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CONGRESSIONAL OVERSIGHT PANEL

# Opening Statement of Damon Silvers

## Congressional Oversight Panel Hearing on Assistance Provided to Citigroup Under TARP

March 4, 2010

Good morning. Like my fellow panelists, I am pleased to welcome once again Assistant Secretary Herb Allison and Citigroup Chief Executive Officer Vikram Pandit. Before I turn to the substance of our hearing, I want to note how much I particularly appreciate Mr. Pandit's presence here today and the thoughtfulness of your written testimony.

Citigroup has played a unique role in the history of TARP. Citigroup received $25 billion in TARP funds in exchange for preferred stock when the Capital Purchase Program began in October, 2008 under then Treasury Secretary Hank Paulsen. As this Panel has repeatedly noted, the sole criteria for eligibility for Capital Purchase Plan investments was that the institution seeking the funds was healthy. The Special Inspector General for TARP has since found that Citigroup was not healthy when it received CPP funds.

A little more than a month later, at the end of the week before Thanksgiving, 2008, Citigroup contacted the Treasury Department to ask for further aid, reportedly informing Treasury that the alternative was imminent bankruptcy. In response, then Treasury Secretary Paulsen decided to provide Citigroup with an additional $25 billion in TARP funds in exchange for preferred stock, as well as a combined Treasury-FDIC-Federal Reserve guarantee for $300 billion of unspecified assets on Citigroup's balance sheet. Despite the existence at the time under TARP of a Systemically Significant Failing Institutions Program, and Citigroup's obvious status as a failing systemically significant institution, Citigroup was not given aid under that program. Instead, it received aid under what appeared to be more favorable, ad hoc terms.

These events helped define TARP in its initial weeks of operation. The Citigroup bailout, and the Bank of America bailout that followed modeled on it, raised serious issues of transparency and equitable treatment for financial institutions of varying size and political clout. And as we noted in some length in our February, 2009 report, the result was that the Treasury Department did not receive fair value for its investments in Citigroup at the time those investments were made.

Up until December of last year, Citigroup's regulators were unwilling to allow Citigroup to repay TARP funds and thus emerge from TARP-related oversight. The regulators reversed themselves in December, and Citigroup completed a common stock offering whose proceeds were used to repurchase the government-owned preferred stock that had not already been converted into common stock, but leaving the Treasury Department as Citigroup's largest common stockholder.

Today, it appears clear that the Obama Administration's Treasury Department has managed TARP's holdings in Citigroup to effect a limited balance sheet restructuring—effectively forcing Citigroup's preferred stockholders to become common stockholders. This step diluted common stockholders' share of future profits substantially—an approach I support from the perspective of fairness and moral hazard. But these transactions did not appreciably alter Citigroup's total Tier 1 capital, nor did it result in any consequences for Citigroup's bondholders.

As a result, I remain concerned that Citigroup's balance sheet remains vulnerable, that Citigroup is only intermittently profitable, and that there are continuing pressures on Citigroup to repeat the events of the bubble cycle by weakening its capital structure in the pursuit of unsustainable returns on equity. In particular, I note that in a relatively sympathetic credit report, Standard and Poor recently noted that its credit rating for Citigroup was three notches higher than it would be without the implicit Federal guarantee S&P believes still exists, that Citigroup remained on the less well capitalized end of its global peers, and that the outlook for Citigroup remained negative.

These events leave many unanswered questions—many more than we will be able to address today. I hope though that we will be able to focus on the following key issues:

1) What aspects of Citigroup's business model made the company particularly vulnerable to the financial crisis, and do those vulnerabilities remain?

2) Has Citigroup's balance sheet been sufficiently restructured?

3) What is the proper strategy for the Treasury Department now in relation to its current continuing role as Citigroup's largest shareholder?

4) In light of this history, what steps should the Treasury Department take to ensure that in the future Citigroup is treated fairly in the context of how other banks, both large and small, are treated under TARP and related government programs?

I look forward to discussing these and other issues in the remainder of this hearing. Thank you.