Testimony of

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Presented to the Financial Crisis Inquiry Commission

**Hearing on Subprime Lending And Securitization
And Government Sponsored Enterprises**

April 7, 2010

SUMMARY

I am pleased to provide this testimony to the FCIC in support of its important work. My testimony is based upon my best recollection. I have not had recent access to Citi documents, so there might be a detail or two that I might miss in this testimony. But I believe this is accurate in all material respects.

Bowen Background

I have spent over thirty-five years in banking and have held executive positions in Finance, Credit and Information Technology. I am also licensed as a Certified Public Accountant in the State of Texas.

From 2002 through 2005 I was Senior Vice President and Chief Underwriter for Correspondent and Acquisitions for Citifinancial Mortgage. In early 2006 I was promoted to Business Chief Underwriter for Correspondent Lending in the Consumer Lending Group.

In this position I was responsible for over 220 professional underwriters. And I was charged with the underwriting responsibility for over $90 billion annually of residential mortgage production.

These mortgages were originally made by correspondent mortgage companies and were purchased through Correspondent channels from these third party originators. My underwriting function was responsible to ensure that these mortgages met the credit standards required by Citi credit policy.

Increasing volumes of mortgage loans and staffing constraints were part of a challenging underwriting environment.

Delegated Flow – Prime. Warnings Issued

The delegated flow channel purchased approximately $50 billion of prime mortgages annually. These mortgages were not underwriten by us before they were purchased. My Quality Assurance area was responsible for underwriting a small sample of the files post-purchase to ensure credit quality was maintained.

These mortgages were sold to Fannie Mae, Freddie Mac and other investors. Although we did not underwrite these mortgages, Citi did rep and warrant to the investors that the mortgages were underwritten to Citi credit guidelines.

In mid-2006 I discovered that over 60% of these mortgages purchased and sold were defective. Because Citi had given reps and warrants to the investors that the mortgages were not defective, the investors could force Citi to repurchase many billions of dollars of these defective assets. This situation represented a large potential risk to the shareholders of Citigroup.

I started issuing warnings in June of 2006 and attempted to get management to address these critical risk issues. These warnings continued through 2007 and went to all levels of the Consumer Lending Group.

We continued to purchase and sell to investors even larger volumes of mortgages through 2007. And defective mortgages increased during 2007 to over 80% of production.

Wall Street Bulk – Subprime. Warnings Issued.

The Correspondent Wall Street channel purchased pools of subprime mortgages from correspondent mortgage companies. My underwriters were responsible for underwriting the mortgages in those pools that were being evaluated for purchase. Underwriting worked closely with the Wall Street Chief Risk Officer in that process.

During 2006 and 2007 I witnessed many changes to the way the credit risk was being evaluated for these pools during the purchase processes. These changes included the Wall Street Chief Risk Officer's reversing of large numbers of underwriting decisions on mortgage loans from "turn down" to "approved." And variances from accepted Citi credit policy were made. Subprime mortgage pools, many over $300 million, were purchased even though the minimum credit-policy-required-criteria was not met.

Beginning in 2006 I issued many warnings to management concerning these practices, and specifically objected to the purchase of many identified pools. I believed that these practices exposed Citi to substantial risk of loss.

Warning to Mr. Robert Rubin and Management

On November 3, 2007, I sent an email to Mr. Robert Rubin and three other members of Corporate Management (Exhibits I and I a).

In this email I outlined the business practices that I had witnessed and attempted to address. I specifically warned about the extreme risks that existed within the Consumer Lending Group. And I warned that there were "resulting significant but possibly unrecognized financial losses existing" within Citigroup.

I also requested an investigation, and asked that it be "conducted by officers of the company outside of the Consumer Lending Group."

Throughout this process, my goal has been to protect Citi and its shareholders. I hope that my testimony will guide the Commission in making recommendations. And hopefully these recommendations will prevent a recurrence of the problems that I witnessed and tried unsuccessfully to address.

THE CONSUMER LENDING GROUP

Background

In September of 2005 the Consumer Lending Group ("CLG") was formed to house all of the non-branch asset-backed consumer lending activities. This included prime and subprime mortgages, home equity, student loans and automobile lending.

The Consumer Lending Group was a part of the larger Global Consumer Group ("GCG"), with the CEO reporting to the co-head of the Global Consumer Group.

The CLG Chief Risk Officer was was responsible for all CLG operational and credit risk and underwriting. Business Risk and Control ("BRC") was a unit responsible for the internal controls and compliance.

The Internal Audit function ("ARR Audit") relied heavily upon the internal control and compliance reporting by BRC. ARR did not report to CLG, but reported into Corporate Audit.

