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FCIC memo of staff interview with Randy Barker

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D R A F T
M E M O R A N D U M

TO:	File
DATE:	March 3, 2010; 8:30 – 11:45am
RE:	Memo for Interview with Randolph Barker
	This is not a transcript of the proceeding and should not be quoted as such.

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NORMAN: [Gives standard introduction about creation and purpose of commission, explains 18 U.S.C. 1001]

We'd like to focus on subprime RMBS CDOs. Can you please state your name and your education?

BARKER: My name is Randolph H. Barker. I graduated from Brown University in 1980 and Harvard Business School in 1985. I don't have any other professional degrees or certifications.

NORMAN: What is your work experience?

BARKER: In 1985 after I graduated from HBS, I joined Salomon Brothers in their investment banking group. I was in the investment banking group for six or seven years with a focus on corporate finance and high-yield underwriting activity and mergers and acquisitions. After seven or eight years, I transitioned over to Fixed Income with an emphasis on capital markets and issuances of high-yield bonds…

BONDI: By high yield do you mean junk bonds?

BARKER: Yes.

NORMAN: When you moved to the Fixed Income business, did you work with Maheras?

BARKER: He was at Salomon Brothers at the same time, but he was in trading, which was a separate group. I was on the issuance side.

In the early 1990s, I transitioned to the Fixed Income management team. I was a senior member of the high-yield team with a focus on new issues. In 1996, we were acquired by Travelers. At that point, I was the head of the high-yield group, and I gained more responsibilities in the credit markets over the next two or three years. When the Citi merger happened in 1998, I gained responsibility for management of the products, which were securities for corporations. I was later promoted to co-head of Global Credit Markets (GCM), which included all of the new issue and underwriting activities globally for corporations. It included corporate securities and the syndicate desk and secondary trading.

NORMAN: Did you also oversee the securitization desk?

BARKER: There were two separate groups. The securitization mortgage desk was not under me, but the structured product group was under me when I was co-head. When I was made the sole head of GCM, Global Structured Credit Product (GSCP) transitioned to Geoff Coley and Richard Moore. The heads of GSCP at the time was Fred Chapey and Steve Jones.

In 2004, I was promoted to co-head of Fixed Income with Geoff Coley. The various fixed income groups reported to us. In 2004 or 2005, the GSCP group reported to Chad Leat, who was the head of credit.

NORMAN: In 2004, what proportion of Fixed Income's P&L was the CDO desk responsible for?

BARKER: A very small part of the revenue stream. In 2006, Fixed Income, between the capital markets and trading activities, had revenues of $12 billion. In all time periods, GSCP was a small percentage of overall fixed income. Within the GSCP group, there were activities for the subprime CDOs, as well as underwriting and structuring of CLOs and trading in the secondary market.

The biggest P&L impact business in Fixed Income was credit markets, which included underwriting activities for bonds and loans, as well as trading activities. The credit group was about $4 billion of the $12 billion. About $5 billion came from the rates and currency group; and about $1 billion was from the mortgage group under Jeff Perlowitz.

NORMAN: From 2004 to early 2007, was there a significant ramp-up in the RMBS CDO business at Citi?

BARKER: There was a strategic review of Fixed Income in 2005. In that review, there were a number of areas identified as initiatives, including commodities, emerging markets, and global structured credit products. The review was conducted by an outside consultant and included members of the teams in the identified groups. Oliver Wyman was the name of the outside consultant.

NORMAN: Who initiated this review?

BARKER: I think it was a corporate-led initiative, but I don't remember specifically.

NORMAN: What can you tell us about the report's conclusions?

BARKER: The firm had strengths in the emerging markets, the credit business, and the rates business. In addition to these strengths, there were points of opportunities in emerging markets, commodities, and structured credit, and within structured credit, there was a decision to invest in additional people and products to make the business grow better.

I know they did both a market review and a competitive review compared to Citi.

NORMAN: Was there a written report?

BARKER: Yes.

BONDI: Susanna, we'd like a copy of that.

NORMAN: What actions were taken as a result of this report?

BARKER: The assessment on this business was that we had a good presence. There were global investors with some of our other businesses who were interested in this type of product, we had a strong distribution system globally, and we had a group with the structuring abilities. We hired new people in the build out of this business.

NORMAN: So they identified some natural synergies at Citi? Were there any discussions about synergies and CDOs?

BARKER: I don't believe so. The group was thought of as a structuring group of different asset classes.

NORMAN: Can you give me a ballpark of how many people you hired?

BARKER: I don't think it doubled. We brought in Michael Raynes from Deustche Bank in 2006.

BONDI: Do you remember in 2005 having a meeting with Robert Rubin and Chuck Prince about needing to grow the desk?

BARKER: I don't remember that specific meeting, but I did meet with senior management about the Oliver Wyman report. These were general meetings with a number of points of focus because Fixed Income was a global business. This report was a review of the entire business, and there were some specific recommendations about our strengths and weaknesses.

BONDI: Do you have a memory of conversations about the CDO business with Rubin?

BARKER: I don't remember a specific meeting with him. In discussing the findings, the CDO business would have been discussed. I don't recall specific people who attended the meeting, except that it included senior management like Rubin and Prince. I'm pretty sure that Tom Maheras would have been there. It's possible that the CFO would have attended, but I don't remember.

