summer made a mistake  
9 about this possibility, this fairly remote  
10 possibility, one of the documents said  
11 0.01 percent, I think, if their view of that  
12 turned out to be as wrong as it was, then  
13 yes, they were incorrect about that. But I  
14 think it was later in the year and I think  
15 it was a remote possibility, not a  
16 probability.

17 Q The next sentence reads: "While  
18 the firm ultimately released those managers  
19 whose businesses incurred the losses, some  
20 other remedial actions were slow in coming  
21 after the subprime CDO exposure was  
22 identified and its ramifications on earnings  
23 were announced."

24 Do you have any idea what the,  
25 whether there were other remedial actions

1 Interview - CHARLES PRINCE

2 that were slow in coming after the subprime  
3 CDO exposure was identified and its  
4 ramifications on earnings were announced?

5 A I don't know the answer to that.

6 Q That may have occurred after your --

7 A Presumably the ramifications on  
8 earnings refers to our announcement in mid  
9 October and I was gone, yes, late October,  
10 early November, and I was gone after that.

11 Q When was your official last day?

12 A I think I was on the payroll  
13 until the end of December, but my last day  
14 as CEO was November 4th.

15 Q The last sentence of that  
16 paragraph is, "Two rounds of CEO write-downs  
17 were announced before a unit was formed to  
18 concentrate on loss mitigation and enhancing  
19 the CDO valuation process."

20 What is your reaction to that  
21 statement?

22 A I don't have any reaction. I  
23 mean I know what the words mean but I think  
24 it happened after I left.

25 MR. LERNER: If you are done

1 Interview - CHARLES PRINCE

2 with this, I'm returning my copy.

3 MR. BONDI: Thank you.

4 BY MR. BONDI:

5 Q Do you know someone named Richard  
6 Bowen?

7 A Richard Bowen. Doesn't ring a  
8 bell. Sorry.

9 Q Did you offer any advice to Mr.  
10 Pandit in his role as CEO when he took over  
11 as CEO? Did you give him any advice?

12 A Well, you have to remember that  
13 Vikram didn't take over until some number of  
14 weeks after I left.

15 So it is not as if there was a  
16 hand off of the football on a Monday  
17 afternoon.

18 The only thing that is responsive  
19 to your question, I did meet with Vikram for  
20 breakfast at some point. This would have  
21 been sometime in 2008, first half of the  
22 year, but I don't remember exactly when.  
23 And he asked me my thoughts about different  
24 parts of the company and so forth. And the  
25 only thing I remember telling him was that

## 1 Interview - CHARLES PRINCE

2 our consumer group had significantly under-  
3 performed for a number of years and that he  
4 should be very watchful of the performance  
5 of U.S. consumer business. And please don't  
6 take that out of context. It is not that I  
7 didn't talk to him about the securities  
8 business. But he had a background in the  
9 security business. And so I am sure we  
10 talked about the securities business, but it  
11 is not as if I felt that there was anything  
12 special that I was going to add to his  
13 thinking on the subject, but he did not have  
14 a background in the consumer business.

15 Q Take you back in time, Mr.  
16 Prince, to some testimony that you gave on  
17 April 29, 1998?

18 A That is a different lifetime,  
19 isn't it? Testimony where, if I may ask?

20 Q I will get to that. It was a  
21 hearing before the House Financial Services  
22 Committee on bank mergers on April 29, 1998.  
23 This was about a year before the Financial  
24 Services Modernization Act, the  
25 Gramm-Leach-Bliley Act which repealed

1 Interview - CHARLES PRINCE

2 Glass-Steagall. And you said something  
3 there, and I just will read it for the  
4 record to get your reactions.

5 "The size, resources and  
6 diversity of operations of the new company  
7 will provide the financial strengths and  
8 stability necessary to survive and grow in  
9 today's rapidly changing world.

10 "Whether it is a country crisis,  
11 a real estate crisis or any other crisis, it  
12 is clear that the financial services company  
13 of tomorrow and its customers must have the  
14 ability to withstand shocks.

