CITI MONITORSHIP

THIRD REPORT SEPTEMBER 2015

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I. INTRODUCTION

This is the third report of the Monitor pursuant to the July 11, 2014 agreement ("Settlement Agreement") among Citigroup, Inc. ("Citi"), the U.S. Department of Justice ("DOJ"), and the states of California, New York, Illinois, Delaware, and the Commonwealth of Massachusetts (collectively, "the States").[1] As explained in the Monitor's first two reports, Citi agreed as part of the Settlement Agreement to pay $4.5 billion to the settling governmental entities, acknowledged a statement of facts attached to the Settlement Agreement as Annex 1, and agreed to provide consumer relief valued at $2.5 billion under the principles set forth in Annex 2.[2]

The Settlement Agreement appointed Thomas J. Perrelli to serve as an independent monitor ("Monitor") to determine Citi's compliance with the consumer relief and corresponding requirements of Annex 2 of the Settlement Agreement.

This third report includes:

- An assessment of Citi's consumer relief efforts through March 31, 2015;
- An update on the Monitor's development of a framework for testing Citi's investments in affordable rental housing under Menu Item 5; and
- A review of the consumer outreach events that Citi has conducted thus far.

II. PRIOR REPORTS AND CREDIT EARNED

The Monitor issued his first report in January 2015, which provided an overview of the Settlement Agreement, described its various consumer relief provisions, identified the Monitor's role and responsibilities, detailed the initial testing procedures, and assessed an initial population of loans for which Citi sought consumer relief credit.[3] The Monitor determined that Citi earned $13,971,004 of consumer relief credit for the time period of April 30, 2014 (the beginning of the time period authorized under the Settlement Agreement) through November 21, 2014.[4] This consumer relief credit was based upon an initial population of 100 loans, under Menu Item 4A of Annex 2, which addresses forgiveness of principal associated with a property where foreclosure is not pursued and liens are released.[5]

The Monitor issued his second report in May 2015.[6] This second report addressed the Monitor and Citi's efforts to develop testing procedures for Menu Items 1A and 2A consumer relief. It also discussed Citi's outreach events and progress in satisfying its obligations to finance affordable housing developments under Menu Item 5.

Between the issuance of the first report and this report, the Monitor and Citi have worked extensively to develop definitions and testing procedures to validate submissions for credit. Among other things, the goal of this effort is to ensure that Citi is submitting for credit relief that ultimately will meet the criteria set forth in the Settlement Agreement.

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[1] The text of the Settlement Agreement can be found at the Monitor's website, http://citigroupmonitorship.com/.
[2] Settlement Agreement, Annex 2 at 2, 4, *available at* http://www.citigroupmonitorship.com/wp-content/uploads/2015/06/annex_2.pdf.
[3] Citi Monitorship First Report, January 2015, *available at* http://www.citigroupmonitorship.com/wp-content/uploads/2015/06/citi_monitorship_initial_report_2015-01-21.pdf (First Report).
[4] *Id.* at 16. As noted in that initial report (and as is true with respect to the credit discussed in this report), the Monitor's work to confirm compliance with the FHA/ECOA provision of the Settlement Agreement is ongoing.
[5] *Id.* at 14.
[6] Citi Monitorship Second Report, May 2015, *available at* http://www.citigroupmonitorship.com/wp-content/uploads/2015/06/second_citi_monitor_report_051515.pdf (Second Report).

III. CONSUMER RELIEF CREDIT EARNED

A. Overview

On May 14, 2015, Citi submitted a claim to the Monitor for consumer relief credit for loans pursuant to Menu Items 1A, 2A, and 4A of the Settlement Agreement, for the time period of November 22, 2014 through March 31, 2015.

