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Citi Letter from Brian R Leach and Michael S Helfer to John Ruocco at FRBNY Re 2007 Report of Inspection for Citigroup Inc

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Pursuant to 5 U.S.C.§552(b)(8)

June 16, 2008

Mr. John Ruocco
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Large Complex Banking Organizations
Bank Supervision – Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Re: 2007 Report of Inspection for Citigroup Inc. ("Citigroup")

Dear Mr. Ruocco:

We appreciate the time you and your colleagues took to meet with the Audit and Risk Management Committee of the Citigroup Board of Directors on April 21, 2008 to discuss the Federal Reserve Bank of New York's (the "FRBNY") Report of Inspection for Citigroup for the twelve-month period ending December 31, 2007 (the "FRBNY Report").

We understand the concerns you described in the FRBNY Report. As you know from our discussions, we have always placed a priority on risk management. We are committed to investing the time and resources necessary to ensure that we fully address the issues raised in the FRBNY Report, and we have already begun to undertake a series of initiatives to do so. While we believe the Company is uniquely positioned to achieve tremendous long-term success, we also firmly believe that our ability to realize that potential depends on having a strong, independent risk management function and addressing the issues you have raised. Our Board, our Chief Executive Officer and our senior management team are all fully committed to that result.

As you know, we are currently in the process of addressing the Memorandum of Understanding executed between the Company and the FRBNY on June 3, 2008 (the "MOU"). We respond here to certain issues described in the FRBNY Report and, where appropriate, we refer to the plans being developed in response to the MOU that address many of these same concerns.

Mr. John J. Ruocco
Federal Reserve Bank of New York
June 16, 2008

Strengthening Risk Management

We cannot overstate the importance we place on having a strong, independent risk management function and robust business processes that systematically integrate risk into our business decisions. Our Board, our Chief Executive Officer and our senior management team fully understand that to ensure we have effective, independent risk management we must:

(i) further elevate and empower the risk management function (that is, through on-going support from senior executives and a strong presence in leadership forums and committees, we must assure that risk management has stature within the Company equal to any business and that it has the authority to say "no");

(ii) strengthen the Company's limit framework to ensure that it is robust, rational and based both on the Company's risk capacity and risk/reward relationships; and

(iii) foster a Company-wide risk culture that encourages individuals to escalate issues whenever appropriate, and supports them when they do so.

We describe below the steps we are taking to achieve these objectives, many of which will be included and described in more detail as part of the plans we will submit under the MOU.

Board and Senior Management Oversight

As part of our efforts to strengthen the risk management function, we are very focused on the role of the Board and senior management. Working with our Board and senior managers, we are aggressively taking steps to enhance the stature and independence of the risk function, redefine our approach to risk management and improve the organization and depth of talent within the risk function.

The Citigroup Board of Directors

The Citigroup Board and its Audit and Risk Management Committee have been actively engaged in efforts to enhance risk management through careful oversight of our senior managers.

As you know, the Chairman of the Audit and Risk Management Committee, Michael Armstrong, has asked Robert Ryan, a member of the Committee, to conduct an in-depth review of the risk management function. Mr. Ryan was Chief Financial Officer of Medtronic Inc. and has, in addition, extensive Audit Committee experience from other

To further enhance the stature of the risk management function, we will ensure that risk managers are appropriately represented not only in senior leadership groups, but also on the relevant business management committees and leadership forums across the organization, in both the businesses and regions. For example, Suneel Bakhshi, the Chief Risk Officer for the Global Consumer Group ("GCG") and for Citibank, and Richard Evans, the Chief Risk Officer for the Institutional Clients Group ("ICG") are both members of the "Senior Leadership Council." The Senior Leadership Council consists of approximately 55 senior business leaders (including the Management Executive Committee), and provides a forum to communicate and discuss significant issues impacting the Company. In addition, Mr. Evans is a member of the ICG Management Committee chaired by John Havens, the Chief Executive Officer of ICG.

As part of our effort to reinforce the independence of risk management, the Board and senior management are continuing to ensure that the risk function can challenge management assumptions. The Chairman of the Audit and Risk Management Committee reemphasized this very point to Mr. Leach and other members of senior management in the Committee's April meetings. He underscored the need to ensure that we maintain an environment in which, when appropriate, risk managers will challenge business managers and escalate issues to more senior risk and business executives. Similarly, in a communication to all employees, Mr. Pandit emphasized that risk managers must aggressively identify, monitor and control risk issues both within and across the businesses and regions, and he made it clear that he would fully support them in that effort. He further emphasized this point in a meeting with the senior risk management team on February 4, 2008. Mr. Pandit forcefully stated that risk managers must be independent and willing to escalate issues, and that he and those senior risk managers were collectively responsible for ensuring an environment to foster that result.

We are pursuing various other initiatives to further embed the principle that risk managers must act independently. First, the reporting relationships of the Chief Risk Officer help ensure that he has the authority and credibility within the organization to demand that risk managers act independently. In addition, risk staff will report only to other risk personnel. We have implemented this principle by, for example, changing the reporting lines of certain risk personnel in the GCG so that they will report only to the risk management organization (effective by June 30), subject to local regulatory or legal requirements. The "solid line" reporting structure in risk means that performance reviews and decisions about how to compensate, hire, terminate or promote risk management staff will be made only by risk personnel.

We are undertaking other efforts, including enhanced communication and training programs, to reinforce and further develop a culture that values risk as an independent control and encourages risk managers to escalate issues when they occur. We understand this culture should animate not just the risk function, but the organization as a whole to assure that senior business leaders value independent risk management and appreciate the essential role it plays in the Company's long-term success. To this end, Mr. Leach is developing a communication plan that includes Town Halls, group conference calls and smaller team meetings to emphasize the importance of an independent risk management function and create an environment where thoughtful escalation of issues is the norm. He will complete this plan by the end of July 2008, and begin to implement the plan immediately thereafter.