15 "As companies become larger and  
16 more diverse, they are better able to serve  
17 as a source of strength and stability, not  
18 only for their affiliates but most  
19 importantly for their customers. This is  
20 what we will do for the 100 million  
21 customers of Citigroup."

22 What is your reaction to hearing  
23 that statement now that you had made on  
24 April 29, 1998?

25 A I am not sure how to answer the

1 Interview - CHARLES PRINCE

2 question.

3 Q Fair enough. That was general,  
4 and I should be more specific.

5 Do you feel that your description  
6 in terms of the size, resources and  
7 diversities of operations of Citigroup that  
8 had developed as a result of the merger with  
9 Travelers, the Citicorp/Travelers merger,  
10 and the growth through the years, put it in  
11 a better position to withstand financial  
12 shocks?

13 A Yes.

14 Q The model that you were  
15 describing in terms of the companies  
16 becoming larger and larger, more diverse and  
17 better able to withstand shocks, is that  
18 still your view to this day in terms of  
19 companies being larger and better able to  
20 absorb shocks as opposed to more focused and  
21 streamlined, or are we talking about two  
22 different things?

23 A Well, I think we are talking  
24 about a couple of different things.

25 In the case of the financial

1 Interview - CHARLES PRINCE

2 crisis, what we saw was that a variety of  
3 firms, some small, some medium, some large,  
4 encountered significant problems. Bear  
5 Stearns was a fraction of the size of  
6 Citigroup, Merrill Lynch was somewhere in  
7 the middle. AIG was probably bigger in some  
8 ways. And some were brokerage houses, some  
9 were banks, some were insurance companies.  
10 We see a whole variety of institutions that  
11 were hit very hard by the super senior  
12 issue, basically.

13 So, I don't think that from the  
14 financial crisis one could reasonably take a  
15 view that size, type of business, or any of  
16 those characteristics were determining  
17 characteristics. I don't think you could,  
18 in light of Bear Stearns I don't think you  
19 could come away and say well, gosh, the  
20 bigger the company, the more complex, the  
21 more difficult it is. I don't think in  
22 light of AIG you can come away and say well,  
23 it is the banks. I think, I think it is not  
24 something that fits into one of those types  
25 of businesses or big versus small



1 Interview - CHARLES PRINCE

2 businesses. I don't think that is the right  
3 conclusion to take from that.

4 Q Do you feel like Gramm-Leach-Bliley  
5 and the repeal of Glass-Steagall contributed  
6 in any way to the financial crisis?

7 A Well, it is very interesting.  
8 You understand of course that by the time of  
9 Gramm-Leach-Bliley, the Glass-Steagall Act  
10 in a legislative sense only applied to the  
11 insurance business, that the Fed had long  
12 had authority to have banks and be in the  
13 securities business. And in fact when  
14 Travelers and Citi merged, the only issue  
15 that had to be dealt with was the  
16 combination of the insurance business with  
17 the bank, not the combination of the  
18 securities business.

19 But I take your question to be  
20 the combination of securities businesses  
21 with banks, whether or not that is a good  
22 thing or a bad thing, whether this ought to  
23 cause us to revisit, whether that is  
24 permissible or not.

25 The variety of firms that had

1 Interview - CHARLES PRINCE

2 problems, I am talking the 2007, 2008 time  
3 frame, not the consumer slow down after  
4 that, were mostly securities firms. Bears  
5 Stearns, Merrill Lynch -- Goldman and Morgan  
6 both bank holding companies because of this.  
7 Lehman Brothers of course. In our case, the  
8 Salomon Brothers business part of Citi. It  
9 was mostly the securities firms. And what  
10 happened was that the Fed had to take over  
11 responsibility for those in a funding and  
12 regulatory sense.