NORMAN: By 2005, you were co-heading Fixed Income. Can you articulate how you saw your responsibilities in that role?

BARKER: Geoff Coley and I shared our responsibilities. There was no clear delineation of responsibilities except for in the loans and leveraged finance business, which I would have been directly involved with at a transaction level.

BONDI: Did you have any involvement with the SIVs in London?

BARKER: The SIVs were through the Citi Alternative Investments—I didn't have any role in them.

NORMAN: Did both the New York and London CDO desks report into you?

BARKER: There was reporting into Nestor Dominguez and Janice Warne, who reported to Michael Raynes, who reported to Chad Leat, who reported to myself and Geoff Coley (and Paco Ybarra when he became a tri-head of the business). I don't remember my responsibilities being lessened when we brought on a tri-head.

NORMAN: In 2005 to 2007, what was your role on a day-to-day basis related to the CDO business? We understand from 2002 to 2007, Citi did about 80 CDO deals that were in the $1 billion plus range. What were your responsibilities related to those deals? To the extent that it's helpful to delineate between cash and synthetic CDO business, please do so.

BARKER: In 2005 and 2006, at the transaction level, I had minimal-to-no involvement in the transactions of the group. The group was managed in a product program that would have laid out the risk parameters of the business. There was no stipulation for approval of transactions by the head of Fixed Income.

There were reviews on a regular basis of the direct reports into the co- and tri-heads by each business head in region or product. The reviews looked at how their business was performing both qualitatively and quantitatively. There were reviews of daily P&Ls and balance sheet reporting on a daily basis.

NORMAN: Would you be kept aware of each of these eighty CDO deals?

BARKER: In the time period prior to 2007, I don't remember that happening. The transaction activity was within the parameters that were set.

NORMAN: There were product program risk parameters. Were these laid out by the risk management group?

BARKER: They were created in consultation with the business and risk management groups. If there was a product program, this would be reviewed by various levels of management.

NORMAN: Did you participate in the annual review of the limits?

BARKER: The limits were set on a more dynamic basis, but limits were something that the heads of Fixed Income would have been aware of.

NORMAN: What about the annual limits review?

BARKER: The senior management—the co- and tri-heads, and maybe Maheras—would be aware of the work that had been done around the limits and would see the result of the work, and the business's recommendation would be put forth.

NORMAN: Did the co-heads or tri-heads have a role in approving the business recommendation?

BARKER: The more senior management would have been involved if there was a disagreement between the business and risk management.

NORMAN: If there was no disagreement between Michael Raynes and someone in Pat

Ryan or Bebe Duke's organization (like Murray Barnes), would your approval be necessary to set the limit?

BARKER: I don't remember a formal approval process by senior management, but we would have been involved, and if I had a problem with the limits, that would be looked at.

NORMAN: Was there a process you went through in your review?

BARKER: It wasn't a formal process. I would listen to the recommendations of the staff and take that into account.

NORMAN: Were there written recommendations?

BARKER: I don't know.

NORMAN: You mentioned that there are also more dynamic limit-setting processes. Can you explain that?

BARKER: If there was particular volatility in the market, there would be a review of the positions and what that meant for a particular product or group.

NORMAN: How frequently were the dynamic reviews related to the CDO desk?

BARKER: Prior to 2007, I don't remember reviews of the limits of that type.

NORMAN: Did that change?

BARKER: Coming into the spring of 2007, there was more volatility in the market and more focus on the positions of the structured credit product group.

NORMAN: When did you become aware of the volatility?

BARKER: In February or March when the trading levels of RMBS started to become more volatile. There was a write down from HSBC, and there was volatility for lower-quality, lesser-rated mortgages.

NORMAN: In February and March, were there discussions about the market?

BARKER: Mark Watson, co-head of Global Credit Markets, Mike Raynes, Chad Leat, and Tom Maheras would have been involved in the discussions about the market.

NORMAN: Did you have discussions prior to February about the securitization group?

BARKER: I would have had general conversations with Nestor and Janice about their business. In the monthly review, sometimes business heads would come in and discuss their business.

NORMAN: Did you have conversations with Jeff Perlowitz about reductions at the securitization desk?

BARKER: Both desks started reducing positions when the market became volatile. Jeff Perlowitz had a business separate from the GSCP group where he would store mortgage bonds. He would work with originators to turn loans into bonds.

NORMAN: What do you recall from those conversations?

BARKER: Their numbers went up and down. Both groups didn’t appreciate the magnitude of the crisis. Both groups did mitigate risk, but they also saw buying opportunities to facilitate investor requests.

NORMAN: Prior to February 2007, do you recall any bearishness at Citi regarding RMBS?

BARKER: I don’t recall. My concerns about the market came in the spring.

BONDI: Did you ever receive information from the securitization unit’s surveillance team (James Xanthos) or any information about early payment defaults?

BARKER: I don’t remember that.

NORMAN: When did you first become aware of Citi’s liquidity put program?

BARKER: Around the time I became head of Fixed Income in 2005. I don’t believe I had anything to do with its genesis; I believe it started in 2003.

NORMAN: At that point, Citi was still doing liquidity puts?

BARKER: As I remember, yes.

NORMAN: What discussions were you involved in around that product strategy?

