**Testimony of Susan Mills**
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**Financial Crisis Inquiry Commission**
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Chairman Angelides, Vice Chairman Thomas, and Members of the Commission, thank you for inviting me to appear today. I am Susan Mills, head of the Mortgage Finance group at Citigroup Global Markets Inc. (CGMI), a position I have held since 1999. My group is a part of the team responsible for securitization and underwriting of residential mortgage-backed securities (RMBS), among other mortgage-related activities, within Citi's investment bank.

The Commission has asked me to address the RMBS securitization activities of my group, including our business model and our due diligence activities, with an emphasis on the securitization of subprime and Alt-A residential mortgages.

Our mortgage trading and securitization activities were part of an intermediation business—that is, we purchased mortgage loans from originators and sold RMBS bonds to sophisticated institutional investors. Simply stated, our objective when purchasing mortgages was to securitize them and distribute the resulting mortgage bonds to meet the demand from our fixed income investors.

While I understand that the Commission is interested in gaining an understanding of the mortgage securitization business generally, and I am happy to assist in this effort, it is worth noting a couple of factors that distinguished Citi's RMBS activities from those of certain other participants in the market. Most significantly, CGMI's RMBS securitization business was smaller than the RMBS business at many other Wall Street firms. Publicly available league tables show that CGMI ranked seventh in underwriting U.S. mortgage-backed securities in 2004, tenth in 2005, eleventh in 2006, and tenth in 2007.

A significant reason for this was that, unlike many other firms, in the period leading up to the market dislocation in 2007, CGMI did not operate what is known as a mortgage conduit, which is an entity used to acquire mortgages on an ongoing basis through established relationships with originators. In addition, Citi's investment bank did not have a direct relationship with an affiliated mortgage originator from which we had the ability to directly source mortgages for our securitizations. This meant that, instead of originating and servicing mortgages in-house for our securitization business (as many of our peers did), we exclusively purchased loans from originators in the marketplace in arms-length transactions. As a result, we underwrote our RMBS according to the guidelines of the loan originators, not our own set of guidelines. Those guidelines, in turn, were disclosed to investors in our RMBS offering documents.

Specifically, during 2005–2007, the period I understand the Commission is focused on, mortgage traders at CGMI purchased large pools of subprime residential mortgages from well-capitalized originators through an open market bidding process. The mortgage traders would evaluate the characteristics of available pools of loans, the market for RMBS and investor demand, among other factors, in order to determine CGMI's bid for a pool. If our bid was accepted, and we agreed to consummate a trade, my group then would perform a review of the loans to be purchased.

Our due diligence had two principal components. First, before ever purchasing loans from a particular seller, we would evaluate the seller and their operations, typically through an onsite review. If we were not comfortable with a particular seller, we would not do business with them. Secondly, with respect to pools of loans that we were purchasing, we would perform a due diligence review focused on ensuring that the loans met the originator's underwriting guidelines. To conduct this review, we engaged third-party diligence providers that we actively supervised. Although our diligence practices varied depending on, among other factors, our familiarity with the seller and the mortgages being offered for sale, in a typical transaction we would perform both valuation diligence (an analysis of the value of the mortgaged property) and credit and compliance diligence (a review of, among other things, the borrower's finances and the loan's compliance with state and local lending laws). We determined the sample size of the pools employing both random sampling methods and adverse selection criteria (for example, we might decide to review all loans with a loan-to-value ratio above a certain percentage). Upon completion of our review, we finalized our purchase population, rejecting loans that failed our diligence standards.

Once we had aggregated a pool of loans of sufficient size, we then would securitize those loans. As part of this process, we submitted loan-level information to credit rating agencies such as Moody's, S&P and Fitch to determine the dollar amount of bonds in each rating category for the RMBS and other credit enhancement features of the bond structure. We would market the RMBS to investors, solicit feedback from those investors regarding the transaction, and finalize the structure and pricing. As noted earlier, our RMBS offering documents described the underwriting standards of the originator or originators of the loans in the pool, and also provided extensive narrative and stratifications concerning the loans themselves.

In addition to performing our own securitizations (sometimes referred to as "principal" transactions), my group also performed finance functions for third-party mortgage securitizations (known as "agent" transactions). In agent transactions, we would underwrite securities for a third party in exchange for an underwriting fee, and it would be the third party, not Citi, that would issue the resulting RMBS securities.

I understand that the Commission is particularly interested in our efforts to monitor the mortgage market and detect fraud. Our due diligence review served as the primary—and I believe highly effective—means by which we evaluated the loans that we purchased and securitized. If we identified issues with the loans in a pool of mortgages that we had agreed to purchase, including concerns about potential fraud, we would perform additional diligence until we were satisfied that our level of diligence was appropriate. We would not purchase loans that failed to meet the applicable underwriting guidelines of the originator or violated any compliance regulations or that appeared fraudulent. We also monitored the performance of the loans that we purchased and we typically negotiated the right to require the seller of loans that experienced early payment defaults—an indication of potential fraud—to repurchase those loans. To assist us with these efforts, starting in 2006, we established a unit within Mortgage Finance to monitor the performance of the loans that we securitized and manage our repurchase requests relating to early payment defaults and breaches of representations and warranties.

Unfortunately, our diligence practices did not detect what we now know to be the most significant downturn in the U.S. housing market for generations. As a result of the unprecedented housing collapse, which led to the decline of the value of all mortgage loans, many of our RMBS securitizations have performed worse than expected. Of course, as this Commission is well aware, securitization activities involving mortgage loans all but ceased in late 2007 and throughout 2008 and 2009. However, I continue to believe, despite the financial crisis and the collapse of residential home prices, that the securitization of non-agency mortgages plays a vital role in making capital available to institutions to enable individuals to purchase homes. I am encouraged that we are slowly starting to see the mortgage securitization market return. For our part, we at Citi are committed to applying thorough diligence practices as we adapt our business to the changing marketplace. I appreciate the opportunity to discuss some of those practices with the Commission today, and I look forward to answering your questions.

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