All of the mortgage lending operations were considered to be a part of Real Estate Lending ("REL"), within the Consumer Lending Group. These included the following subsidiaries:

Citimortgage ("CMI")– prime mortgage lending, primarily first lien mortgages
Citifinancial Mortgage ("CFMC") – subprime mortgage lending, primarily first lien mortgages
Citi Home Equity ("CHE") – prime second lien mortgages

Mandate for Growth and Efficiency

There was significant corporate emphasis placed upon the need for growth and market share for REL.

Every quarter there were memos distributed to all REL employees from management touting the increasing number of consecutive quarters of growth in mortgage originations. Employees were also told the quarterly improvement in market share, from #13 in the industry in 2001, to #6 in 2005, to #5 in 2nd Qtr 2006, to #3 in 3rd Qtr 2006.

Management and employees were praised for this remarkable achievement, in spite of very "challenging conditions" in the industry.

There were also a number of initiatives announced to become more efficient and dramatically reduce the number of employees.

Real Estate Lending (REL)

Within Real Estate Lending there were four primary business channels involved with residential mortgage lending.

Direct – direct mortgage lending to the consumer.
Wholesale – mortgage lending through brokers, who dealt with the consumer.
Correspondent Flow – the mortgage loans were made by another mortgage company. The loans are then purchased individually by Citi.
Correspondent Wall Street – the mortgage loans were made by another mortgage company. The loans are grouped into "pools" and sold on a bulk basis to Citi.

Underwriting was responsible for the credit quality of the mortgages, with minimum credit standards defined in the CLG Credit Policy. REL Underwriting was led by the REL Chief Underwriter, reporting to the CLG Chief Risk Officer. The three Business Chief Underwriters responsible for each of the business channels outlined above reported to the REL Chief Underwriter. Each Business Chief Underwriter also had a dotted line reporting relationship to the Channel Business Head.

Prior to the creation of CLG in 2005, I was Chief Underwriter for the Correspondent and Acquisitions Channel in Citifinancial Mortgage Company. I was promoted to REL Business Chief Underwriter over the Correspondent channels in early 2006.

<u>Within Correspondent Flow there were two channels</u>:

Underwritten Flow – the mortgage loans are submitted individually to Citi for consideration. Each file is thoroughly reviewed by an underwriter to ensure it meets the minimum credit criteria established by Citi Credit Policy for the product involved. The underwriter also checks that each file contains all policy-required documents (e.g., employment verification, proof of income, etc.). The Citi underwriter must approve the file before it is purchased.

Delegated Flow – the mortgage loans also are submitted individually for purchase consideration. However, the authority to underwrite the file is "delegated" to the correspondent mortgage company (see further discussion below). Only prime mortgage loans are purchased in this channel.

CORRESPONDENT DELEGATED FLOW CHANNEL – PRIME LENDING

Background

Approximately $50 billion of mortgage loans were purchased annually in this channel. These were submitted from over 1,600 mortgage companies. As noted, a Citi underwriter does not underwrite these files before they are purchased. The selling mortgage company provides certification (reps and warrants) that the files are underwritten to Citi policy.

A mortgage file that is not underwritten to Citi policy, or it does not contain all policy-required documents, is considered a defective file. And the selling mortgage company can be forced to repurchase identified defective files from Citi.

An underwriting department called Quality Assurance (“QA”) reported to me. This department was responsible to ensure the quality of the files being purchased through the delegated flow channel met the policy criteria set for the channel.

QA is staffed with Citi professional underwriters. The primary activity is to underwrite a sample of the loans that have already been purchased. The underwriters assigns an “agree” decision when they agree with the original mortgage company underwriter that the file meets Citi’s credit policy criteria for the product. A “disagree” is assigned when the underwriter disagrees with the approving mortgage company underwriter. A “disagree” is an adverse decision meaning the file does not meet the minimum standards set by Citi policy.

These quality results are then reported monthly to the Third Party Origination Committee (“TPO”). TPO had overall responsibility for managing the selling mortgage company relationships.

I started participating in the TPO committee in early 2006, and it was explained to me that Citi policy requires that a minimum of 95% of the loans purchased through the delegated flow channel must be assigned the “agree” decision. The QA results reported to TPO in June of 2006 and earlier generally confirmed the 5% disagree, 95% agree thresholds.

Defective Mortgages -- Missing Documents

I spent time with the QA management and underwriters to better understand the QA processes. I learned that there were actually two categories of “agree” decision, with only the total of the two agree decisions being reported to TPO committee.

There was the “agree” decision, meaning the Citi underwriter agrees with the selling mortgage company underwriter that the file meets Citi policy criteria.

And there was an “agree contingent” decision, meaning that the Citi underwriter agrees with the original underwriting decision. But the decision is <u>contingent</u> upon receiving documents that are missing from the file, and those documents confirm the conditions underwritten.

