3-23-2010

FCIC memo of staff interview with Rubin Mark, Citigroup 1

Rubin Mark

Brad Bondi

Victor Cunicelli

Ryan Schulte

MEMORANDUM FOR THE RECORD

Event: Phone interview with Rubin Mark, former board member of Citigroup

Type of Event: Phone interview

Date of Event: March 23, 2010

Team Leader: Brad Bondi

Location: FCIC offices, Washington, DC, 20006

Participants - Non-Commission: Rubin Mark

Participants - Commission:

- Brad Bondi
- Vic Cunicelli
- Ryan Schulte

MFR Prepared by: Ryan Schulte

Date of MFR: March 23, 2010

This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted except where clearly indicated as such.

Summary of the Interview or Submission:

This meeting was structured around Rubin Mark's opinion on the securitization of mortgages, Citi's corporate structure, and how well the Board was informed.

CDO Positions

In 2003, Citi ranked sixth in market share of CDOs at 6.3 billion of a total market share at 86.5 billion. In 2007, Citi was the number one issuer of CDOs with a market share of 49 billion out of the market total of 442 billion.

These positions weren't seen by senior management until October 11th. This was the first time that management got a full disclosure of the amount of risky assets that were owned by Citi. After this meeting came the markdowns from the mark to market accounting.

Internal Sharing of Information

There was a power struggle between the risk officers and the business officers. The business officers convinced the risk officers that everything would be alright. The risk officers met with head of the investment bank and were told not to worry about the loans. These concerns were never elevated higher then investment-level personal. 36 CFR 1256.56 - Privacy
36 CFR 1256.56 - Privacy

The rumor was that at Citigroup, sharing bad news isn't wise. The idea at Citi during the summer of 2007 was that if there are no problems, nothing should be done as to not cause a problem. Bad news was being kept at lower levels of the organization.

Experiences with the Board: Changes in Leadership

In the early 90s, Rubin Mark joined the board of Citigroup. The idea at the time was that if you did something wrong you got fired. He thought this personnel technique was bad and not productive. Sandy Weill showed favoritism to people that were loyal to him.

Rubin Mark's major concern was that there was no succession plan, and when Sandy Weill left the company would be in turmoil. According to Mark, culture has a lot to do with success and failure of a business. Some companies thrive with the culture surrounding one person; this person for Citibank was Sandy Weill.

36 CFR 1256.52 Commercial Info, 36 CFR 1256.56 - Privacy

Sandy Weill was being pushed out by Elliot Spitzer, and who better to replace Sandy than the general counsel (Chuck Prince) who was someone who could keep Citigroup out of trouble. Chuck Prince was competent, smart, and funny, but Mark said that he wasn't surprised by what happened to Citigroup, and if it didn't happen this way, it would have happened another way.

Experiences with the Board: Corporate Governance

Mark said that it's important to understand that in a board meeting, independent directors have little power to address issues. Cronyism and being a team player takes over in these meetings, and people no longer look out for the interest of the company, especially if there is bad news that could jeopardize their job. This is typical especially of financial services industry, but not really for all industries. That kind of egocentrism is tough to knock out.

36 CFR 1256.52 Commercial Info

Mark thinks that it's necessary to find a mechanism that will empower directors and prevent a team effort to push the Board in a certain direction. For example, if the SEC or any other governmental regulator could send letter to the Board about the direct concerns they see with the company, before they meet with the management, this would empower the directors to make changes and be legally tied to the company's response. With the certified letters it would be impossible for them to claim ignorance about the problems and to be let off the hook. The Board members want to see issues in the Board meetings.

Directors want to know when the government is concerned so that they are armed against the leaders of the companies when they try to deceive them. They need to get the statement on the record, and it needs to be short and in plain language. They need to empower people in the company, like risk officers, so they can speak up without the risk of losing their jobs. For example, there could be a warning system that at State 1 means little risks while State 3 means that there is a major warning that should be seen by all, and that it goes directly to the chairman and board without interaction from any supervisor. Empower the people who are supposed to be policemen, while quieting the big honchos.

There needs to be more emphasis in empowering risk officers and employees, but not management who can quiet complaints. By the time the information is filtered through management it is not pure and does not provide enough information to the board. It is not surprising that important information did not get to the board because mechanisms weren't in place that allowed important information to trickle up. Maybe something anonymous is appropriate.

Experiences with the Board: Other Directors

George David was only on the board for 6-12 months before Mark left. He asked good questions, and from what Mark could tell he was somewhat of an independent thinker. But one person could not make a difference.

Mark knew Robert Rubin when he was the head of Goldman Sachs and thought that he also did a good job at the Treasury Department. 36 CFR 1256.56 - Privacy [redacted]

Structure and Culture of Citigroup

Mark believes that the positions of CEO and chairman of the board should be held by different people. Citigroup was strangely structured.

Focus has always been a guiding principle of Colgate Palmolive. Colgate's emphasis was to change culture to the one they wanted. This task was very challenging and it took 3 years to make sure all the name tags were the same. Even though it seems silly, these small things were difficult and it was even harder to make changes with larger issues.

The best way to look at business culture is that it is like a bell curve, and you are trying to get the majority right in the middle with little deviation from the mean. The last person that would have been worried about this was Chuck Prince, because he was interested in running the business.

Regulation and Compensation in Financial Services

The self-regulatory system is unfriendly to the end user because it is better for the user to worry about self interest. Self regulation works only for people who are honest, therefore the banking industry should have more regulation.

There should be an implementation of put-backs if investments that are made don't make money, and the money earned by the trader should go back to the investor plus one percent extra. There is something wrong with irrevocable bonuses, and those are inherently against business and for the individual person's benefits.

4834-3119-8982, v. 1