BARKER: I was aware of it, but I don’t recall being involved in establishing its strategy. I do generally remember the conditions and terms that caused the liquidity put to be affected. That was in the 2005-2006 time period.

NORMAN: Were there any discussions about the strategy being discontinued?

BARKER: No, not that I'm aware of.

BONDI: What was the business role of liquidity puts?

BARKER: The liquidity put was a structure for a vehicle in which the super seniors were the assets owned by the vehicle and the commercial paper was used to finance the vehicle.

BONDI: At the time that the commercial paper was issued, was the super-senior tranche off-balance sheet?

BARKER: The consummation of the transaction had the effect of putting the commercial paper off-balance sheet.

BONDI: If the liquidity puts were triggered, what happened?

BARKER: As I remember, Citi was generally the party that the liquidity puts would go to.

BONDI: If the super-senior tranche wasn't sold, where would that be held?

BARKER: It could be held on- or off-balance sheet. I think it was a time period issue. The assets in the liquidity put program were for earlier transactions.

BONDI: If a super-senior tranche was not sold, where would that go?

BARKER: I don't believe there was an active decision about where the tranches went. As best as I recall, they went directly into the liquidity put.

BUERGEL: I can clarify. The CDO vehicle is a Special Purpose Entity (SPE) and issues tranches when the CDO closes. The super senior is like any other bond. If it's a cash deal and it's fully funded, a certain percent will be issued into notes, and Citi will hold that note as a cash position.

You can have the super senior in an unfunded form. In that case, it's on the balance sheet and booked as a derivative.

With the liquidity puts, the CDO vehicle finances the super-senior position. It needs cash, which it gets by issuing 90-day commercial paper into the marketplace. Nothing is on balance sheet at Citi. If the put is exercised, Citi has to fund the commercial paper—either through 90-day commercial paper or a 30-year long-term funding note—which then comes on balance sheet. That process is explained in the 2007K.

BIRENBOIM: There are two buckets of super seniors. Those affiliated with the super seniors are off-balance sheet, and all others are on-balance sheet.

BONDI: What's the business purpose of issuing liquidity puts?

BARKER: I thought of it as a financing transaction. Generally in the market, there are any number of structures and ways that asset-backed securities are financed. If you had a pool of car loans, credit card debt, etc., that is funded by a conduit. Those asset-backed conduits would issue commercial paper to fund it. For the ___ that fund these conduits, the investors are typically money market funds. In all of these conduits, there would be a need in the money market funds investors for liquidity.

If there was an exogenous event, like 9/11, money market funds investors have short-term liquidity parameters. If the money market funds own the commercial paper, and their investors need near-term liquidity certainty, there would often be a back-up line of credit from a commercial bank. It was a common thing for liquidity to be offered by commercial banks for asset-backs of this type.

BONDI: But were the liquidity puts common within the industry?

BARKER: I'm not sure. If a corporation issues commercial paper and money market investors would buy it, the corporation would be required to have a liquidity facility standing behind that commercial paper.

BONDI: So the liquidity facilities were driven by investor need?

BARKER: Yes, the typical term was "required by investors."

NORMAN: From your business perspective, was it important that the super seniors be taken off the balance sheet by the conduit?

BARKER: I don't remember it being all that important.

NORMAN: In 2005, did you participate in discussions about the risks inherent in Citi's RMBS CDOs?

BARKER: Prior to 2007, my impression was that 90% of the assets owned by the group were AA or higher, so I don't remember spending time on the risk. To put it in perspective, this was one group and one business amongst many, and it was a relatively small portion of the balance sheet.

NORMAN: Putting aside the higher rated tranches, were there any discussions about the risks associated with getting stuck with the warehouses?

BARKER: I remember some discussions as to what the contractual commitments were with the managers. There were different risk sharing and metrics by different business managers, but management was comfortable that they had good processes around that business.

NORMAN: Which managers did you have conversations with?

BARKER: Probably Chad Leat and Michael Raynes.

NORMAN: Would anyone from the risk group be involved in those conversations?

BARKER: I don’t remember them being involved.

NORMAN: In 2005, did you know the daily exposure of the Fixed Income group to subprime?

BARKER: I would have had balance sheets that would have shown the exposure to the structured products group.

NORMAN: In 2006, did you have a more focused understanding of the daily exposure of subprime?

BARKER: It would have been coming into the spring of 2007 that both groups started to focus on the risks in the mortgage group and the Global Structured Credit Products group.

NORMAN: How did the Citi RMBS CDO squared business evolve?

BARKER: I don’t remember. It was relatively small compared to other businesses. I believe it was managed from London and was not a big part of the overall market or the business in structured products.

BONDI: What is a league chart?

BARKER: It varies by product, but it would be an estimated issuance of a certain product by underwriter by year.

BONDI: Where was Citi on the league chart for CDO squareds?

BARKER: I don’t know, but I believe it was not a major participant.

BONDI: In 2007, where was Citi in the cash CDOs for RMBS?

BARKER: I don’t know, but Citi was probably in the top tier.

BONDI: Was Citi number one?

BARKER: I'm not sure, I know it was in the top tier.

BONDI: What about synthetic CDOs that were tied to mortgages in 2007?