Redefining the Approach to Risk Management

As noted earlier, Mr. Pandit and Mr. Leach have emphasized that strong, risk management is essential to the Company not just as a control function, but also as a key strategic asset and an important competitive advantage. Thus, it is essential to our business strategy that we systematically integrate risk management into our business decisions. To do this effectively, we are harnessing relevant knowledge across businesses, regions and products to help us make better risk decisions. This requires moving beyond traditional business silos, and doing so not just with systems, but with enhanced analytical resources and communication. We are also in the process of coordinating risk, finance and the businesses more effectively to assess trade-offs between risk and return, and to incorporate that analysis into our business decisions in a more disciplined manner.

For example, Mr. Leach has emphasized the need to enhance our risk capital model and integrate that model into our decision-making processes. We are taking steps to ensure that our risk capital model is consistent across all activities, regardless of accounting treatment, booking vehicle or business line; that we appropriately capture off-balance sheet and liquidity risks; and that we appropriately measure and incorporate a "fat tail" risk capital approach. In addition, beyond the risk capital base, we are also focusing on risk capital returns at both a transaction and aggregate portfolio level.

We are developing internal capital allocation and pricing mechanisms to encourage individual businesses to moderate activities that otherwise might lead to significant balance sheet growth or unexpected capital reductions. Through this initiative, when business lines create any risk exposure, including contingent liquidity obligations, they will be charged appropriately in our MIS system to reflect the capital needed to support the risks.

We are also evaluating risk committees within the businesses and the regions to ensure that their charters have the appropriate scope, authority, objectives and escalation procedures. As part of this effort, we are ensuring that risk managers have clearly defined authority with respect to capital commitments and new product processes. We are reviewing the standards that committees apply when they evaluate the controls needed to manage risks associated with new activities or products.

These committees create a forum for risk and business managers to discuss issues such as the tradeoffs between risk and return, capital allocation, appropriate controls and other relevant matters. We are reviewing the documentation that committees receive to ensure that they serve as an effective forum for critical analysis and discussion of important risk issues. For example, the recently restructured Citi Markets and Banking ("CMB") Risk Committee and the Capital Markets Approval Committee will both serve as this kind of forum within ICG. We are structuring these committees to ensure that significant capital commitments and new product decisions cannot proceed without approval from the risk management function. We will regularly review the charters and procedures of these committees to ensure that they continue to be appropriate and effective.

We are also improving the way we coordinate risk, finance and the businesses to enhance the risk management framework and our risk culture. For example, risk management, finance and the businesses are working closely together to manage key areas of concern, such as CDO positions, residential real estate and leveraged financings. In addition to our efforts to identify, dimension and aggregate risk, risk management is also working with finance and the businesses to analyze underlying exposures and weigh alternative courses of action.

Key Additions to Senior Risk Management Staff

Mr. Leach has created and expanded several senior management positions in the risk function, which has significantly enhanced the depth of talent in the risk organization, and brought subject matter expertise to areas of critical importance going forward. Key external additions include the following individuals:

- John P. Davidson was named Global Infrastructure Risk Director, and has responsibility for oversight of infrastructure risk across the organization. Mr. Davidson joined the Company from CME Group, where he served until recently as Managing Director and Chief Corporate Development Officer. From 1993 through 2006, he held several senior positions at Morgan Stanley, most recently serving as Operations Officer for the Global Operations and Services Division. Other positions Mr. Davidson held at Morgan Stanley include Head of Institutional Operations, Co-head of Sales and Trading Infrastructure and Head of Global Equity Operations. Mr. Davidson was also responsible for integrating the systems and processing environments of separate institutional, retail and investment management divisions into a single global securities business. From 1983 to 1993, Mr. Davidson ran the Clearing House Division of the Chicago Mercantile Exchange. Under his leadership, the Clearing House, among other things, implemented the first risk-based margining system in the futures industry ("SPAN," which is now the global standard).

- Richard Evans was named Chief Risk Officer for ICG. Mr. Evans joined the Company from Deutsche Bank AG, where he served most recently as Deputy Chief Risk Officer. In that role, Mr. Evans was responsible for Treasury and Capital Management, Market Risk Management, and Investment Risk Management, including significant involvement in the bank's strategic risk decisions. He was named the "Risk Manager of the Year" in 2004 by Risk Magazine. Before joining Deutsche Bank in 2000, Mr. Evans served in a variety of senior positions during his nearly 20 year career at JP Morgan, including as Vice Chairman of JP Morgan's Risk Management Committee and Global Head of Risk Management.

- Greg Hawkins is responsible for Risk Oversight of Real Estate and Mortgage Exposure. Previously, Dr. Hawkins was an Assistant Professor in Finance at the University of California, Berkeley, Haas School of Business. Dr. Hawkins was among the first in the fixed income markets to develop a new generation of mathematical models to value, trade and manage large relative-value portfolios, which form the basis of today's most widely used tools in fixed income. He has over 20 years of financial services experience.

- Charles Monet is responsible for Risk Oversight of Capital Allocation. Mr. Monet has extensive quantitative analysis experience, having served as advisor to the co-Chairmen of the Basel subcommittee on regulatory capital requirements for default risk in banks' trading books, and as Chairman of the subcommittee's technical working group, which prepared quantitative analyses of risk and capital issues. Mr. Monet began his career in 1974 at Chemical Bank, eventually becoming Head of Risk Methodology at JP Morgan from 1996 to 2001. He served as the Head of Credit Risk Methodology at Morgan Stanley from 2001 to 2006.