An an example, the selling mortgage company underwriter may have approved a mortgage file showing a 45% debt to income ratio, which was within Citi policy criteria for the product. However, the required proof of income documentation confirming the borrower income used in the underwriting decision might be missing from the file. In this instance the Citi underwriter would assign an “agree contingent” decision to the file. The agree decision would be contingent upon receiving the income documentation proving the income utilized in the originating underwriter decision.

The total of the "agree" and "agree contingent" decisions would be reflected as the overall "agree" rate when reported to TPO Committee. This overall agree rate was the only agree rate reported to TPO through June 2006. And it was believed by the underwriters I interviewed that over half of the files had "agree contingent" decisions, meaning over half of the files were missing policy-required documents.

The QA process was very manual and lacked any automated reporting. The manager relied upon manual tally sheets, manually added, to produce the aggregate reporting given to TPO committee.

After significant effort, it was determined that the 5% disagree, 95% agree originally reported to June TPO was incorrect. It should have been 5% disagree, 55% agree contingent, and 40% agree. In other words, 5% were not underwritten to Citi policy and another 55% were missing policy-required documents.

Sale of Mortgage Loans to Fannie Mae and Freddie Mac

Approximately 80% of the mortgage loans purchased through the delegated flow channel were sold to investors. The GSE's Fannie Mae and Freddie Mac were the largest purchasers of those mortgages. These mortgages were sold through the Citimortgage entity. Mortgage loans from other REL channels were also sold to the GSE's.

Citimortgage provided reps and warrants to the investor GSE's that the mortgages sold to them complied with Citi policy. If a mortgage loan was not underwritten to Citi policy guidelines ("disagree"), or if there was policy-required documentation missing from the file ("agree contingent") -- then it was a defective file. And under reps and warrants Citimortgage could be forced to repurchase identified defective files.

QA did not review a specific sample of files sold to the GSE's. However, the overall defect rate of all files purchased through the correspondent delegated flow channel was 60% in 2006.

Citi continued to purchase and sell to the GSE's through 2007, even as the defect rate increased to over 80% in the delegated flow channel.

[On March 1, 2010, Citigroup provided a "Representations and Warrants" disclosure in the 2009 10-K. This disclosure, beginning on page 130, reflects Citigroup took a charge to revenues of $493 million related to reps and warrants given to GSE's. This "Repurchase Reserve" was established for estimated losses to be taken on mortgage loans sold to the GSE's in 2006 - 2007.]

Sale of FHA/VA Guaranteed Mortgages to Ginnie Mae Pools

Citimortgage also purchased and sold through the delegated flow channel approximately $8 billion annually of FHA/VA guaranteed mortgages. All FHA/VA guaranteed mortgages purchased from correspondent mortgage companies were purchased through the delegated flow channel.

It was the responsibility of the selling correspondent mortgage company to obtain the FHA or VA insurance on the file. But it was explained to me that it was Citi's responsibility to ensure only FHA/VA eligible mortgages were sold into Ginnie Mae pools.

In early 2006, before QA reported to me, QA underwrote monthly a separate adverse sample of only FHA/VA mortgages. These mortgages had not yet been sold into the Ginnie Mae pools. The QA underwriters reviewing these mortgages were certified to underwrite FHA/VA mortgages (DE and LAPP designated). This sample was only for those mortgages with FICO's less than 550.

The original purpose of this pre-purchase sample was to withhold from the Ginnie Mae pools those files identified as being ineligible for the government insurance according to FHA/VA guidelines.

The correspondent mortgage companies had already obtained FHA/VA insurance on these mortgages. However, if the Citi identified variances from FHA/VA guidelines were known at the time the insurance was obtained by the granting agencies, the insurance probably would not have been given. And there was the possibility that the granting agencies might void the insurance for the defective files if the variances were later discovered.

It was reported to TPO in June 2006, when only total agrees were reported, that approximately 30% of the prepurchase FHA/VA files sampled were assigned the "disagree" decision. In July, 2006, the full scope of the "agree contingent" decisions was determined. And it was reported to TPO that 33% were "disagree" and 37% were "agree contingent" on a sample of only 4% of the FHA/VA files.

This represented a defect rate of 70% of the FHA/VA files reviewed, and those identified defective mortgages were withheld from the Ginnie Mae pool funding. However, the sample also indicated that 70% of the 96% which were not sampled were also defective, and these were funded through Ginnie Mae pools.

FHA/VA mortgages continued to be purchased and sold to Ginnie Mae pools through 2007. The QA identified defective rate, according to FHA/VA guidelines, increased to 80% during 2007.

Warnings Distributed

I warned extensively of the scope of the problems identified, beginning in June 2006. The risks of possibly being forced to repurchase large volumes of defective mortgages was outlined in great detail. The risks of the high FHA/VA defective rate were also distributed widely.