BARKER: I don't know if that was part of a league chart. My impression is that the league table would have been for the cash.

BONDI: Were league tables important to senior management?

BARKER: Yes.

BONDI: Were they important to Maheras?

BARKER: I don't remember a specific conversation, but generally league tables were important to senior management.

BONDI: Did you give reports to senior management with league tables?

BARKER: I don't remember specific reports for the structured products group.

NORMAN: Is it fair to say that the CDOs that Citi was structuring in 2006 and 2007 had a significant RMBS component?

BARKER: Yes.

NORMAN: How would you characterize the business rewards and risks of ABS CDOs versus the ABS CDO squareds?

BARKER: In both instances it was a client facilitation business. We had a business and we had investors who were interested in investing in transactions of that type.

NORMAN: For Citi's business, was one or the other more profitable?

BARKER: I don't know.

BONDI: For Citi, was one or the other riskier?

BARKER: I don't know.

NORMAN: Did you have any understanding whether CDO squareds were useful for repackaging CDOs?

BARKER: I don’t remember. Parts of CDOs were packaged into another structure, and it was something the investors wanted; it was a client facilitation business.

NORMAN: Who in your organization would be focused on whether Citi was a leader in the league tables of synthetic CDOs?

BARKER: CDO squareds take tranches of CDOs and repackage them. Synthetic CDOs are comparable to cash CDOs.

NORMAN: For CDO squareds, who would have been the experts?

BARKER: Mike Raynes, Mickey Bhatia, and Nestor Dominguez.

NORMAN: For synthetic, who would be the experts?

BARKER: Mike Raynes, Nestor Dominguez, Janice Warne.

NORMAN: For synthetic CDOs, did you have an impression that Citi was a market leader?

BARKER: I didn’t think about synthetic separately.

NORMAN: Who was responsible for hedging synthetic CDOs?

BARKER: Mike Raynes and his group heads underneath him.

NORMAN: Are you familiar with Citi’s acquisition of Argent?

BARKER: I’m familiar with Ameriquest.

NORMAN: What was your involvement?

BARKER: The advocacy was by Jeff Perlowitz and the securitization group. Mark Tsesarsky and Jeff put together the proposal that Citi should buy Ameriquest, and that closed in the summer of 2007. They had an origination business and a servicing business that were thought to be very profitable.

NORMAN: Did you have discussions about any reputational risks that the acquisition would have?

BARKER: There was a broad discussion within the company, both in the consumer and investment banks, and the conclusion was that Citi’s standards of underwriting would be applied to the new business. There was an intent to jointly manage that business with the consumer bank of Citi.

NORMAN: Was the discussion related to Ameriquest being a subprime lender with bad lending practices?

BARKER: The discussion was about wanting to make sure that the Citi standards for origination were applied.

NORMAN: Were there discussions that it would be more profitable if Citi standards were not applied?

BARKER: There were many discussions, but I remember that the Citi standards for origination were to be applied.

NORMAN: Was anyone from the CDO business involved in these discussions?

BARKER: No, not at all.

[Break from 10:00-10:10am]

NORMAN: In 2005 and 2006, did you ever discuss any missed opportunities in the CDO business?

BARKER: I don't remember any discussions of that type.

NORMAN: Were there any discussions with the sales force related to getting into the Citi CDO business?

BARKER: I don't remember. It was through the sales force that the product was sold, so I'm sure there were discussions with the sales unit.

NORMAN: Did you ever push any product?

BARKER: I didn't push. I wouldn't use that word.

NORMAN: Did you ever have any conversations related to the business or underwriting standards of RMBS?

BARKER: I don't remember.

NORMAN: In 2005, did you know that underwriting standards differed by originators?

BARKER: It's not something that would have come to my attention.

NORMAN: Were you aware that different originators had different underwriting standards?

BARKER: I don't remember being focused on underwriting standards.

NORMAN: Did underwriting standards impact any business decisions?

BARKER: No.

NORMAN: What were the warning signs that you saw?

BARKER: The trading levels for the lower-quality, lesser-rated index became more volatile, as well as those for single name MBS. HSBC made its announcement. In February through April, it was reported that there were difficulties with originators of subprime product.

NORMAN: In that time period, the mortgage securitization desk was pulling back?

BARKER: It was aggressive risk management in that time period. They were reducing a certain number of their positions, but they also opportunistically purchased subprime assets. I think their positions went up and down.

NORMAN: Regarding the buying opportunities that they had—what were the discussions about the risks inherent in buying in a volatile market?

BARKER: The traders and group heads would make recommendations to fill client requests.

NORMAN: Did you have an opinion on that strategy?

BARKER: That would have been Jeff Perlowitz and his team. His head trader was Jim DeMare. They made their own decisions.

NORMAN: In that time period, as the market got more volatile, did the process for approval of these strategies get escalated?

BARKER: Some of the larger buying opportunities would get escalated. There would be more oversight by the co-heads of Fixed Income, Bebe Duke, and Tom Maheras of daily and weekly positions. There would be meetings that would review the risk positions and the profile of the market. The meetings that I had would be with team members in Fixed Income. Risk Management would have its own separate meetings. There was communication by the desk heads about the volatility in the market.

I had a conversation with Bebe Duke was about marking methodology in one of the books—perhaps the correlation book. The correlation book was notationally a relatively small book that showed correlations between CDOs and other risk products. It was a trading business that looked at optionality in capital structures.