13 So, if we were to say we are  
14 going to enforce a separation of these  
15 businesses, I am not sure what we would get  
16 from that. The Fed had to take on the  
17 securities businesses. As I understand it,  
18 there is not much prospect for the Fed to  
19 let go of the securities business going  
20 forward, so they got it both ways.

21 My sense is that combining a  
22 volatile business with a more stable  
23 business is actually good, not bad. So,  
24 again, if you wanted to roll the clock back  
25 to the time when the securities businesses

1 Interview - CHARLES PRINCE

2 weren't as important as they were -- in the  
3 Great Depression, the banks were the main  
4 conduit to the capital markets; they are not  
5 any more, then I could see that.

6 But I don't think that question,  
7 and I don't mean it in a disrespectful way,  
8 I don't think that question deals with the  
9 reality of the modern world. The reality of  
10 the modern world is that securities firms  
11 and banks and insurance companies are all  
12 participants in the capital markets and  
13 there is no way to artificially segregate  
14 them.

15 Q Your testimony more recently on  
16 March 7, 2008, before the house committee on  
17 oversight and government reform, you  
18 testified that the risk models eventually  
19 proved to be inadequate.

20 A When was this?

21 Q March 7, 2008.

22 A What was that in the context of?  
23 2008, I am sorry, yes, I have got it, right.

24 Q House oversight committee?

25 A I got it, sorry.

1 Interview - CHARLES PRINCE

2 Q I think the title of the hearing  
3 was "CEO pay and the mortgage crisis."

4 You testified, and I am  
5 paraphrasing, that the risk models  
6 ultimately proved to be inadequate.

7 Do you still agree with that view  
8 that the risk models at Citigroup ultimately  
9 turned out to be inadequate?

10 A I think the risk models in the  
11 industry, I think the risk models of the  
12 rating agencies, I think the risk models of  
13 the regulators, I think everybody's risk  
14 models turned out to be inadequate.

15 Q During that hearing Congressman  
16 Kanjorski asked you the following. He said,  
17 "Mr. Prince, your bank was in trouble.  
18 Didn't you get any reports that there were  
19 such horrible failures in the system?"

20 You responded, "I think  
21 Congressman, that in all on honesty, by the  
22 time some of those reports surfaced in the  
23 spring of 2007, most of the damage had  
24 already been done. That is --" and  
25 Congressman Kanjorski interrupts and says,

1 Interview - CHARLES PRINCE

2 "When do you think the damage occurred?"

3 And you responded, "Well, I think  
4 honestly that the lending patterns began to  
5 deteriorate pretty significantly in 2006."

6 In 2006, when the lending  
7 patterns began to deteriorate, did that  
8 sound off any alarms in your mind that there  
9 could be trouble ahead?

10 A Let me make sure that we are  
11 working with all the comments in the right  
12 area.

13 When I talked about lending  
14 standards deteriorating, I was talking about  
15 the lending standards in the origination of  
16 mortgages. And if you look at the subprime  
17 mortgage originations, as you know they are  
18 done by semi annual tranches. And it is  
19 really in the 2006 tranches and the first  
20 tranche in 2007 that the quality really  
21 began to deteriorate. So that is what I was  
22 talking about in the raw material.

23 That judgment, that conclusion  
24 can only be seen in hindsight, that is as  
25 those tranches of originations for the

1 Interview - CHARLES PRINCE

2 industry had earlier and earlier and higher  
3 and higher default rates, it became clear in  
4 hindsight that in 2006 and 2007 the  
5 underwriting criteria had fallen off  
6 significantly.

7 When I talked about by the spring  
8 of 2007, the damage had been done, I was  
9 referring to the comments of Tom Maheras and  
10 Randy Barker that when they saw the bottom  
11 line in that chart on page five that I  
12 talked about, when they saw the triple B  
13 line start to deteriorate, which really  
14 happened when the HSBC had their problem  
15 with associates in March, they said to me  
16 and the board and others after the fact, in  
17 September, October, that they tried to go  
18 out and hedge the positions. And there  
19 wasn't enough liquidity in the market, there  
20 wasn't enough volume to hedge it.

