

Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of J. Mark McWatters

Congressional Oversight Panel Hearing on Assistance Provided to Citigroup Under TARP

March 4, 2010

Thank you Professor Warren.

I very much appreciate the attendance of Assistant Secretary Allison and Mr. Pandit and I look forward to hearing their views.

Over the past two years the taxpayers have repeatedly heard the phrase “too big or too interconnected to fail” ascribed to certain financial institutions and they have no doubt often wondered what is captured by such concept and why these financial institutions merited the investment of hundreds of billions of dollars of taxpayer sourced TARP funds. Today, we have the opportunity to learn why Citigroup was considered too big or too interconnected to fail, why Treasury allocated \$45 billion of TARP funds to the institution and why Treasury, the Federal Reserve and the FDIC guaranteed over \$300 billion of its assets and liabilities. Although I doubt if Citigroup’s credit card, branch banking or even its commercial lending division created the “too big or too interconnected to fail” problem, it is critical that the taxpayers fully understand why the failure of specific investment strategies and business operations within Citigroup threatened the underlying financial stability of our country.

The taxpayers are also interested to learn if Treasury or the financial markets consider Citigroup, as presently structured, “too big or too interconnected to fail” and whether yet another reversal of its economic fortunes will necessitate the expenditure of additional taxpayer sourced TARP funds. Perhaps the most troublesome aspect of such status is the moral hazard risk arising from the implicit guarantee generated by the willingness of the United States government to bailout excess risk taking and ill-considered business decisions undertaken by certain institutions. In addition, the implicit guarantee afforded those financial institutions considered “too big and too interconnected to fail” may place such institutions at an inappropriate competitive advantage over their smaller peers.

As long as the possibility exists that Treasury or the financial markets may consider Citigroup as “too big or too interconnected to fail” it is critical that Citigroup clearly articulate to the taxpayers what action it has taken to eliminate such status as well as the possibility that its directors, officers and employees will engage in needlessly risky behavior that may impair the continued viability of the institution and our overall economy. Citigroup should disclose what

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risk management and internal control policies and procedures it has implemented so as not to require a future bailout from the taxpayers as well as whether it has adopted a viable “living will.”

In my view, one of the principal causes of the financial crisis was the separation of risk from reward where officers and employees of TARP recipients were financially motivated to structure transactions so as to pass all of the risk of loss embedded in such transactions to their employer or to third-party investors while earning significant personal compensation derived from the initial closing of such transactions. It will be interesting to learn how Citigroup has modified its compensation structure so as to appropriately link remuneration with the inherent risk arising from the underlying transactions as well as the performance of the institution as a whole.

It is also my expectation that the taxpayers will learn today (i) whether Citigroup will require additional TARP funds, (ii) whether Citigroup is solvent on a fair market value basis after considering contingent liabilities, (iii) whether Citigroup would be required to raise additional capital if the stress tests were repeated using current and anticipated economic conditions, (iv) whether Treasury has developed a rational exit strategy for its investment in Citigroup, and (v) whether enhanced underwriting standards and a precipitous drop in demand from prospective borrowers has led to a material decrease in consumer and commercial lending.¹

¹ I also hope the witnesses will address the following issues today:

- Why, specifically, did Citigroup require a TARP funded bailout? Was it because of a combination of excess leverage and a high concentration of risky bets in the housing market?
- When do Treasury and Citigroup expect equity values will have recovered sufficiently for the government to be in a position to divest its \$25 billion in Citigroup common stock?
- Why did Citigroup’s regulators miss and fail to respond to the warning signs—such as, excessive leverage and the narrow concentration of problematic deal flow—that all was not right with Citigroup?
- Did the regulators inappropriately rely upon Citigroup to monitor its operations and transactions?
- Does Citigroup use its retail and commercial bank deposits to finance proprietary trading activity? Did such activity lead in any material manner to the TARP funded bailout? How will the prohibition of such activity affect Citigroup’s operating results?
- Is Citigroup larger than it was two years ago and does this increase or decrease the likelihood that it is too big to fail?
- Has Treasury or the Federal Reserve purchased any mortgage-backed securities (MBS) from Citigroup or any other TARP recipient for a price in excess of the then fair market value of such MBS? Has the Federal Reserve loaned funds to Citigroup or any other TARP recipient where the collateral for such loans was valued in excess of its then fair market value? If so, do these actions constitute yet another taxpayer funded subsidy of present and former TARP recipients and would TARP recipients, such as Citigroup, have been able to repay their TARP advances without the receipt of such subsidies?
- On December 24 Treasury uncapped the amount of its support for Fannie Mae and Freddie Mac. In addition, Treasury revised the ceiling on the MBS that may be purchased by Fannie and Freddie. How does Treasury anticipate that Fannie and Freddie will use any additional funds received from Treasury—to purchase additional MBS from present and former TARP recipients (and at what price) or to perform under their MBS guarantees? Do these actions constitute yet another taxpayer funded subsidy of present and former TARP recipients such as Citigroup?
- What dollar amount of loans originated or securitized by Citigroup will be put back to Citigroup by investors?
- What is Citigroup’s exposure to the commercial real estate market?

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Thank you for joining us today and I look forward to our discussion.

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- How did the mark-to-market accounting rules and the revisions thereto in April 2009 affect the income reporting position of Citigroup?
 - How was Citigroup affected by short sellers in the last quarter of 2008?
 - Will Citigroup within the relatively near future return to the level of commercial and consumer lending activity as was in effect in early 2008? Is the lessening loan volume the principal result of lower demand from borrowers or lower supply from lenders?
 - It has been alleged that Goldman Sachs, among others, sold collateralized debt obligations to investors while at the same time betting against—or selling short--such securities. Did Citigroup engage in such behavior?
 - What suggestions would Citigroup make to improve the implementation of the TARP Capital Purchase Program? Would it have been preferable for Treasury to have purchase troubled assets from Citigroup rather than purchasing an equity interest in Citigroup?