- Adil Nathani is responsible for Risk Oversight of Structured Credit. Mr. Nathani previously served as Managing Director, Group Executive and Board Member at IXIS Capital Markets, which is part of Caisse des Depots et Consignation, a major French depository institution. He also led the Asset Securitization and Finance, Credit Products, Stable Value Programs, and Structured Credit Products groups. Mr. Nathani has over 20 years of financial services experience.

In addition to these external additions, Mr. Leach has also created new roles for the following individuals who have extensive risk experience in the Company:

- Yasmine Anavi, who formerly served as the Chief Risk Officer for the GCG, has been named Chief Administrative Officer for Risk Management. She reports directly to Mr. Leach. Among her responsibilities are risk re-engineering, M&A and regulatory relations. Ms. Anavi's 25 years of risk management and commercial banking experience will continue to be a valuable asset to the risk management organization.

- Suneel Bakhshi, who formerly served as the Head of the Global Commercial Bank in the CMB, is now Chief Risk Officer of the GCG. He is also the Chief Risk Officer of Citibank. Mr. Bakhshi is responsible for managing risk, including market, credit and operational risks, within these entities. He reports directly to Mr. Leach. Mr. Bakhshi has 25 years of experience at the Company, including high-level positions in corporate and commercial banking as well as risk treasury.

- Nancy Shanik, who formerly served as Chief Credit Officer for the Commercial Business Group, is now responsible for Risk Oversight of Fundamental Credit. Ms. Shanik will apply her 30 years of banking experience across the businesses and regions in assessing credit exposure to individual names, industries, products and regions. She will work with Business Unit and Regional Risk managers to develop mitigation strategies.

We believe this risk management team brings to the Company the combination of extensive commercial banking and capital markets risk experience that we need at this time. The new members of the team bring fresh perspectives and innovative ideas that are not unduly influenced by past practice. In addition, these individuals will be able to draw upon the extensive commercial banking expertise in the Company's existing senior risk management personnel, who have many years of experience.

Reorganizing the Risk Management Function

Mr. Leach is redesigning the risk organization to align with recent changes in the Company's business structure and ensure that risk is appropriately managed across the entity. In particular, Mr. Leach will organize and manage the risk function across three dimensions. We will have risk managers aligned against each business, against each region and against critical products:

Businesses: Each of our major business groups - ICG, GCG and Global Wealth Management ("GWM") – will continue to have a Business Chief Risk Officer. These individuals will continue to be the focal point for risk decisions (such as setting risk limits or approving transactions) in the business, and they will continue to manage our experienced independent risk management professionals already in place. As noted above, Mr. Evans is the ICG Chief Risk Officer and Mr. Bakhshi is the GCG Chief Risk Officer. In GWM, the current Chief Risk Officer is Tom Schwartz. In conjunction with efforts to broaden the experience base of our risk team, we will be announcing a new GWM Chief Risk Officer in the near-term who we expect to have extensive Citigroup business and risk management experience. We are also expecting Mr. Schwartz to take another senior role in the risk organization.

Regions: We will also have Regional Chief Risk Officers in Latin America, EMEA and Asia. Regional Chief Risk Officers will be accountable for the risks in their geographic area, and they will be the primary risk contact for the regional business heads. They will also engage with local regulators to ensure that we maintain open, transparent relationships with them.

Product Specialists: We have created a new role, senior Product Specialists, who have demonstrated expertise and management experience in areas of critical importance to the Company. They will be accountable for the risks within their specialty, and they will focus on problem areas across businesses and regions. Most importantly, they will review the underlying business model to ensure that we make sound use of our capital, given the risks incurred. The Product Specialists will also be a resource for Mr. Leach, as he focuses on areas of greatest concern, and the Business and Regional Chief Risk Officers, to give them greater ability to focus on the day-to-day management of risks and responsiveness to business flow. As noted above, Mr. Hawkins, Mr. Nathani and Ms. Shanik are all product specialists, focusing on real estate and mortgage exposure, structured credit and fundamental credit, respectively.

In addition to these three dimensions, the risk organization also includes the Business Management team. The Business Management team ensures the risk organization has the appropriate infrastructure, processes and management reporting. This team will include (i) the Chief Administrative Officer, who will focus on M&A, re-engineering, and regulatory relationships, (ii) the risk capital group, which will continue to enhance the risk capital model and ensure that it is consistent across all our business activities, (iii) the infrastructure risk group, which will focus on improving our risk processes across businesses and regions, and (iv) the risk architecture group, which will ensure we have integrated systems and common metrics, and thereby allow us to aggregate and stress test exposures across the institution. Ms. Anavi, Mr. Monet and Mr. Davidson, described above, are part of this Business Management team. In addition, this team includes James Garnett, who continues in his role as Head of Risk Architecture. Mr. Garnett has over 30 years of commercial banking experience, including the last 10 years with the Company.

We are confident that the structure outlined above will allow us to manage risk effectively across the Company, and we look forward to sharing our progress with you.

Policies, Procedures and Limits

As we will describe more fully in our response to the MOU, we are reassessing our policies, procedures and limits to ensure they are commensurate with the risks undertaken by the Company.

Specifically, we are reviewing applicable risk measurement, limit, and reporting policies and procedures in the ICG, and at the Citigroup level, to ensure they are appropriate and effective given business, market and economic conditions. We are assessing the metrics we use to measure and report risk, with a particular focus on ensuring that we capture exposures fully and consistently across businesses, regions and products. We are also examining the risk management policies for businesses where multiple risks converge to ensure that we manage both aggregate risk exposures and individual risk types. We will regularly review and, as necessary, revise these policies particularly in light of changing business, market or economic conditions.