These warnings were reinforced in weekly reports, emails, and discussions with many levels of management and TPO committee. There was also a special sub-group of TPO committee formed to discuss more fully the issues identified. These discussions were documented in their minutes. And there were concerns expressed that we were possibly not in compliance with self-reporting requirements to the investors.

My manager, the REL Chief Underwriter, also was alarmed by the issues I identified. The REL Chief Underwriter widely distributed his concerns and warnings through emails, weekly reports and individual meetings and conversations with management.

My manager always expressed the belief that he and I must continue to press for restrictions on the business to mitigate the identified risks. Our warnings went to all levels of REL's management, including the CLG Chief Risk Officer, who was the REL Chief Underwriter's manager.

One of the mid-2006 warnings noted … "There will be serious long-term consequences for failing to take action." Another noted … approximately 70% of the FHA/VA files are "unacceptable risk," … with insurance at risk.

At the end of 2006 and early 2007 all of the REL Chief Underwriter's responsibilities were assigned to other managers. In 2007 my former manager retired.

I continued to warn management, through 2007, of these issues and risks to the shareholders posed by the increasing defective rate of mortgages purchased and sold through the correspondent delegated channel.

And REL continued to purchase and sell increasing volumes of defective mortgage product. The overall defective rate increased to over 80% in 2007, including the FHA/VA guaranteed mortgages.

CORRESPONDENT WALL STREET CHANNEL – BULK SUBPRIME

Background

Total Wall Street channel volumes grew 40% in 2006, and it was announced that greater growth was expected in 2007. Most of the growth was to be in the subprime mortgage business. The article "New Citimortgage Primed for Nonprime," American Banker, July 31, 2006, was distributed to REL mangement. In the article Mr. Bill Beckmann, President of CMI, was interviewed .. "… increased non prime production the bigger opportunity." The term "non-prime" was the preferred term to use instead of "subprime."

The Correspondent Wall Street Channel purchased prime mortgage pools and subprime mortgage pools. These were two different sets of products, governed by different policies and underwritten by different underwriters.

The underwriters who underwrote the prime mortgages, both first lien and second lien, were former Citimortgage and Citi Home Equity underwriters.

The subprime mortgage pools were underwritten by former Citifinancial Mortgage underwriters. This group had reported to me in CFMC before CLG and REL were formed. These underwriters would typically travel to the selling mortgage company location. There they would thoroughly review the physical credit files previously identified by Citi to be underwritten. They would assign “approve” or “turn down” decisions for each of the files reviewed.

For smaller subprime mortgage pools of under $20 million (“mini-bulks”) it was required that 100% of the mortgages be underwritten. Only those mortgages approved by underwriters would be purchased.

For larger pools there was still an attempt to underwrite 100% of the mortgages. Many times limited resources required that only a sample of the loans in a pool were underwritten. Some pools evaluated for purchase were over $400 million.

For subprime pools requiring a sample the Wall Street Senior Risk Officer would identify the sample of loans to underwrite. It was required that there was a 95% statistical confidence level that the loans in the sample represented the loans in the unsampled portion of the pool.

The underwriters then underwrote all of the loans identified in the sample, and approved only those loans meeting Citi policy guidelines. It was standard procedure that those mortgages not meeting Citi guidelines were turned down and never purchased.

Citi policy dictated that sub-prime pools could only be purchased if a minimum of 90% of the loans in the sample were approved by the underwriters using Citi policy guidelines for subprime mortgages.

If the minimum approval rate (also called “execution rate”) was not met, it was standard practice to “expand the sample” and underwrite an additional sample to determine if the larger sample approval rate met the minimum. In a worst case situation, where we could not meet the minimum approval rate, the sample was expanded to 100% due diligence. In this situation all of the mortgages in the pool were underwritten. And in this instance only those loans approved by the underwriters would be purchased.

Changing Underwriting Decisions

In the third quarter of 2006 the Wall Street Chief Risk Officer started changing many of the underwriting decisions from “turn down” to “approve.” This was done either personally or by direction to the underwriters. This artificially increased the approval rate on the sample. This higher approval rate was then used as justification to purchase these pools.

In the sample on one $300+ million Merrill Lynch subprime pool the underwriters turned down 716 mortgages as not meeting Citi policy guidelines. The Wall Street Chief Risk Officer personally changed 260 of these “turn downs” to “approved.” The pool was purchased.

Pools Purchased With Low Approval Rates

Risk also started approving subprime pools for purchase with low approval rates, without an expanded sample.

Another large Merrill Lynch pool completed underwriting with a sample approval rate of 70%. The REL Chief Underwriter and I requested that the sample be expanded. I expressed my reservations about the quality of the pool. I stated that I expected to be able to express my concerns in any management discussion to purchase the pool. And I was assured that I would be included in any purchase decision discussions.