21 And so my point was that whatever  
22 we owned in the spring, that top line that  
23 was still flat, there was no ability to get  
24 off of that by the time the spring came.  
25 And I was referring to them having said that

1 Interview - CHARLES PRINCE

2 they tried to increase the hedging and  
3 wasn't able to. So, I am sorry, I am not  
4 sure I have answered your question. Is  
5 there more to the question that I didn't  
6 answer?

7 Q Let me ask it a little bit  
8 differently, and that is lending practices  
9 in the subprime origination space --

10 A Right.

11 Q -- as of, as an industry began to  
12 deteriorate in 2006.

13 Do you agree with that, not --  
14 outside of Citigroup?

15 A The industry.

16 Q And Citigroup had a CDO business  
17 that relied on RMBS, residential mortgage  
18 backed securities, where the underlying  
19 asset of those residential mortgage backed  
20 securities were subprime mortgages  
21 originated by other originators other than  
22 Citi.

23 My question I guess is the  
24 following is: If you had known in 2006 that  
25 Citigroup had substantial positions on its

1 Interview - CHARLES PRINCE

2 books of CDOs and underlying those CDOs were  
3 mortgages of originators that had  
4 deteriorating lending standards, if you had  
5 known that in 2006, could you have asked Mr.  
6 Maheras or Mr. Barker, take hedge positions  
7 on that? Could you have asked people to  
8 take defensive mechanisms that would have  
9 prevented Citigroup from having substantial  
10 losses in the future?

11 A Look, the answer that helps me is  
12 to say yes. But that is too simplistic an  
13 answer even though it serves my personal  
14 interest. The reality is that it would have  
15 depended upon both an appreciation of the  
16 underlying quality of the asset and the  
17 belief in the strength of the securitization  
18 model.

19 In '06, everybody, the rating  
20 agencies, everybody knew that lending  
21 standards were lax. They didn't know they  
22 were deteriorating, but they knew they were  
23 lax. It is not as if no doc and low doc  
24 loans or the fact of negative amortization  
25 products was unknown in 2006 or early 2007.



1 Interview - CHARLES PRINCE

2 The rating agencies knew about that. The  
3 press had stories about those kinds of  
4 issues. But everybody believed and  
5 everybody believed up until October of 2007  
6 that the strength of the structuring process  
7 would keep the rising flood waters away from  
8 the super seniors. It is just as simple as  
9 that.

10 And so it is not just the  
11 characterization of the underlying asset.  
12 It is also the characterization of the  
13 result of the securitization process. And  
14 as I said, for all I know, the super seniors  
15 are still paying out. That was the  
16 question. Now, in hindsight, if I knew a  
17 fraction of what I knew today, would I go  
18 and can them to get this stuff off books, of  
19 course I would. What is the difference  
20 between Citi and another bank? Our guys  
21 didn't sell the super seniors. It is just  
22 as simple as that. If our folks had sold  
23 the super seniors, you would be asking me  
24 why we were so much smarter than Merrill  
25 Lynch. How did we get it right, you would

1 Interview - CHARLES PRINCE

2 be asking me. And that decision was made 17  
3 levels below my office by people who had, I  
4 believe, a good faith belief in what they  
5 were doing. But it's overly generous to me  
6 to say if I had known X would I have gone  
7 and changed the world. I would like to say  
8 yes, but I think it is more complicated than  
9 that.

10 Q If I heard correctly today,  
11 though, in 2006 and early 2007, you didn't  
12 know the positions --

13 A Correct.

14 Q -- that were being taken on CDOs?

15 A Correct.

16 Q I have learned to always ask one  
17 question at the end that and that is, is  
18 there anything, Mr. Prince, that you  
19 expected me to ask or expected to talk about  
20 today that we haven't?