We are also continuing to review the risk limit frameworks we have in place across the businesses (i) to ensure that we capture appropriate levels of risk and enhance limit frameworks to incorporate more consistent stress limits, (ii) to capture and limit concentration risks within portfolios, and (iii) to evaluate potential asset illiquidity risk and the distribution risks embedded within certain business models. We are also examining the approval authorities that accompany these limit frameworks, and enhancing the role of senior management and the Board with respect to material risk appetite decisions. The first business we are reviewing is ICG Securities and Banking, and we are focusing on market risks. We expect this review to be complete by the end of the third quarter, and we intend to implement the results shortly thereafter.

We have also revised our policies and limits to provide greater control over balance sheet management and ensure that businesses have proper incentives to curtail unwarranted balance sheet growth.

To strengthen balance sheet controls, and to improve liquidity management and funding, we have centralized our treasury functions. The new structure provides for centralized portfolio management and interest-rate risk positioning, which will allow us to reflect a consistent, Company-wide market view and risk appetite. This structure also allows for consolidated and forward-looking funding and liquidity management across business and legal vehicle lines; facilitates a consistent, Company-wide transfer pricing methodology; eliminates one-off, bi-lateral arrangements; provides client-oriented treasury support services to our businesses; and will ultimately result in aligned front and back office capabilities. All of these improvements will enable central treasury to maintain more control and discipline over the balance sheet.

We have instituted a refined transfer pricing methodology, which incorporates liquidity premiums for newly originated illiquid assets and committed facilities based on the marginal cost of funding for the Company. This refinement re-prices the liquidity premium on funding on a monthly basis, which induces appropriate product pricing in the risk/return models. The liquidity premium also creates an incentive for the businesses to consider how readily assets can be pledged when drafting contracts, as well as building infrastructure to support pledging and securitization processes. Incremental core deposits attract this liquidity premium, driving optimization of customer deposits.

In addition to the improvements noted that will ensure increased balance sheet discipline, as discussed in more detail below, the treasury, risk management and finance functions have enhanced their processes to identify, dimension and aggregate risk, including processes focused on liquidity risk management.

Risk Monitoring and MIS

As we will describe more fully in our response to the MOU, we have undertaken an effort to improve our management information and ensure that risk managers have access to different analytical models and tools that help them monitor, aggregate and evaluate risk. In particular, we have begun to assess the metrics and analysis we use to monitor risk in our most complex businesses, with particular emphasis on businesses where multiple risks converge, to ensure that we have a comprehensive approach to managing our risk exposures.

For example, we have implemented comprehensive, systemic stress tests for mark-to-market and accrual positions across the Company, based on a number of historical and hypothetical scenarios. We currently use stagflation, deflation and overheating scenarios; as well as scenarios based on the 1987 market crash, the demise of Long-Term Capital Management and the credit crisis during the second half of 2007. We also use stress tests to evaluate the impact of various exposures to key risk factors (such as interest rates, credit spreads and home price appreciation) on the Company's banking and trading book. We share the results of these Company-wide stress tests with our Board and our senior management. We will continue to refine these stress tests as risk and business managers evaluate the results, and determine how best to interpret and act on them.

We are developing dynamic processes that will allow us to modify risk assumptions (particularly stress/shock assumptions). This will enable our risk and business managers to customize forward-looking scenario analyses that involve rapidly changing market conditions. We are also evaluating a stress testing tool for counterparty risk in the CMB businesses, and we will describe our plans to implement this tool in our response to the MOU.

In addition to the stress testing scenarios described above, we are continuing to rely on judgmental analysis from our risk managers. For example, in connection with recent market events, our risk managers worked closely with business and finance personnel to provide enhanced periodic updates for our Board and senior managers that described significant potential exposures related to risk concentrations (e.g., residential real estate), financial market participants (e.g., monoline insurers), and other systemic issues (e.g., commercial paper markets). We use these forward-looking assessments based on risk manager judgments to advise the Board and senior managers about the potential economic impact to the Company that may result from various hypothetical scenarios. We also measure these judgmental risk assessments against targeted exposures and as a supplement to the more quantitative stress scenario analyses described above. We have incorporated these risk assessments and the comprehensive stress tests into our regularly updated financial outlook and forecasts.

We are also continuing to assess our exposure to special purpose vehicles, including unconsolidated entities, to reconfirm the assumptions we have made about the impact of accounting and market changes in our stress scenarios. We expect to conclude this analysis by the end of June 2008, and we will regularly reassess any potential impacts.

We understand your concerns with respect to our counterparty credit risk processes and the practices that support how we measure, report and manage exposures to hedge fund counterparties. We have begun to address these concerns, including efforts to enhance our hedge fund counterparty stress testing and validate counterparty credit risk exposure models. We will describe the actions we are taking in more detail as part of our response to the Interagency Review of Counterparty Credit Risk and Hedge Fund-related Exposures, which we will provide in July.

As noted above, as we review our policies and procedures, we will focus on the metrics we use to measure and report risk exposures to ensure that we fully capture and manage risk consistently across our businesses, regions and products. This is particularly important in businesses where multiple risks converge, to ensure we measure and monitor both aggregate and individual risk exposures. We are also focusing on the distribution risks inherent in certain business models to ensure that we understand, measure, manage and report these risks appropriately. We plan to use recent market events to enhance our risk metrics and allow us to evaluate downside risks in certain products more effectively. Finally, we are reviewing the metrics our structured product businesses use to measure and report risk to ensure that we capture and aggregate underlying asset exposures and that we identify concentrated areas of risk exposure.