The pool was purchased while I was on vacation, without an expansion of the sample.

Still another $320 million Merrill Lynch pool was purchased with an approval rate of 72%. Citi policy required a minimum approval rate of 90%.

Underwriting Against Seller Guidelines

It was generally believed that Citi subprime credit policy was more restrictive than the policies followed by most of the industry. And many of the correspondent mortgage companies loudly complained about Citi's more restrictive policies. They complained that Citi was "cherry picking" according to Citi policy. And they noted that our competition was not as restrictive.

Underwriters were then many times instructed by Risk to underwrite according to the selling mortgage company guidelines, not Citi's.

In some instances I instructed the underwriters to keep a special log. They identified the numbers of mortgages approved according to the sellers guidelines but which would be turned down according to Citi guidelines. These informal logs generally showed only 80% of the approvals against seller guidelines would be approved under Citi guidelines.

A large New Century subprime pool was underwritten and purchased against their policy guidelines. The purchase approval rate under their guidelines was 93%. The approval rate under Citi guidelines would have been 83%.

Purchase of Previous Turndowns

Another standard practice followed by underwriting was that underwriters would not approve a mortgage which had previously been underwritten and turned down for purchase from that mortgage company.

First NLC was a mortgage company that Citi had been regularly purchasing subprime mortgages from for two years. Citi guidelines were always followed in the underwriting and purchasing of their pools.

The Wall Street Chief Risk Officer then instructed the underwriters that they would begin underwriting against First NLC guidelines. The decision was made retroactively. First NLC was told that they could now sell to Citi the mortgages underwritten against their guidelines which had been turned down in previous months by Citi underwriters.

Contract Underwriting in the Industry

CFMC and the other companies of REL had historically relied upon underwriters who were full time employees. However, some financial institutions in the industry did not have full time underwriters and chose to use contract underwriters. This practice was called outsourcing the underwriting. The use of outsourced underwriting allowed those financial institutions to maintain fewer employees, contracting for the needed underwriting manpower when due diligence was needed.

Many companies offered contract underwriting services to financial institutions wanting to purchase pools of mortgages. Clayton, Bohan, and 406 Partners were the names of some of the companies offering those services in the industry.

A financial institution wishing to utilize these services would contract for the underwriting services on a pool of mortgages to be purchased. The product types, including prime or subprime, would be specified. The credit policy to be utilized in making the underwriting decisions was also identified.

These companies would utilize a pool of individuals that were supposed to have been vetted as being experienced underwriters. These contract underwriters were considered independent contractors, who were paid an hourly fee. The number of files to be underwritten and planned days of due diligence determined the number of contract underwriters required for a due diligence. The company would also assign a lead contract underwriter to manage the other contract underwriters.

These underwriters would travel to the due diligence location. There they would be given a copy of the governing credit policy. The credit policy to be used might also be made available through the laptop PC's utilized to record the underwriting results. They would then spend whatever hours were needed to underwrite and record the results for every file underwritten.

At the conclusion of the due diligence the data file containing the individual mortgage underwriting results and decisions would be given to the purchasing financial institution. A decision to purchase or not to purchase the file would be made based upon these underwriting results.

It was strongly believed by both Citi Underwriting and Risk that full time employees were preferred as underwriters. Full time underwriters actually "lived" with the Citi credit policy and consistently underwrote to that policy. They therefore became experts in the nuances of the policy and the company guidelines for making policy "exceptions."

Exceptions were created when the underwriter determined that the overall decision was "approve" even though there might be one part of policy which was not be met. The underwriter judgement as to when to make an exception in light of "compensating factors" is particularly important in evaluating subprime loans.

Additionally, it was believed that full time employee underwriters have a greater "felt accountability" for the quality of their decisions over the long term. The REL Loan Review function continually evaluated the quality of underwriter decisions. Those employees identified as making poor decisions were then held accountable for their poor decisions.

Contract underwriters, however, continually worked for different ultimate employers and against a different credit policy for almost every engagement. So there is no real familiarity gained with any one policy. They are paid an hourly fee and there was not ongoing quality control assessment for determining the quality of their decisions.

The belief that full time employee underwriters make better quality decisions than contract underwriters was shared by other organizations within Citi. Citigroup Capital Markets was a company that exclusively utilized contract underwriters. The Chief Underwriter of Citigroup Capital Markets spent a day at Citifinancial Mortgage in 2005 discussing underwriting. He visited extensively with some of our underwriters and managers regarding procedures and quality controls.

The Chief Underwriter was concerned about the quality of decisions made by their contract underwriters. We discussed the possibility that Citigroup Capital Markets might contract to utilize CFMC underwriters, under control of CFMC underwriting management. This would be for due diligence on some of the pools they were purchasing. Their Chief Underwriter felt this would give them a greater confidence in the quality of pools that they were considering purchasing.

