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Judge Rules Bondholders Can Pursue Citigroup Suit

A federal judge on Monday rejected Citigroup's bid to dismiss a class-action lawsuit by bondholders who said the bank misled them about its exposure to troubled mortgages.

The judge, Sidney H. Stein of United States District Court in Manhattan, said the bondholders could pursue allegations that the bank did not reveal the exposure in offering materials for 48 bond offerings from May 2006 to August 2008, in which it raised more than \$71 billion.

The bondholders, led by seven pension funds and an insurer, said their holdings sank in value after Citigroup revealed its exposure in November 2008, making it apparent the bank was "insolvent" and would need a government bailout.

"The core of plaintiffs' allegations," Judge Stein wrote in a 50-page opinion, "turn not on Citigroup's management of its assets and liability, but instead on the manner in which they disclosed those assets and liabilities."

Monday's ruling came as Citigroup was trying to sell unwanted assets and restore the health of the bank, which, ranked by assets, is the third-largest in the nation.

A series of federal bailouts starting in late 2008 left taxpayers owning one-third of Citigroup, which suffered tens of billions of

dollars of losses on risky assets that became illiquid as credit markets tightened.

Judge Stein let the plaintiffs pursue claims that Citigroup failed to properly disclose exposure to \$66 billion of collateralized debt obligations backed by subprime mortgages and did not reserve enough for residential mortgage losses.

He dismissed some claims over exposure to \$100 billion of structured investment vehicles backed largely by subprime mortgages, and \$11 billion of auction-rate securities.

A Citigroup spokeswoman, Danielle Romero-Apsilos, said the bank was pleased that some claims were dismissed "and will vigorously defend the remaining claims on the merits."

Andrew Zivitz, a lawyer representing the bondholders, did not immediately return a call seeking comment.

The plaintiffs include pension funds in Florida, Louisiana, Minnesota and Pennsylvania, including the Southeastern Pennsylvania Transportation Authority rail system, as well as the New Jersey-based American European Insurance Company.

Citigroup had alleged that the plaintiffs lacked standing or else did not deserve relief under federal securities laws.

Stock in Citigroup, which is based in New York, rose 7 cents, to \$4.11 a share.