We are using these enhancements to refine the risk reports we provide our Board and senior management, and to ensure they receive appropriate information on material risks, including business exposures, aggregated risks across businesses, concentration risks, deviations from significant limits, new and emerging risks, and adverse risk trends. Similarly, as noted above, our finance function is providing enhanced reports on asset limits, capital, liquidity and other balance sheet issues. For example, our Treasury group now issues a daily liquidity report that we distribute to the Chief Financial Officer and other senior executives. Our monthly "FINALCO" process includes the Chief Executive

Officer, the Chief Financial Officer, the business heads, the Chief Risk Officer and the Treasurer to ensure that we elevate issues to the most senior executives in the Company.

As noted earlier, Mr. Leach has developed a new reporting format for the Audit and Risk Management Committee and senior management, which he shared with the Committee in April. This new format includes the results of the Company-wide scenario stress testing, the factor stress testing, and the risk manager assessments described above. By analyzing risk from a number of different perspectives, the new format permits a more in-depth understanding of the particular risks faced by the Company at any particular time. We will continue to enhance this report going forward, as the business and risk management teams, as well as the Audit and Risk Management Committee, continue to work with its contents and gain greater understanding of what information they find most useful.

Along with these reports, the information provided to the Audit and Risk Management Committee will continue to address those issues that business and independent risk managers believe to be significant, based on their professional judgment and various objective metrics, and supplemented by reports from the Company's internal and external auditors as well as other internal and external sources.

Also, as described above, Mr. Ryan, on behalf of the Audit and Risk Management Committee, is overseeing an in-depth review of risk management. In addition to information that will be shared with Mr. Ryan and other members of the Committee, a significant goal of this effort is to ensure that risk management has the tools and reporting mechanisms to keep senior management and the Board fully apprised of critical risk issues and how they impact franchise-wide risk exposure. As noted above, this detailed review includes consultation with outside institutions to determine best practices for risk reporting to the Board, including benchmarking with appropriate peer institutions. Mr. Ryan and Mr. Leach regularly discuss progress on the report and any significant risk management issues.

Internal Controls

We recognize that having robust, independent internal controls is critical in order to ensure that business managers make fully informed decisions about the trade-offs between risk and reward. With respect to the risk function, we understand that we must further embed a culture that values risk as an independent control, encourages risk managers to escalate issues when they occur and demands that senior business leaders appreciate the essential role risk management plays in the Company's long-term success.

To this end, we have undertaken a variety of efforts to elevate the stature of the risk organization and reinforce the principle that risk managers must act independently. These efforts include ensuring that the Chief Risk Officer has the appropriate authority and support from senior management and the Board; that risk personnel only report to other risk personnel; and that we further instill the importance of independent risk management across the organization through appropriate communication channels and training programs.

With respect to the internal audit function, Audit and Risk Review ("ARR") will validate the implementation of new risk management and governance controls and report the results of its Risk Management Program Review to the Audit and Risk Management Committee and senior management. ARR will continue to monitor enhancements to RCSAs and validate the completion of corrective actions for risk-related ARR issues, including those related to Risk and Structured Credit Products. ARR will report significant issues to senior management and the Audit and Risk Management Committee.

We understand your concerns with respect to our model validation efforts, and we are addressing those concerns, including, specifically, the issues you identified regarding the models used to value the Super Senior CDOs. We will continue to share our progress with you on a regular basis.

Other Supervisory Considerations

Compliance Risk Management and Anti-Money Laundering

We appreciate your acknowledgement regarding the changes we have made in the Global Compliance organization and the comprehensiveness of our compliance monitoring, testing and reporting program. We recognize the importance of having a strong compliance risk management function, and we will continue to focus on ways we can improve that function.

We also appreciate your acknowledgement of the improvements we have made with respect to AML oversight, and we will continue to refine our processes through the AML Shared Utility. Our Board and senior management continue to be firmly committed to ensuring the successful implementation of our AML Compliance Technology Multi-Year Plan (the "Multi-Year Plan"). We maintain strong governance structures to ensure that the Board and senior management have the information they need to provide appropriate oversight with respect to all BSA/AML issues. Our progress on the Multi-Year Plan includes the following:

- We have implemented the Search Tracking System (STS), which provides an automated workflow tool for handling name search requests, including USA PATRIOT Act §314(a) and internal ad hoc searches. We are also continuing to establish direct and automated feeds between STS and certain customer databases and information warehouses.

- We currently have approximately 4,000 users of the Name and Entity Screening Solution (NESS) throughout the world to review prospective and existing customers against sanctions and other lists (e.g., Politically Exposed Persons/Senior Public Figures). We also have recently begun migrating users to NESS 2.0, which has enhanced capabilities including batch screening for high-volume businesses. Implementation of NESS 2.0 is currently underway in Canada, International Personal Banking (U.S.), and various consumer businesses in the United States, including Citibank, which should be completed in 2008. We are currently developing our 2009 implementation schedule.

- As noted in the FRBNY Report, GTS has recently established two AML monitoring hubs in Malaysia and Poland that service 29 countries in our CMB business; we expect to add additional countries from the EMEA and Asia Pacific regions this year. In the interim, GTS has upgraded existing Flexcube/AMLMON monitoring systems in EMEA and Asia for certain countries that are awaiting a hub implementation. We have standardized all current versions of QuickScreens in our retail banking businesses, and we are upgrading existing systems to ensure that all GCG countries comply with the CAMBRS principles. We have also deployed QuickScreens in additional CMB businesses in Latin America. To support our consumer business in the United States, we have consolidated additional AML monitoring activities in our Tampa hub, enhanced our oversight of certain high-risk businesses and client types (such as embassies), and added scenarios to our Mantas monitoring system. Similarly, we have completed upgrades to Mantas in our GWM businesses. For all our businesses, we are reviewing existing transaction monitoring parameters and, when necessary, taking actions to ensure they operate effectively; where necessary, certain businesses have prepared risk acceptances as they await implementation under the Multi-Year Plan.