BONDI: Would you have had those conversations with Bushnell?

BARKER: No.

BONDI: What about Murray Barnes?

BARKER: I may have.

NORMAN: Can you simplify the correlation desk?

BARKER: It was in Michael Raynes's group in London.

BUERGEL: Mickey Bhatia will be able to explain that to you. I can give you some background information in a call.

NORMAN: You mentioned weekly and daily conversations between co-heads and the business managers. When did they start?

BARKER: They weren't a formal process; they were an ongoing process of phone calls and emails and meetings.

NORMAN: Was there any understanding that at least once a week, the co-heads should be aware of all risks?

BARKER: There was a general understanding that co-heads should be aware of risk in general.

NORMAN: Was there an understanding that new positions above a certain amount required approval?

BARKER: I don't remember that.

NORMAN: We heard that sometime in the late first quarter or the early second quarter of 2007 there was a request from the CDO business to increase the warehouse limits.

BARKER: I don't recall that.

NORMAN: You recalled that both the securitization and the CDO desks were looking for buying opportunities within that time period?

BARKER: As best as I can recall

NORMAN: Were there any discussions about that being a bad idea?

BARKER: No. In that time period, there was an awareness of the volatility, but there wasn't yet awareness of the market dislocation that had occurred.

NORMAN: When did you become aware of the severity of the market dislocation?

BARKER: I became concerned about the volatility in February and March. In late July and August, following Bear Stearns and certain market events, I became much more concerned about the overall market.

NORMAN: What did you do in response?

BARKER: Most of my time was spent on managing the risks and trying to renegotiate the transactions that we had in the leveraged finance business.

NORMAN: Did anything change relative to the RMBS business?

BARKER: We were getting updates about how they were reducing their business, and we were having meetings. I was passing those updates up the chain to Tom Maheras. In Independent Risk, I would assume that they were also passing along updates up the chain.

NORMAN: Would you have passed those updates above Tom Maheras?

BARKER: In the summer there was a daily call with upper management in which updates about those businesses were discussed.

NORMAN: Were these Prince's DEFCON calls?

BARKER: Yes.

BONDI: Who participated in these calls?

BARKER: It was Maheras, Prince, Rubin, Bushnell, Pandit, myself, sometimes my co-heads, and James Forese, who managed equities.

NORMAN: Had they started by mid-August?

BARKER: I think so, but I'm not sure.

NORMAN: How long did they last for?

BARKER: I left on October 11, 2007. They continued until close to the time that I left.

NORMAN: Were there any particular discussions about the RMBS CDO business in the DEFCON calls?

BARKER: I don't remember.

NORMAN: Would the position and potential risks of the RMBS CDOs come up?

BARKER: I don't remember.

NORMAN: Can you tell us about the Ridgeway II deal?

BARKER: I don't know the deal particularly. Relating to Ambac as a counterparty, I remember some dialogue with either Financial Control or Risk Management as to what the mark should be on the position in a time of market volatility. I think it would have been a gain. One of the transactions with Ambac involved a purchase of credit protection.

NORMAN: Do you know how many CDO deals were done in the summer of 2007?

BARKER: I don't remember.

NORMAN: Do you remember any discussions about the need to repackage CDOs and sell them?

BARKER: I don't remember.

NORMAN: How much credit protection did Citi have with Ambac and others?

BARKER: I don't know.

NORMAN: Who in Financial Control or Risk Management would you have discussed the Ambac mark with?

BARKER: I don't remember.

BONDI: Were you a personal friend of Bushnell?

BARKER: I was.

BONDI: Have you read the *New York Times* article, "Day of Reckoning"? What was your reaction to this?

BARKER: I read it at the time. It had misstatements and mischaracterizations.

BONDI: Did you speak to the reporters?

BARKER: I did not return any calls by the media.

BONDI: You carpooled together?

BARKER: After September 11, you had to carpool to get through the Holland Tunnel.

BONDI: Did you carpool in 2006 and 2007?

BARKER: No.

BONDI: Did you go on a fishing trip with Bushnell and run out of gas?

BARKER: Yes.

BONDI: You live close to him?

BARKER: Yes.

BONDI: There is a quote that said, "risk management had to be independent. It wasn't independent at Citi…"

BARKER: That statement is not accurate or fair. In everything that I observed, it was independent.

BONDI: Did you think that your friendship with Bushnell interfered with independence?

BARKER: I do not.

BONDI: Did employees at Citi ever ask you to speak to Bushnell about their deal?

BARKER: Yes. I think that the reporter misunderstood. I mentioned previously that I had significant transactional involvement in approving bridge loans. The approval system for corporate loans required a signature system depending on the risk rating and the size of the loan. That signature system required that certain transactions come to me or Maheras for approval. That same approval escalation was within risk management.

I think that the mistake by the reporter is that in transactions by bridge loans, these would be escalated up to the CEO or senior management, above Maheras, and in that process there would be dialogue among the participants to see if that transaction made sense.

BONDI: Were there any other instances?

BARKER: There may have been. In general, at a bank, there is an approval system like this for leveraged loans.

BONDI: Was this a normal approval process?