21 A Gosh, you have covered so much  
22 ground, so quickly. We talked about the  
23 rating agencies, we talked about the  
24 regulators, we talked about risk. We talked  
25 about the board. I can't think of anything

1 Interview - CHARLES PRINCE

2 else, no.

3 Q And, Mr. Prince, in fairness  
4 obviously to you and to the process here, is  
5 there anything that you would like to add?  
6 Is there anything that you feel that either  
7 the Financial Crisis Inquiry Commission or  
8 its staff ought to know, anything that you  
9 would like to share?

10 A Well, I really wish that it  
11 hadn't happened. I don't wish that for me,  
12 but I wish it for the institution and I wish  
13 it for the people of the institution. But  
14 maybe that came through already.

15 Q Mr. Prince, we are obviously in a  
16 confidential interview. I just ask that you  
17 obviously don't discuss what we talked about  
18 today with anyone outside of your counsel.

19 A You get to the senior enough  
20 level in life, you forget things very  
21 easily.

22 Q And, Mr. Prince, on behalf of the  
23 Financial Crisis Inquiry Commission and its  
24 staff I would like to thank you for your  
25 time today and your candor. Thank you.

1 Interview - CHARLES PRINCE

2 A Thank you for such a professional  
3 engagement.

4 (Time noted: 4 p.m.)

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1 Interview - CHARLES PRINCE

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EXAMINATION BY MR. BONDI

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E X H I B I T S

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E-mail Bates numbered Citi FCIC E 40

10

31616 was marked CR Exhibit 1

11

12

Printout of remarks of April 19, 45

13

2007 to the Greenlining

14

institute's 14 Annual Economic

15

Summit in Los Angeles, California

16

was marked CR Exhibit 2

17

18

Document Bates marked Citi FCIC 56

19

91764 and 91765 continuing on to

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765, which purports to be the

21

warehouse lines of credit with

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mortgage originators from 2000 to

23

2010 was marked CR Exhibit 3

24

25

Presentation Bates Citi 7657 was 70

1                   Interview - CHARLES PRINCE  
2           marked CR Exhibit 4  
3  
4           Documents Bates Citi FCIC 24594           96  
5           were marked CR Exhibit 5  
6  
7           E-mail chain Bates Citi FCIC E           110  
8           24768 was marked CR Exhibit 6  
9  
10          Document Bates Citi FCIC 2648 was       127  
11          marked CR Exhibit 7  
12  
13          E-mail chain Bates marked Citi           137  
14          FCIC E 36374 was marked CR  
15          Exhibit 8  
16  
17          Power Point deck Bates marked           146  
18          FCIC 99654 was marked CR  
19          Exhibit 9  
20  
21          E-mail chain Bates Citi FCIC E           159  
22          31582 was marked CR Exhibit 10  
23  
24          The document marked Citi 1611657       174  
25          entitled Global Structured Credit

1 Interview - CHARLES PRINCE

2 Products, The Way Forward,  
3 September 2007, Michael Raynes  
4 was marked CR Exhibit 11

5

6 E-mail Bates marked Citi FCIC E 201  
7 16495 was marked CR Exhibit 12

8

9 Document Bates marked Citi FCIC E 209  
10 41087 was marked CR Exhibit 13

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12 Document Bates marked FCIC 2970 213  
13 was marked CR Exhibit 14

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15 Document Bates marked FCIC Citi 238  
16 198 was marked CR Exhibit 15

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1 Interview - CHARLES PRINCE

2 CERTIFICATION

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5 I, JESSICA R. BERMAN, a Notary Public

6 for and within the State of New York, do

7 hereby certify:

8 That the witness whose testimony as

9 herein set forth, was duly sworn by me; and

10 that the within transcript is a true record

11 of the testimony given by said witness.

12 I further certify that I am not related

13 to any of the parties to this action by

14 blood or marriage, and that I am in no way

15 interested in the outcome of this matter.

16 IN WITNESS WHEREOF, I have hereunto set

17 my hand this 18th day of March, 2010.

18

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JESSICA R. BERMAN

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