- We have successfully developed the global electronic Customer Acquisition Due Diligence (eCADD) system for CMB and we have implemented the system in nine countries. For 2008, CMB plans to implement the system in an additional 15 countries in the second quarter, 35 countries in the third quarter, and 16 countries in the fourth quarter.

We believe that we have made significant progress since the Multi-Year Plan was first submitted in 2006, which reflects our sustained effort and commitment as well as the strong governance structures we have developed. Through the Senior Compliance Technology Council ("SCTC"), senior management is apprised each month of any developments or delays in each project stream, budget matters, future implementation strategies and our evolving technology needs. The NESS/STS Steering Committee brings together compliance and technology personnel to manage any issues that may arise with specific implementation of these applications. Our AML Monitoring Committee also meets monthly to evaluate our monitoring standards and to provide advice and assistance to businesses on interim controls and optimization. Finally, we are in the process of developing an AML Technology Strategy that will become the AML technology roadmap upon completion of our Multi-Year Plan commitments. The strategy will make certain that AML requirements are mapped against current and planned AML technology capabilities to assist the SCTC in setting direction and prioritizing projects.

Compliance with Fair Lending Laws

You are familiar with our legal position regarding the fair lending issues in Puerto Rico and the corrective actions we took promptly. We have had no contact from the Department of Justice about this matter.

Information Technology

We appreciate your acknowledgement of the progress we have made on our information technology initiatives. We recognize that we must continue to sustain those efforts and execute against our strategic goals. The project management process used to monitor and track our data center consolidation and AML efforts will be used to execute initiatives designed to simplify, standardize and improve efficiency within the information technology environment. This program management process includes techniques and tools to facilitate the accurate identification and reporting of risks and, combined with our management practices, will provide the necessary support and governance for our key initiatives. We are committed to continuing to strengthen our information security practices throughout the Company, and we believe these efforts will have a positive effect on the level of information security-related audit issues. The areas noted in the joint Federal Reserve/OCC examination of information security are included within both Project Fast Track and the information technology risk re-engineering efforts, and we are focused on their improvement. Along with the Board, we will continue to update you on our progress against these initiatives and other information technology matters.

Allowance for Loan and Lease Losses (ALLL)

With respect to our consumer portfolios, the GCG has enhanced its ALLL practices across North America and in a number of deteriorating international portfolios where we deemed it necessary to do so (e.g., Mexico and India). In particular, we now (i) incorporate the latest available delinquency information when we analyze roll rates, and (ii) augment management adjustments to reflect the impact implied by economic indicators or recent performance trends.

We are actively analyzing other ways to refine GCG ALLL processes. We are using related Company initiatives, such as Basel II, to increase transparency and consistency across products and legal vehicles, and to better align with enhanced credit metric segmentations such as scores, LTV and vintage as well as delinquency stage. Furthermore, this effort will enable more granular product distinction and use of the most recently available data. We expect to conclude this analysis by the end of the third quarter 2008, and begin to implement the applicable changes during the fourth quarter 2008. We will continue to ensure that we carefully document management adjustments, and that we consistently apply those adjustments across portfolios whenever appropriate.

Basel II

We are continuing to monitor and address issues that may negatively impact our efforts to implement the Basel II capital adequacy framework. With regard to data quality, we have developed processes and metrics to track progress on financial reconcilement, the matching of risk and finance positions, and the quality of key risk inputs and parameters. We expect to resolve any material differences by the end of first quarter 2009.

We are also undertaking a review of our architecture to help identify and address any technology shortfalls and limitations with respect to Basel II requirements. We expect to complete this review by the end of the third quarter 2008 and that it will cover:

- Technology Architecture: review the technical architecture for each Basel II component to ensure that our applications address all business requirements in the optimal manner.

- Data Architecture: review conceptual data architecture and strategy, data models and database performance configurations across all sectors to determine if our data warehouses can process the expected data volumes efficiently.

- End-to-End Capacity: review the capacity of our Basel II hardware and software components.

The Operational Risk Program presented to the FRBNY and the OCC describes the steps taken within the Company's operational risk quantification framework during the recent capital update cycle, including the process for approving the choice of the tail parameter for the AMA/Economic Risk Capital (ERC) model as well as two management adjustments made in calculating first quarter 2008 ERC. We appreciate the FRBNY's concerns regarding the methodology we use to estimate operational risk capital, particularly the weight given to internal loss data in setting the severity (or tail) parameter. We will continue to work with you to address these concerns.

Strengthening Our Financial Condition

In 2007, we recorded a $9.8 billion loss in the fourth quarter, primarily due to marks on trading portfolios and increased credit provisions, and our overall net income for the year was $3.6 billion. Our 2007 revenues fell by approximately 9% from 2006 levels to $82 billion. As we described at the recent Investor and Analyst Day, we generated 32% of our 2007 revenues from emerging markets and 48% from outside North America (excluding CMB revenue marks and significant one-time earnings press release disclosed items); we generated 75% of our 2007 revenues from "annuity-type" businesses (Consumer, Cards, GWM and GTS), and the remainder from Securities & Banking and Alternative Investments. We have identified approximately $500 billion of assets that are not core to our business and that we will sell or run-off over the next few years ("legacy assets"). About 48% of these legacy assets are low return assets, 34% are mark-to-market assets impacted by the credit crisis, and 18% are non-core assets. While we expect earnings from our core businesses to exceed $11 billion in 2008, we expect our legacy assets to generate losses that will more than offset our core earnings this year.