CFMC volumes then started increasing and there was no longer excess underwriting capacity to possibly outsource to Citigroup Capital Markets. The proposed outsourcing agreement was not pursued.

Dictated Use of Contract Underwriters

As hiring freezes were announced and subprime volumes dramatically increased, REL Underwriting management was forced to utilize contract underwriters to underwrite an increasing number of the offered pools of mortgages. Contract underwriters were utilized in due diligence for a number of sellers, including First NLC, Equifirst, Decision One and New Century.

In March of 2007 the REL Loan Review Department issued a report on “first payment defaults.” First payment defaults were mortgage loans which did not make their first scheduled payments. In this report Loan Review analyzed the quality of the underwriter decisions made on each of the purchased mortgages which did not make their first payments.

Loan Review concluded that those files which were underwritten by contract underwriters had significantly higher first payment default rates. Loan Review also concluded that a large percentage of those mortgages approved by contract underwriters should have been given “turn down” instead of the “approve” underwriting decisions.

Warnings on Subprime Bulk Issues

Beginning third quarter 2006 I sent many warnings and objections to credit decisions which were being made on specific pools of subprime mortgage loans. These were through email, conversations with the Wall Street Chief Risk Officer and other personnel, and weekly reports.

My manager, the REL Chief Underwriter, also joined me in objecting to some of the practices we witnessed. Some of the objections also went to the manager of the REL Chief Underwriter, the CLG Chief Risk Officer.

The warnings and objections continued into 2007.

WARNING EMAIL TO MR. ROBERT RUBIN

In 2006 and 2007 management within the Consumer Lending Group had been repeatedly warned of the credit conditions and risks associated with Correspondent Delegated and Wall Street Bulk Subprime channels. And I witnessed many instances where existence of these credit circumstances and the loss risks represented by them were not discovered by ARR Audit and others.

In the Third Quarter 2007 earnings press release, Citigroup noted reduced earnings due to deterioration in the consumer credit environment. Then, in the last week of October, there were many articles in the press about additional potential losses in the Citi Securities and Banking areas.

There were also press reports the week of October 29th that there was going to be an emergency meeting of the Citigroup Board of Directors on Sunday, November 4th. And it was also speculated publicly that Charles Prince, CEO, may resign.

I made the decision that I had to warn Citigroup Executive Management and the Board of Directors. I had to warn them that there were many other circumstances and risks of loss to

Citigroup shareholders which had not yet been identified. These risks were centered in Real Estate Lending in the Consumer Lending Group.

On Saturday, November 3, 2007, I sent an email to
Robert Rubin, Chairman of the Executive Committee
David Bushnell, Senior Risk Officer
Gary Crittenden, Chief Financial Officer
Bonnie Howard, Chief Auditor

In this email I specifically warned about the risks of loss to the shareholders of Citigroup. I also requested "… an investigation of the above circumstances which will hopefully be conducted by officers of the company outside of the Consumer Lending Group." (See attached email to Mr. Robert Rubin, Exhibits I and I a).

ADDITIONAL RISK COMMENTARY

Delegated Flow #1. Out of Compliance with Policy

In July of 2006 a special TPO sub-group was formed to discuss the delegated flow issues. This group noted that QA was severely understaffed with underwriting personnel. They also determined that the manual reporting and processes must be automated. A new CMI policy must also be written to reflect new products and operations procedures.

The sub-group also concluded that we were operating significantly outside of existing CMI policy. We were not compliant with CMI policy requiring QA minimum sample sizes and thresholds by seller and product types. We were also not taking the policy-required enforcement actions for new sellers and sellers not meeting thresholds.

Additionally, this TPO sub-group identified that we were out of compliance with Global Consumer Group Credit Policy. That policy required minimum sampling standards that must be maintained by CMI in order to be eligible for delegated flow funding.

The TPO sub-group determined that an exception approval must be requested from the Global Consumer Group. A manager was assigned the responsibility to submit that request.

An exception approval request must disclose the current out-of-compliance sample sizes and the current rate of defective mortgages being funded. That request would have to be submitted to and approved by the Risk Committee of Global Consumer Group and ARR Audit.

It is my understanding that the exception approval request was not submitted to Global Consumer Group Risk or ARR Audit along with the disclosure of the high numbers of defective mortgages.

Delegated Flow #2. BRC Investigation

In Mid-2006 I formally requested an investigation by Business Risk and Control. I wanted confirmation that the QA sampling and high reported defective rate on delegated flow mortgages purchased and sold were severe issues.

Two managers were assigned to conduct the investigation. Many Quality Assurance, Risk and Underwriting personnel were interviewed, including myself.

The BRC investigation determined that Correspondent Delegated Flow was out of compliance with many standards established by Risk Policies. We had been out of compliance since at least 2005.