BARKER: This was a normal process. It was documented how it needed to be escalated through the chain.

BONDI: Were there ever conversations about a specific CDO deal?

BARKER: There were general conversations in late July or early August. I don't recall conversations prior to that.

BONDI: How frequently would you talk to Murray Barnes concerning risk?

BARKER: I didn't have regularly scheduled meetings with Murray Barnes. In the context of the Fixed Income business, I oversaw 5,000 people around the world. Global Structured Credit Products was a 125-person business.

BONDI: So you spoke to him infrequently in 2006?

BARKER: Yes.

BONDI: Did you speak to him more frequently in 2007?

BARKER: Yes. I don't remember when the conversations started. I think it was in summer 2007. I don't remember the frequency.

BONDI: Same questions for Ms. Duke.

BARKER: In 2006, it depended on the market, the issue, and the time of year. Some weeks we would speak frequently, sometimes not at all. The conversations increased in 2007, both with her and Mr. Ryan, her co-head.

BONDI: Did you speak to Bushnell about risk?

BARKER: I was a more junior person in the reporting chain. My counterparts were Mr. Ryan and Ms. Duke. Bushnell's counterpart was Maheras.

BONDI: What was the frequency of those conversations?

BARKER: In the summer there were more conversations, but they were related to the leveraged loans.

BONDI: Did you speak to Mr. Ryan with a different frequency than Ms. Duke?

BARKER: I spoke to Mr. Ryan more frequently than Ms. Duke because he spent more time on the leveraged loan business. Bebe spent more of her time on structuring.

BONDI: So the conversations with Mr. Ryan didn't involve CDOs?

BARKER: I don't remember that.

BONDI: CITI-FCIC 00091499. Do you recall seeing this?

BARKER: I don't recall this exact document or format. There was a risk management committee that met weekly, and there were materials that were distributed. On the committee were Geoff Coley, Maheras, Bushnell, and others. I was not on the committee, but I received the materials.

BONDI: Did you have any involvement in the stress testing related to the CDO limits?

BARKER: No, I don't remember that.

BONDI: You mentioned finishing your MBA in 1985. Since then, there was the LTCM failure, the default by Russia, the tech bubble, 9/11, the Enron and WorldCom scandals, and now subprime.

BARKER: Yes, I remember those.

BONDI: Is it your understanding that assumptions for the stress tests and the limit-setting for the CDOs were related to historical prices?

BARKER: I did not do anything with the stress tests. That was the risk management side.

BONDI: You mentioned an effort that you may have been involved in to build the structured business at Citi. How many people were in Fixed Income in 2003?

BARKER: I'm not sure, maybe 3,500 to 4,000.

BONDI: What about in early 2007?

BARKER: I believe that it was 4,000 or 5,000 people. It grew.

BONDI: How do you attract individuals of Mr. Raynes's caliber to Citigroup?

BARKER: I don't remember the pitch to Raynes. Each individual is a different person.

What motivated individuals to join Fixed Income varied from person to person.

BONDI: Did the CDO desk grow as well from 2003 to 2007?

BARKER: Yes.

BONDI: Were you involved in interviewing candidates?

BARKER: The one interview that I was involved in was Mr. Raynes. Michael Raynes and Chad Leat would have done much of the recruiting for the desk.

BONDI: You wouldn't have interviewed the lower-level personnel?

BARKER: I may have, but I'm not sure.

BONDI: Was compensation important to the CDO desk?

BARKER: It was one of many important factors.

BONDI: Was risk management involved in the compensation of people on the trading desk?

BARKER: It is one of the factors that would have been taken into account. You would observe the results of the desk and make a determination about how well the individual managed the risk/reward on their desk.

BONDI: The *New York Times* article refers to a meeting in the library of Mr. Prince in September 2007. What happened at that meeting?

BARKER: It was a meeting to update the company's senior management on the Fixed Income group and all of the businesses within Fixed Income.

BONDI: Were there documents distributed?

BARKER: There was a PowerPoint deck.

BONDI: Who attended that meeting?

BARKER: Myself, Chad Leat, Mart Watson, Geoff Coley, Paco, Rubin, Maheras, Prince, Kaden, Crittenden, and Bushnell.

BONDI: Do you remember the date of that meeting?

BARKER: No.

BONDI: Who called that meeting?

BARKER: I don't know.

BONDI: Did you make a presentation at that meeting?

BARKER: Everyone at the business had a speaking role.

BONDI: Was this an unusual meeting?

BARKER: Yes. We had not had a meeting like that before.

BONDI: What was the purpose of the meeting?

BARKER: To review what was happening in the markets and what we were doing going forward.

BONDI: Were subprime exposures discussed?

BARKER: Yes.

BONDI: What was Prince's reaction?

BARKER: I don't recall.

BONDI: What did he say at the meeting?

BARKER: I don't recall that he said much.

Rubin asked about the super seniors and he and Maheras discussed how the super seniors came into being. He asked how the super seniors fit within the capital structure.

BONDI: Was Citi's exposure to super-senior structures discussed?

BARKER: I believe it was generally discussed, but I don't remember specifics.

BONDI: Were liquidity puts discussed?

BARKER: I don't remember that being discussed.

BONDI: Did anyone express any surprise?

BARKER: I don't remember the specifics around who said what.