Capital

Since the third quarter of 2007, we have aggressively raised almost $50 billion in Tier 1 capital through the issuance of a variety of instruments including common stock, mandatory convertible equity units, convertible preferred stock, straight preferred stock and enhanced trust preferred securities. The total capital we have raised is well in excess of the total of $7.1 billion of dividends paid and the $12.7 billion net loss booked during period from July 1, 2007 through March 31, 2008. The excess has enabled our capital ratios to return to levels well above internal targets and demonstrates our commitment to maintain a strong capital base. Based on our earnings projections for second quarter 2008 (as of May 30th) and our forecast for the third and fourth Quarter of 2008 (as of May 5th), we believe we have sufficient earnings to maintain our capital position in excess of our internal targets.

Based on our most recent capital forecast and the earnings improvements we expect from the third quarter 2008 onward, we expect to be in compliance with the 15% restricted core capital limit by March 31, 2009. We will continue to share our capital forecasts with you on a regular basis. We are developing a detailed capital plan that we will share with you as part of our response to the MOU.

Asset Quality

As noted earlier, we are actively managing the reduction of the non-performing legacy assets, we have tightened our underwriting criteria and we will continue to closely monitor the balance sheet. Given the possible elimination of qualified special purpose entities, we are currently reviewing the potential to include additional assets under FAS 140.

As noted above, we have undertaken an active asset allocation and reduction program, and a new asset limit process has been put in place. This is an enhanced, return-driven capital allocation process, with dynamic market-based incentives. In addition, the Company has introduced a net income after cost of capital allocation (NIACC) methodology that includes a capital charge to business income, to measure business performance and encourage balance sheet discipline. The new methodology also impacts senior management compensation to encourage efficient use of capital. We are educating employees across the Company about NIACC, and we expect to launch a web-based tutorial by the end of July. We currently expect that by the end of the fourth quarter 2008, GAAP assets will have declined by $370 billion while RAP assets are projected to decline by over $100 billion from their peak levels. We will provide asset projections as part of the detailed capital plan in response to the MOU.

Earnings

2008 Earnings and Dividend Payout

We recognize that dividends must be funded from current earnings, and we are confident we will have the ability to meet our dividend payout in 2008. We expect to return to a positive earnings environment from third quarter 2008 onwards, and that we will be able to meet dividend payout from current earnings from the fourth quarter 2008 onward. We have embedded a dividend payout of 32 cents per share in our capital plan, which we will share with you as part of our response to the MOU.

A semi-monthly process to create income statement and asset estimates for the current quarter is already in place with respect to global products. Starting July 2008, we will expand this outlook process to include regional details. We also have a quarterly forecasting process in place to update the income statement and asset estimates for the rest of the calendar year, including global product and regional details. These forecasts include scenario analysis coordinated across finance and risk management to evaluate the potential shocks to our projected financial results and identify potential mitigants. We will continue to share the results of these processes with you. We expect the next quarterly forecast, with six months of actual results and six months of forecasted results, to be available by mid-August 2008.

Future Earnings

We believe the underlying strength of our core businesses is healthy. As we described in our recent Investor and Analyst Day, we expect our core businesses to generate earnings in excess of $20 billion within two to three years, with revenue growth of approximately 9% and return on equity of 18-20%. These estimates assume a credit market recovery beginning in late 2009/early 2010 and assume further that we are able to wind down our legacy assets, from just under $500 billion at the end of 2007 to below $100 billion by the end of 2011. With our new organization structure in place and additional focus on asset productivity and reengineering, we believe we will have the resources in place to deepen our international footprint and strengthen our core businesses.

We are currently in the process of developing our 3-year strategic plan that will be aligned with the financial targets outlined above. We will share this plan with you, which will include details by global product and region, as part of our response to the MOU. We will continue to ensure that our finance and risk management functions work together to review our financial projections against our assessment of potential risks.

Liquidity

We have taken actions to improve our liquidity position and enhanced our processes surrounding liquidity risk management. In particular, we have introduced comprehensive liquidity risk identification and stress testing across the parent, bank and broker-dealer entities.

Bank Structural Liquidity

The structural liquidity cushion we maintained at the beginning of the market events of last summer allowed the Company to manage funding liquidity using a diverse set of actions that reduced the need for reliance on unsecured wholesale funding. However, by using this cushion, our structural liquidity fell below our targets. We have begun to restore this structural liquidity as our cash capital ratio climbed to 108% as of April 30, 2008. We will continue to share with you our structural liquidity forecasts, which reflect the impact of our most recent balance sheet plans. Primarily as a result of anticipated de-leveraging, this plan forecasts that the cash capital ratios will exceed our internal targets by December 31, 2008. While the balance sheet targets are aggressive, we have adopted a robust process to monitor these targets on a monthly basis. We will continue to provide reports to you and our senior management monthly, using our actual structural ratios to highlight our progress, and we will also continue to provide regular reports to our Board. Further, we will continue to forecast the impact of anticipated balance sheet changes on cash capital and other bank structural ratios.

