BUSINESS INSIDE BUSINESS

Predators In Paradise?

The inside story of how lenders at Citibank allegedly played loan shark, charging the island nations of the Caribbean excess fees and interest payments

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In a rambling two-story house hidden by mango and chicle trees on the industrious island of Trinidad lives an unlikely watchdog against corporate greed. Ved Seereeram, a financial consultant and former banker, has been working for years to expose what he describes as a prestigious U.S. lender aggressively marketing financial instruments to governments that didn't really understand them. Tens of millions of dollars in excessive fees and interest, he says, have been diverted from poor Caribbean countries into the coffers of Citibank, now a unit of Citigroup. Until recently, no one really listened.

But with the unraveling of Enron and WorldCom and recent allegations of legal and ethical lapses at Citigroup, Seereeram's cries are finally being heard. As a result of his investigations, Trinidad's tiny island neighbor Dominica has filed suit against the Citibank unit, alleging that it secretly and aggressively overcharged the government of Dominica on a bond issue to finance the island's first international airport. "We believe the allegations are without merit," says Lula Rodriguez, a Citibank spokeswoman. Seereeram hopes Dominica's lawsuit will bring renewed scrutiny to a case closer to home: a 1993 deal to refinance a natural-gas exploration project, in which he claims Citibank overcharged Trinidad's government. Citibank has denied any impropriety in that transaction.

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With his clipped cadences and precise, impatient manner, Seereeram talks like an accountant of the green-eyeshade era. But in his eight years as a merchant banker at Citibank Trinidad, he helped bring the island into the world of structured finance, which involved complex deals that aided Trinidadian businesses in minimizing their tax liabilities and hedging against swings in interest rates. "Citi had the reputation of being innovative, sailing close to the wind and dominating the capital market," says Richard Young, managing director of Scotiabank, a Canadian institution with a division in Trinidad. Seereeram rose to managing director at Citibank's merchant banking arm, but he left in 1998 after clashing with management over bonuses and marketing strategy, he says.

He started working as a consultant and soon realized that Citibank Trinidad had begun marketing the structured finance instruments that he had developed to such state-owned entities as Trintomar, a joint venture of Petrotrin and NGC, Trinidad's oil and natural-gas authorities. It bothered Seereeram that Citibank was taking complex financial vehicles intended for private companies, in part to reduce their taxes, and selling them to a struggling public entity that at the time paid minimal taxes. He began to investigate, hoping to take a fee from any money recovered. "They were not disclosing the true nature of the product," he says.

The product was a refinancing package for a natural-gas exploration project off the southern coast of Trinidad. Lacking the postcard beaches that draw tourists to neighboring islands, Trinidad depends mostly on oil and industry. The Trintomar venture stumbled over a series of drilling mishaps and in 1992 was in danger of defaulting on a loan to Nissho Iwai, a Japanese company that had financed the project. Three big international lenders submitted proposals to refinance the $61.5 million balance owed to Nissho Iwai. The plans were similar, but with its long history in Trinidad, Citibank emerged as the front runner.

Citibank proposed a deal in which it would buy Trintomar's accounts receivable (two-year contracts to supply petroleum to Shell and Texaco) for $66 million—a little more than was needed to pay off the Japanese loan. Trintomar agreed in principle and began talks with Citibank to finalize the terms. But then the bank changed the game. In addition to the loan they had been talking about, Citibank wanted to finance a second loan of

$96.5 million. It was analogous to someone going to borrow money for a car, and as a condition of the deal, the lender insisted that he borrow more than twice what he needed—and pay fees and interest on the whole thing.

Why did Trintomar agree to these terms? Seereeram and other critics say it was a sort of bait and switch. Citibank met with Trintomar three times in the spring of 1992 to pitch its original $66 million refinancing proposal, and in a letter dated Sept. 9, Trintomar asked for a formal proposal. The next day, Citibank sent a letter outlining the extra $96.5 million loan in several pages of eye-glazing detail. Trintomar officials, thinking the smaller loan was still on the table, kept negotiating. As Trintomar edged closer to default, the managing director of Citibank Trinidad, Suresh Maharaj, turned up the pressure. "I am sure that you will appreciate that we cannot hold open a commitment for this amount of $96.5 million indefinitely," he wrote on Dec. 1. "I have just visited my head office, and this matter was discussed in detail ... There are Citibank clients in other countries willing to use these funds having already signed their respective commitment letters." Now facing default, Trintomar accepted the extra $96.5 million it didn't need. With the refinancing in place but the gas exploration project then failing, Trintomar found a firm to sublease its production facility in late 1992—an up-and-coming Houston outfit called Enron.