The results of the BRC investigation were shared with of CLG Risk, BRC, and Human Resources. They were also shared with the CMI CEO, Head of Sales and the Senior Risk Officer.

It is my understanding that the results were not shared with ARR Audit.

Delegated Flow Issue #3. MARS Priorities Tracking

Throughout Citigroup there was ongoing reporting to identify and minimize risks to the business processes. Managers were required to identify risks to their businesses, organizations or processes and reflect those risks in the MARS system.

BRC was responsible for the MARS system and internal controls compliance reporting.

Each of these identified risks were detailed in MARS. Each risk was also assigned two priorities -- a priority for "Severity of Risk" and a priority for "Risk Level."

In October of 2006 I directed the Chief Underwriter over Correspondent Flow to identify two risks in MARS.

QA risk #1 was the risk to the Delegated Flow business of inadequate QA staffing. We were currently out of compliance with credit policy and significant additional underwriting staff was required to comply with the required minimum sample size and enforcement efforts. This constituted a risk to the business because of the high rate of defective mortgages being purchased and sold.

QA risk #2 was the risk to the business if automated tools were not obtained and utilized in QA. Automation was required to comply with credit policy and monitor required enforcement efforts to reduce the high rate of defective mortgage loans.

I further directed the Chief Underwriter to assign in MARS the highest priorities to these risks. The highest priority, "Business Issue," was assigned to "Severity," The highest priority, "Important," was assigned to "Risk Level."

It was widely understood that ARR Audit, as a part of their audit processes, reviewed and assessed all risks which were assigned the highest priorities.

In December of 2006 the Chief Underwriter was instructed by BRC to lower the priorities given to the two risk issues. The Severity priority was reduced from "Business Issue" to "Workpaper." The Risk Level priority was reduced from "Important" to "Medium." These issues were then no longer assigned the highest priorities.

Delegated Flow Issue #4. CLG Senior Risk Committee

The CLG Chief Risk Officer was Chairman of the Senior Risk Committee of the consumer Lending Group. This committee addressed risk issues important to CLG. Global Consumer Group Risk and ARR Audit participated in this committee.

My manager, the REL Chief Underwriter, attended several meetings of the Senior Risk Committee. He shared with me his frustration that the high level of delegated flow defective mortgages was not discussed in committee. To my knowledge the significant numbers of defective mortgages purchased and sold was not discussed in the CLG Senior Risk Committee.

Delegated Flow Issue #5. Performance of Defective Mortgages

In June of 2006 I first identified the issue of the high numbers of mortgages purchased and sold with policy-required documents missing from the files (the “agree contingent” decisions).

In response to my expressed warnings, many managers told me that condition is only a “technical exception.” They further stated that there is no reason to believe that the performance of those mortgages would be any different than those mortgages without missing documents (the “agree” decisions).

I noted to them my belief that the performance of those mortgages with missing documents would be substantially worse than “agree” decisions. I believed that many selling mortgage companies would sell a mortgage to Citi by assigning an underwriting decision “approve” and then omitting the documents which demonstrated that the decision should be “turn down.”

Without automated reporting we could not identify and hold those sellers accountable. We also could not analyze the performance of those mortgages with different QA underwriting decisions.

I started requesting this required automated reporting in June 2006.

In November of 2007 new automated reporting was developed to analyze the performance of different QA decisions. The reporting “joined” the underwriting decision data with the mortgage performance data on the servicing system.

This new reporting confirmed the significantly worse mortgage loan performance of the files with missing documents (“agree contingent”) at the end of October. The report also noted that 83% of the total mortgages purchased through delegated flow were sold to investors.

Mortgages purchased and sold to investors January 2006 through October 2007:

Underwriting QA Decision	30+ Days Delinquent
Agree	5.7%
Agree Contingent	9.4%
Disagree	13.4%

Delegated Flow Issue #6. Freddie Mac Underwriting Results

As noted above, most of the mortgages purchased through delegated flow were sold to investors. Those loans sold were therefore not reflected in the balance sheet portfolio. However, many of the mortgages were not sold and retained in the balance sheet portfolio.

At the end of 2007 there was a major Citi initiative announced to increase capital through the selling of balance sheet portfolio assets. A large pool of mortgage loans was offered for sale to Freddie Mac. This pool consisted of many billions of dollars of mortgages, both prime and subprime, originated through all of the REL channels. The pool included many prime mortgages originated through the delegated flow channel.

Freddie Mac then underwrote a sample of those mortgages offered for purchase.

For all the mortgages underwritten from the total pool by Freddie Mac, they identified over 40% that were missing documents required by policy. Only a small portion of the total pool consisted of delegated flow mortgages. But the files identified by Freddie Mac as missing documents were almost exclusively mortgages from the delegated flow channel.

