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Neil Barofsky
Special Inspector General for the Troubled Asset Relief Program (SIGTARP)
Office of the SIGTARP
1500 Pennsylvania Ave., NW, Suite 1064
Washington, D.C. 20220

Dear Inspector General Barofsky,

Thank you for your service as the Special Inspector General for the Troubled Asset Relief Program. We face enormous challenges in restoring stability to the financial sector and repairing the economy, and I firmly believe that we will not succeed until we have a detailed and specific understanding of the terms of the various government bailouts to the financial sector. With that in mind, I write to ask you to conduct an audit of the various guarantees extended to Citigroup through the Federal Reserve, FDIC, and Treasury TARP funds under your authority to oversee the use of bailout monies and associated guarantees.

Congress has very little information regarding the asset guarantee arrangements that the Federal government struck with Citigroup in November, 2008. According to what we do know in the Section 129 report filed with the relevant Congressional committees in November, 2008, the Treasury, FDIC, and Federal Reserve entered into a 'loss-sharing arrangement' with Citigroup on a designated pool of $306 billion in "primarily mortgage-related assets currently held by Citigroup". This pool was "comprised of loans and securities backed by residential and commercial real estate, associated hedges, and such additional assets as may be agreed by Citigroup and the agencies."

While the assets are still held on the books of Citigroup and the cash flow from these assets accrues to Citigroup, the total downside risk to the Federal Reserve alone from this loss-sharing deal is $234.4 billion. I have multiple concerns about the terms of the deal, including the circumstances under which it was struck, benefits to the government, potential losses to the taxpayer, the prevalence of mortgage fraud in the asset pool, and conflicts of interest regarding contractors involved in pricing and managing risk for the Federal Reserve. My questions are as follows.

1) **How was this deal negotiated by Citigroup, the Federal Reserve, and the Treasury? How does this loss-sharing arrangement benefit taxpayers?**

To date, documents and transcripts describing the negotiations that led to this loss-sharing arrangement are not publicly accessible. How was this deal negotiated? Why did representatives of taxpayers extend more than $200 billion of guarantees to Citigroup, and how likely is it that Citigroup will begin to draw upon this guarantee? What were the benefits to the government in settling upon these terms?

2) **What are current mark-to-market losses to the Federal Reserve in this loss-sharing arrangement?**

The Federal Reserve has claimed that it will incur no losses, per page 4 of the Section 129 report:

> In light of the substantial protections against loss provided by Citigroup, the Treasury, and the FDIC that must be exhausted before any financing would be provided under the facility, and the fact that any financing provided under the facility would be fully collateralized, the Federal Reserve does not expect that the Reserve Bank's facility will result in any losses to the Federal Reserve or the taxpayer.

There are two reasons why I find this assumption questionable. One, the Federal Reserve made this claim about the $30B in non-recourse loans it extended to Maiden Lane LLC when brokering the sale of Bear Stearns to JP Morgan. According to the Fed's hand-picked pricing firm, and with no outside auditing of these assets, the Fed showed at least a $3B loss on the books as of April, 2009. Claims that this drop in value is temporary and a result of a liquidity problem have not been substantiated. I see no reason why the Federal Reserve's similar claims about the much larger pool of Citigroup assets should be taken any more seriously. Two, Citigroup CEO Vikram Pandit told the House Financial Services Committee that Citigroup put this loss-sharing arrangement (or 'insurance' as he put it) on his company's balance sheet. Yet, the Federal Reserve has not put this guarantee on its balance sheet, arguing that Citigroup has not drawn upon the arrangement. This discrepancy needs to be reconciled.

3) **What is the current cash flow from these assets? Are these assets performing?**

While mark-to-market accounting is one approximation to understand possible losses to the taxpayer, the mortgages underlying these assets do represent cash flows from real houses and businesses with real occupants and tenants. There is a substantial difference between the value of a mortgage backing a home in a healthy neighborhood and the value of a mortgage backing a housing tract in Las Vegas that is being reclaimed by the desert. What is this cash flow? If you take a sample of these assets, are they performing? Just how 'toxic' are the assets the taxpayer is guaranteeing?

4) **Who should be held accountable for the reckless acquisition of a third of a trillion dollars in assets that ended up requiring a government guarantee?**

I would like to know how this $306 billion was acquired, and the names of the risk officers and executives in charge of overseeing the concentration of this risk onto Citigroup's portfolio. It is critical to understand who created this enormous liability for the taxpayer so that we can begin to hold them accountable. When we know who did what, the SEC and other regulatory agencies can begin to examine whether any relevant rules and regulations were broken, and whether these individuals are 'unfit to serve' as officers or board members of public companies. It would be truly tragic were this situation recur with these same individuals responsible.

5) **Which vendors are pricing these assets, and are there conflicts of interest present in these vending arrangements?**

I am concerned about possible conflicts of interest involved in the pricing and management of these assets. Which vendors are pricing and involved in handling these assets on behalf of the US taxpayer? What are the terms of the arrangements for these vendors? What conflicts of interest might this present to taxpayers when disposing of these or similar assets? For the Bank of America deal, whose term sheet is similar, the Federal Reserve is using PIMCO as a pricing agent for government-guaranteed assets. Yet PIMCO has created a vulture fund to buy similar assets, raised the specter of serious conflicts of interest for that deal. What about Citigroup's government guaranteed asset pool, which is three times the size? Only a clear account of the terms of this entire deal will allow the public and Congress to understand fully the responsibilities we have incurred in allowing the Federal Reserve and the Treasury to sign these long-term arrangements using emergency powers.

6) Is the Federal Reserve guaranteeing assets generated from lender-induced mortgage fraud and predatory lending practices?

It is important to understand the extent to which the mortgages underlying the assets held by Citigroup and guaranteed by taxpayers was the result of criminal mortgage fraud and predatory lending on the part of unscrupulous mortgage originators. Did the Federal Reserve examine the loan tapes prior to guaranteeing these assets? Has it examined the loan tapes underlying these assets? Has Citigroup? If not, how is the Federal government managing the risk in the underlying assets it has guaranteed?

We have a tremendous responsibility to the taxpayer, and I look forward to working with your office to make sure that funds used to guarantee assets on Citigroup's books are used as wisely as possible and that we find those who need to be held accountable.

Thank you for your work on this matter and I look forward to your response.

Regards,

Alan Grayson

Alan Grayson
Member of Congress