The loans were paid, and Enron (now EOG Resources in Trinidad) started pumping millions of cubic feet of gas through the platform every day. The deal eventually faded from view, until a new chairman arrived at Trinidad's state-owned oil company. Donald Baldeosingh was only 34 when he took the post and was determined to make Petrotrin efficient and profitable. He wondered how the Trintomar venture could have got into such a poor lending deal and asked a London law firm to look into it. The firm retained David Hudson, a retired British merchant banker, who responded with a scathing report, a copy of which Time obtained.

Hudson sifted through contract language that he called "virtually incomprehensible" and found "two basic structural flaws" that were "wholly inconsistent with normally accepted standards of banking conduct." Hudson calculated that Citibank, as a result, was paid more than twice as much in interest and fees as it would have received under its initial proposal to Trintomar: a total of

$21.1 million in fees and interest on a loan of, effectively, $61.5 million.

The surplus lending was, in Hudson's opinion, extraordinary and unexplained. "I can think of no good commercial reason for ... these features of the structure, and have seen no evidence of any," Hudson wrote. "I conclude, based on the evidence I have seen, that it is probable that the transaction, taken as a whole, was both fraudulent and corrupt." Hudson's report found a responsive audience in Baldeosingh, who stopped Petrotrin from doing business with Citibank and pushed the government to investigate. "We had an opportunity to recover a significant amount of money," Baldeosingh says. Instead, Trinidad's elected officials turned on Baldeosingh. After tussling with the Energy Minister over control of a Petrotrin unit, Baldeosingh left office.

News of Seereeram's investigations surfaced in the local press, and Citibank took out full-page ads in Port-of-Spain's daily newspapers in January 2001 defending its reputation. Citibank had commissioned Ernst & Young to conduct "an independent analysis of the entire transaction," the ads said. "The Ernst & Young report corroborates Citibank's own findings, that the 1993 transaction with Trintomar was fair, reasonable and appropriate."

At the time, that was enough. Even now, Trintomar officials dismiss the idea that the deal took advantage of them. "I thought it was a well-taken decision," says Malcolm Jones, who signed the Citibank-Trintomar agreement on behalf of the state-owned gas firm. Jones says he relied on the finance staff of Petrotrin to evaluate the complicated deal. Petrotrin's president, Rodney Jagai, also defends the deal, arguing that the terms reflect Citibank's dominant position in the market at the time. "Citibank was the only game in town," he says, dismissing the offers made by other banks. "Were you really overcharged if this is the only lender in town?" Citibank also stands by the deal. "In 1999, when issues were raised in the local press, we reviewed those transactions again and confirmed that they were reasonable and appropriate," says spokeswoman Rodriguez.

By the spring of 2001, the investigations into the Trintomar transaction had fizzled out. Seereeram was distracted when a partner in his consulting firm was disgraced in a separate financial scandal. Seereeram was turning into a Dickensian figure: the aggrieved claimant in a never-ending dispute over money. This was a character he knew well: Seereeram's father, a sugar-cane farmer, spent 15 years fighting a law that required farmers to surrender a percentage of their profits to the sugar farmers' trade association.

Seereeram hunted for other transactions in which Citibank had used financial instruments like those in the Trintomar deal, which, he says, "made them (Citibank) feel like they could get away with this." His chase led him to the nation of Dominica, a speck of island 300 miles north of Trinidad. Dominica depends on connecting flights on small planes from larger islands, and its minor tourist trade is struggling. The government sought bond financing from Citibank Trinidad to build Dominica's first major airport, which would be able to handle larger jets from the U.S. and Europe.

Seereeram contacted Dominica's government after seeing documents related to the bonds. According to the terms of the deal, outlined in documents obtained by Time, the airport was to be financed in part by bonds to be secured by a $2.8 million "sinking fund," or money loaned in excess of construction needs and managed by Citibank. But instead of investing the sinking fund elsewhere, the documents show, Citibank used the fund to buy up the airport bonds and convert them into a different kind of bond that reaped a higher premium, without telling the borrower.

The government of Dominica filed suit against Citibank in July, accusing it of extracting "secret profits" of about $1.8 million from the transaction, on a bond issue that lacked proper security and provided, in effect, only $14.2 million in financing, the lawsuit alleges. Citibank is expected to submit its formal response in the case next month. Dominica's airport, hampered by bureaucratic struggles, has not been built.

With the renewed scrutiny directed at Citibank Trinidad, Trinidad is reconsidering another controversial deal, a complex 1998 interest-rate swap now under review by its attorney general. Conrad Enill, Trinidad's Finance Minister, says his government is closely watching what happens in Dominica. So far no one has been willing to reopen the Trintomar transaction, but Seereeram persists. It took his father 15 years to win his sugar battle. Seereeram has been fighting for only four.

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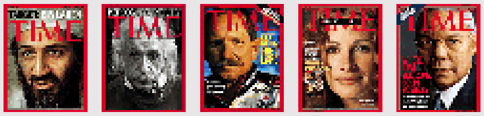

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