Parent and Broker-Dealer Structural Liquidity

In addition to the aggressive capital raising activities we have completed, we will continue to raise significant long-term funding through our debt programs. As a result of these capital and funding raising activities, as of May 30, 2008, the combined short-term ratio for the parent and broker-dealer was 1.35 as compared with our internal guideline of

1.10. In addition, to provide a larger cushion against potential market disruptions or incremental balance sheet needs, as of June 10, 2008, the combined broker-dealer cash box and parent company liquidity portfolio were approximately $60 billion. This is significantly greater than the pre-crisis level of $11 billion at June 30, 2007 and $24 billion at December 31, 2007. We have also reduced our commercial paper borrowings from pre-crisis levels and increased the weighted-average maturity (WAM). At June 30, 2007, our outstanding commercial paper was $53 billion with a WAM of 37 days; as of June 10, 2008 our outstanding commercial paper was $30 billion with a WAM of 55 days.

As an initial step in a comprehensive plan for reviewing the broker-dealer liquidity model, we have developed initial forecasts to downstream the necessary long-term funding to restore broker-dealer cash capital to its 120% target. In this regard, an additional $6 billion in long-term liquidity was placed from the parent to the broker-dealer in June. We will complete further work during the month of June to assess the risks to the parent and broker-dealer on a stand-alone and combined basis under severely stressed market conditions in order to dimension the extent and nature of required liquidity cushions. We will include interconnected exposures, including the bank entities. Further, we are also taking significant steps to enhance the forecasting of liquidity requirements of the parent and broker-dealer. We will continue to share with you on a regular basis the results of these and related efforts.

<u>Bank Funding Gaps</u>

Our Market Access Reporting ("MAR") measures potential market access against our contingent capacity to cover the funding liquidity gaps in a liquidity event. As noted in the FRBNY Report, we have had persistent excesses in our combined European and US limit since the fall of 2007. These excesses resulted from a combination of the addition of illiquid assets, the use of contingent capacity to fund incremental asset growth and avoid undue unsecured wholesale funding, and frequent reassessment of our contingent capacity to reflect changes in market conditions. Although we have taken a series of actions to reduce these excesses, some measure of excess continues to persist. We are currently in the process of forecasting our utilization and expected limits through December 31, 2008. This will include the impact of our forecasted balance sheet de-leveraging as well as a series of actions to ensure that we eliminate these excesses. We will share the results of this forecast and the major assumptions with you prior to June 30, 2008.

In the mean time, we have taken actions to reduce our risk from short-term unsecured wholesale funding. On our Fed Funds desk, we reduced our take from the markets from an average of over $30 billion at the start of the market crisis to $7 billion in May and June 2008. In May and June 2008, we have been positioned as a net placer of funds into the wholesale markets and we have greatly increased our liquidity cushion at the parent company. In addition, we will continue daily monitoring of the MAR against limits, including enhanced senior management reporting. We will regularly report our progress in rectifying these excesses to senior management and the Board.

Impact Rating

While our ability to generate operating cash from subsidiary dividends, particularly from Citibank and the broker dealer, was hampered during the recent market dislocation, we believe this is a temporary condition. Income projections show earnings improvement in both entities for the remainder of 2008 and subsequent periods. It should be noted that the parent continued to receive dividends from other subsidiaries such as Citibank South Dakota, Associated Madison (parent of Primerica Financial Services) and Citicorp Banking Corporation (parent of CitiFinancial) during this period. As noted in the FRBNY Report, despite market turmoil, the parent company was able to act as a source of financial strength to Citibank. The parent raised almost $50 billion of Tier 1 capital during this period and down-streamed a portion to the bank. The support provided during this period demonstrated management's commitment to protect the capital position of the bank.

* * * *

We hope that this information is responsive to the matters covered in the FRBNY Report. We appreciate your continued support. We have prepared this response with the understanding that it is exempt from public disclosure under 5 U.S.C. §552(b)(8).

Very truly yours,

Brian R. Leach
Chief Risk Officer of Citigroup Inc.

Michael S. Helfer
General Counsel and Corporate Secretary of Citigroup Inc.

cc: Ms. Grace Dailey, Deputy Comptroller, Office of the Comptroller of the Currency
Mr. John Lyons, Examiner In-Charge, Office of the Comptroller of the Currency
Board of Directors of Citigroup Inc.
Board of Directors of Citibank, N.A.

Jerold FREIER/NY/FRS@FRS	To	Brian Drolet/BOARD/FRS@BOARD
12/16/2008 04:35 PM	cc	Calvin Bailey/NY/FRS@FRS, Alan Dombrow/NY/FRS@FRS, Alphonso Parker/NY/FRS@FRS
	bcc	
	Subject	CitiFinancial Mortgage Loan Modification Program

History: This message has been replied to and forwarded.

CitiFinancial originates non-purchase fixed interest rate home owner mortgages for subprime and near-prime borrowers. An aggressive loan modification (foreclosure prevention) program is an intrinsic part of their business profitability model. This program has its own foreclosure prevention policies and procedures that are used so long as a mortgage is less than 90 days past due.

Once a CitiFinancial mortgage loan is 90 days past due it goes to the consumer collections recovery unit (Citi Cards–Collections Utility). Although housed in Credit Cards, this large unit, which operates from 8 regional centers, services all of the unsecured and real estate consumer loan portfolios including CitiFinancial North America, Citibank NA and CitiMortgage. Major business functions performed by this unit include skip tracing, operation of special call centers, and management of over 130 private collection agencies and law firms. Volumes are very high. For example they receive approximately 85,000 inbound phone calls per month, place 25,000 accounts per month in consumer credit counseling programs, settle or write off 250,000 accounts, and annually recover over $2 billion.

Please see the attached document which describes the CitiFinancial Mortgage Loan Modification (Foreclosure Prevention) Program.

CitiFinancial_Foreclosure_Process_12-9-08[1].doc

Jerold Freier
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