BONDI: What was the mood of this meeting?

BARKER: Generally, in the context of the market and the market volatility, it was constructive around the business.

BONDI: Were there any opinions or advice provided by Rubin?

BARKER: I don’t remember.

BONDI: Were there any opinions or advice provided by Prince?

BARKER: I don’t remember.

BONDI: Did Prince speak more?

BARKER: I don’t recall.

BONDI: Who had the largest speaking role?

BARKER: Probably Maheras.

BONDI: Were there any action items at the meeting?

BARKER: I don’t remember any action items.

BONDI: Did anyone appear upset?

BARKER: It was a serious but constructive meeting. It was a discussion of the results of the business.

BONDI: Was “subprime exposure” mentioned?

BARKER: I don’t remember the specifics. So much of the meeting was around the specifics of each business.

BONDI: Did anyone express any concern about risk management?

BARKER: Not that I recall.

BONDI: How long did the meeting last?

BARKER: I don’t recall.

BONDI: You left the company in October?

BARKER: I left at the end of December. I was taken out of my responsibilities on October 11, 2007. I was terminated at the end of December.

Tom Maheras met with me in the evening of October 10 or 11 and explained that the decision was made to change management and that I would no longer be in my position and that I would be leaving the company.

BONDI: What was your reaction?

BARKER: I had been at the company for twenty-two years—for my entire professional career.

BONDI: Did Maheras indicate that anyone else was involved in that decision?

BARKER: He indicated that Mr. Prince was involved.

BONDI: How did he tell you about the decision?

BARKER: I remember Maheras coming over to my office at night—later in the evening that I had a meeting scheduled with Mr. Prince—and explaining that to me. It was a 4-5 minute conversation.

BONDI: How did you feel?

BARKER: I understood that I would leave my job.

Mr. Coley was also removed from his responsibilities as co-head. It was explained that Vikram Pandit would be assuming Citi Alternative Investments and Citi Markets & Banking. Mr. Prince had decided on a new reporting line-up.

BONDI: Did that surprise you?

BARKER: Generally, the markets were very volatile. It's always a surprise when you're at the company for a long time, but I understood that they had decided to take me out of the company.

BONDI: Did you have the subsequent meeting with Prince?

BARKER: No, it didn't occur.

BONDI: Why did you stay through December?

BARKER: I was in an office supplied by the company in midtown. They asked me to stay on through December. John Donnelly, the head of Human Resources, called and asked me to stay on. As a member of the management committee, there were various provisions that I had to follow.

BONDI: Why did you have to move physical locations?

BARKER: I was no longer running the business.

BONDI: Did you receive a severance package?

BARKER: Yes. It was calculated by prior years of service off of your base salary multiplied by something. It was maybe one month of severance per year of employment. It was roughly 36 CFR 1256.56 - or so.

BONDI: What was your total compensation in 2005?

BARKER: In 2006, it was about 36 CFR 1256.56 - Priv In 2005 it might have been something less than that.

BONDI: In hindsight, do you feel like you made any mistakes at Citi?

BARKER: I did the best I could at the time with the information that was available to me. I did the best that I could for the company to the best of my abilities for twenty-two years.

BONDI: We had talked about various crises earlier. If this financial crisis had been part of the historical data at the time that you were running the CDO desk in 2005-2007, how would you have run the CDO business differently, knowing then what you know now?

BARKER: I didn't run the CDO business. I ran the Fixed Income business.

BONDI: Sorry, Fixed Income business.

BARKER: That's a good question. I haven't thought about it in that way. I probably would have a heightened focus on distributing what is originated.

BONDI: As opposed to holding parts of structures on Citi's books?

BARKER: In those crises that you mentioned, they were crises because no one anticipated them. Based on all of those crises that you laid out, I would not presume that a group would be able to forecast the next crisis. The outcome to that logic would be that you'd have to presume that you'd lower the risk profile of the business and distribute what you originate.

BONDI: Do you recall any conversations with any regulator where a regulator expressed concerns about oversight and risk controls at Citi?

BARKER: No. We had a regular dialogue with the OCC at Citi, but I don't remember those concerns being expressed.

BONDI: Were you privy to any conversations with Mr. Rubin about the need for Fixed Income to take more risk?

BARKER: Related to the Oliver Wyman study, part of that review was that the company could take on more risk.

BONDI: What was your personal involvement in 2006-2007 with regulators?

BARKER: The OCC scheduled their reviews by desk. We were notified of their reviews and action items would be profiled for follow-up. A member of the OCC team would meet with myself and my co-heads and review the status of their reviews.

BONDI: Was there any criticism of regulators related to valuation?

BARKER: I don't remember.

BONDI: From July to November 2007, were there discussions about the difficulty of pricing your CDO positions?

BARKER: I don't remember the dates, but as the market became more illiquid and there were less observables, there were issues raised about how to value these positions. This was with Financial Control (reported to CFO) and Risk Management (reported to CRO). I remember there were some discussions around super senior; I believe these were the positions that Citi held.

BONDI: What's the importance to Citi of properly valuing the super senior positions?

BARKER: They were in a mark-to-market account. As with any position in the firm, it was related to mark-to-market accounting and trying to establish proper valuation.

NORMAN: Have you ever been aware of Citi having an equity position in New Century?