Exhibit I
Bowen Email to Mr. Robert Rubin

Bowen, Dick [GCG-REO]

From: Bowen, Dick [GCG-REO]
Sent: Saturday, November 03, 2007 4:47 PM
To: Rubin, Robert E [CCC]; Bushnell, David C [CCC]; Crittenden, Gary [CCC]; Howard, Bonnie [CCC]
Cc: Bowen, Dick [GCG-REO]
Subject: URGENT -- READ IMMEDIATELY -- FINANCIAL ISSUES

TO: Robert Rubin, Chairman of Executive Committee
David Bushnell, Senior Risk Officer
Gary Crittenden, Chief Financial Officer
Bonnie Howard, Chief Auditor

Gentlemen:

I am currently (since early 2006) the Business Chief Underwriter for the Real Estate Lending Correspondent channel, which is within the Consumer Lending Group. From 2002 to 2006 I was SVP and Chief Underwriter for the Correspondent and Acquisitions channel within Citifinancial Mortgage. I am also licensed as a Certified Public Accountant in the State of Texas.

The reason for this urgent email concerns breakdowns of internal controls and resulting significant but possibly unrecognized financial losses existing within our organization.

Since mid-2006, I have continually identified these breakdowns in processes and internal controls. The REL Chief Underwriter (my 2006 manager) and I have widely communicated these breakdowns, with possible ramifications, in weekly reports, emails, and discussions (which included the CLG Chief Risk Officer). There have also been two special investigations by CLG Business Risk and Control (the first initiated by me), with the findings confirming these breakdowns.

However, to my knowledge, these breakdowns have not been communicated to or recognized by either Audit or Finance.

I have been agonizing for some time over these issues, and in all good conscience feel I must now communicate these concerns outside of the Consumer Lending Group. I sincerely regret the delay.

CONCERN #1 -- CORRESPONDENT FUNDINGS THROUGH DELEGATED AUTHORITY

- We currently purchase from mortgage companies and sell to third party investors approximately $50 billion annually ($42 billion YTD 2007) of mortgage loans which have not been underwritten by us but which we rep and warrant to the investors (primarily Fannie/Freddie) that these files are complete and have been underwritten to our policy criteria.
- Our internal Quality Assurance function, which underwrites a small sample of these files post-purchase, has reflected since 2006 (when this function started reporting to me) that 40-60% of these files are either outside of policy criteria or have documentation missing from the files. QA for recent months indicate 80% of the files fall into this category.
- If any of the mortgages in this category default, the investor may require that Citi repurchase the defaulted files based upon our reps and warrants. Under seller reps and warrants Citi may then force the selling mortgage company to repurchase the files, if the seller mortgage company remains financially viable at that time. (As one example, QA results indicate that Citi may be responsible for in excess of 50% of the losses associated with files purchased from the failed Aegis Mortgage – $2.5 billion purchased since Jan '06).
- A CLG BRC investigation, requested by me, confirmed the breakdowns associated with the QA process and the fact that the QA findings were significantly out of compliance with QA Risk Policy. The Chief Underwriter responsible for this function was terminated and a new QA Risk Policy was approved in 2006.

Exhibit I a)

We continue to be significantly out of compliance with the new QA Risk Policy.

- I do not believe that our company has recognized the material financial losses inevitably associated with the above Citi liability.

CONCERN #2 – CORRESPONDENT FUNDINGS THROUGH WALL STREET BULK PURCHASES

- During 2006-7 there were pools of mortgage loans aggregating $10 billion which were purchased from large mortgage companies with significant numbers of files identified as "exceptions" (higher risk and substantially outside of our credit policy criteria). These exceptions were approved by the Wall Street Channel Chief Risk Officer, many times over underwriting objections and with the files having been turned down by underwriting. These pools involved files aggregated and originated by Merrill Lynch, Residential Funding Corp, New Century, First NLC and others.
- The purchase decisions on many of these pools were approved even though the execution rates and other criteria established by the CLG Bulk Acquisition Policy were not met.
- Because of the initial high losses associated with many of these pools, CLG BRC investigated and reviewed correspondence which documented underwriting objections to purchasing identified pools.
- BRC conducted an investigation of one Merrill Lynch pool, identifying generic breakdowns of process required by policy and recommended needed changes.
- Changes were made in the bulk purchase process, but I do not know if the expected material financial losses from these pools has been recognized.

I know that this will prompt an investigation of the above circumstances which will hopefully be conducted by officers of the company outside of the Consumer Lending Group, and I pledge my full cooperation.

As a professional, as well as a shareholder of this company, I am deeply distressed with having to report the above.

I will be in the office Monday, and can be available by cell phone, if needed, this weekend.

Dick Bowen
469-220-1151 office
214-497- cell