BARKER: That cam e up in some email traffic, maybe in February and March, related to a filing or something of that type.

NORMAN: CITI-FCIC E 00818259: Was this the first time that you heard that Citi might have an ownership positions?

BARKER: Yes.

We had a chart that displayed the warehouse lines from Perlowitz's business that originators would use to purchase the loans. Many of the originators had warehouses from various counterparties.

NORMAN: Who is Carl Levinson?

BARKER: Levinson worked for the co-heads of the consumer group, Ajay Banga and Steve Feinberg.

NORMAN: Let me show you this email chain, CITI-FCIC E 00847072, that was forwarded by you to Maheras. It starts with "Issues with Master Service Agreements."

[Reads Barker's original email about Levinson]

Do you know what this is talking about? What is GCG?

BARKER: GCG is the Global Consumer Group, and CIB is Citi Investment Bank. I'm not sure what this was about. Perlowitz or Levinson would know what this is about.

NORMAN: Do you recall discussing this with Perlowtiz?

BARKER: No I don't recall that. I don't know what this was about.

NORMAN: RAP—do you know who or what this refers to? The subject line is "Janice Warne."

CITI-FCIC E 00830408: "To control RAP and get more efficient use of our balance sheet…"

BARKER: Regulatory A. P. There was a global portfolio management group established when Mr. Karp (?) was CEO, going back to 2002, it was originally overseen by Mr. Jones. It was established to manage the balance sheet for loans to banks globally. These corporate loans were managed by this group. There was a decision to be made about who ran the combined effort. I probably put forward that Janice Warne would be a great candidate for this position. This global loan portfolio didn't have anything to do with Fixed Income.

NORMAN: CITI-FCIC E 00812567 is an email from you to Tom Maheras. Who is Richard Stuckey?

BARKER: Richard Stuckey ran our finance desk.

NORMAN: A group of banks in Canada is going to try to solve the ABCP problem there… Does this refer to the liquidity puts?

BARKER: No. This has to do with asset-backed facilities and structures that were financed by the Canadian banks. It had nothing to do with the structured credit product group. They were working in Canada to a resolution to extend their short-term commercial paper so they wouldn't have a liquidity crisis.

NORMAN: The timing was about the same time that Citi started taking the commercial paper back?

BARKER: Yes, but it would be completely different.

NORMAN: CITI-FCIC E 00966950 is an email from you to Tom Maheras, Who is Randall Lawler?

BARKER: I think he probably worked for Jeff Perlowitz as COO? Maybe he's a salesman?

NORMAN: It refers to home equity ABS and CDS problems. Is that referring to subprime?

BARKER: I'm not sure.

NORMAN: What type of Blackrock or Citadel accounts were having issues?

BARKER: I'm not sure. This looks to be a very technical transaction.

NORMAN: "Our initial margin requirements versus our competitors are way out of line." What does that mean?

BARKER: Maybe it means that the financing requirements against positions might have been out of line, but I just don't know.

NORMAN: "We need to get relief from credit." What does that refer to?

BARKER: I don't know. One would have to meet with risk management and they would have to agree to an increase in the limits. It would roll up to Bebe Duke's organization.

NORMAN: Do you know what Project Home Run was?

BARKER: No.

NORMAN: CITI-FCIC E 00813153: Do you recall discussions with Darius Grant in 2007 about distressed RMBS?

BARKER: At the time, Blackrock was looking at a variety of alternative structures to raise capital to invest in the market. This looks to be related to that.

NORMAN: Did this have to do with putting CDOs into a product?

BARKER: No.

NORMAN: CITI-FCIC E 00811196 is an email to Maheras. Who is David Head?

BARKER: David Head was in the investment bank.

There was a point in time when there was a discussion with Prince, Klein, and Pandit about establishing a fund with another asset manager to buy assets in the marketplace.

The business purpose might have been to establish an alternative investment to be managed to purchase various assets in the market, in this case mortgages. It was probably to work with clients. Pandit was running CAI at the time, and it was probably a strategic venture between CAI and CMB and served as a client-led initiative. CMB's interest was in sending some of our professionals to CAI to work on this, to the extent that CAI did not have its own professionals with this expertise.

NORMAN: Did this have to do with any of Citi's remaining mortgages?

BARKER: No, this was a client-led initiative to raise capital and buy assets

NORMAN: CITI-FCIC E 00811198

BARKER: I don't remember this.

NORMAN: Is this the same thing?

BARKER: It looks like it might be.

NORMAN: Did this happen?

BARKER: It did not happen. There were many customer initiatives.

NORMAN: Have you ever given testimony before?

BARKER: Yes, in the context of a high-yield underwriting. It was a year ago.

NORMAN: Was it private litigation?

BIRENBOIM: It was private litigation involving a 1995 bond underwriting.

NORMAN: Have you ever had meetings with regulators?

BARKER: No.

NORMAN: Have you been involved in any other litigation related to Citi?

LOEWENSON: Yes, there are several. Susanna can get these to you.

NORMAN: Where are you now?

BARKER: I'm advising on a private equity transaction.

NORMAN: What is your address?

BARKER: 36 CFR 1256.56 - Privacy

NORMAN: Our investigation is confidential. Please keep this discussion between you and your lawyers.

[End at 11:45am]

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