As discussed in greater detail below, for the time period that ended on March 31, 2015, the Monitor has determined that Citi has earned consumer relief credit in the amount of $162,704,754. The Menu Item breakdown of the credit is set forth in Table 1, below:

Table 1: Consumer Relief Credit Earned Between Nov. 22, 2014 – March 31, 2015

Menu Item	Category	Transactions in Total Population	Validated Credit Amount Earned
1A	First lien principal forgiveness	234	$13,143,520
2A[7]	Rate reduction/refinancing	2,498	$119,910,186
4A	Principal forgiveness where foreclose is not pursued and liens are released	636	$29,651,048
Total		**3,368**	**$162,704,754**

B. Testing Procedures and Methodologies

As with previous submissions, Citi performed the consumer relief activities for which it is seeking credit and submitted them to its Internal Review Group ("IRG"). The IRG is a group of Citi employees and vendors who, at all times, is required to be fully independent of Citi's mortgage loan servicing operations.

The IRG tested and confirmed the eligibility of Citi's consumer relief activities and the amount of credited relief through an independent review ("Satisfaction Review"). This Satisfaction Review was guided by the "Testing Definitions," approved by the Monitor, as previously discussed in the Monitor's first report.

[7] As discussed further *infra*, see n.24, after Citi submitted transactions under Menu Item 2A for relief, the Monitor determined that some of these transactions—specifically, 488 transactions for which Citi provided balance forgiveness or paid costs but with no associated creditable rate reductions—were more appropriately categorized under Menu Item 1G of Annex 2 of the Settlement Agreement. Accordingly, while the Monitor includes the relief associated with these transactions in the total credit amounts for this period, the Monitor and Citi have agreed that the credit Citi earned through these transactions—which amount to $21,527,934—will not be credited toward the Menu Item 2A minimum of $299 million or the Menu Item 2A maximum of $74 million associated with balance forgiveness, as required by the Settlement Agreement. For future reports, transactions in which Citi seeks credit for costs paid or balance forgiveness without an associated creditable rate reduction will be counted in the Menu Item 1G total.

For the time period that ended on March 31, 2015, the IRG reported the results of its Satisfaction Review through a certification to the Monitor on May 14, 2015. The certification indicated that the IRG reviewed Citi's claimed credit and determined that it complied with the Settlement Agreement's requirements.

The Monitor and BDO Consulting BDO USA ("BDO")[8] reviewed the IRG's Satisfaction Review. The Monitor and BDO evaluated the transactions submitted for credit, as discussed below.

The Monitor determined whether Citi satisfied its obligations and whether the amount of credit claimed by Citi was appropriate. The testing methodologies used and the results of the Monitor's determination are set forth below.

1. IRG Satisfaction Review

The IRG's testing of Citi's claimed credit first required the IRG to select randomly three statistically valid samples from all transactions indicated by Citi as receiving consumer relief for the time period that ended on March 31, 2015. These samples were drawn from the loan populations for the three Menu Items noted above (Menu Items 1A, 2A, and 4A).

The samples for each of these Menu Item populations were selected using SAS (i.e., Statistical Analysis System), a well-established integrated system of software products that enables programmers to perform, among other things, data extraction and analysis. In determining the sample size, the IRG used a 99% confidence level[9] testing for the possibility that the credit was overstated (a "one-tailed" test). As agreed upon with the Monitor, the IRG used a 2.5% estimated error rate in the population and a 2% margin of error.

For each of the samples, the IRG conducted an independent review to determine whether the transactions were eligible for credit and, if so, whether the amount of credit claimed by Citi was calculated correctly. The IRG executed this review pursuant to and in accordance with the Testing Definition and related IRG Test Plan for each of the three Menu Items. Additionally, the IRG captured and saved in its work papers available screenshots from Citi's System of Record ("SOR"), evidencing the relevant data.

The IRG concluded that:

- The consumer relief submitted by Citi for the time period that ended on March 31, 2015 was based upon completed transactions that were correctly reported by Citi;
- Citi had correctly credited those consumer relief activities within the agreed-upon sampling and error thresholds, discussed further below; and
- The claimed consumer relief satisfied the requirements, conditions, and limitations set forth in Annex 2 of the Settlement Agreement.[10]

[8] The Monitor retained BDO Consulting, a division of BDO USA, LLP, to assist in determining whether Citi has complied with the specific obligations set forth in Annex 2 of the Settlement Agreement. *See* First Report at 10

[9] "Confidence level" is a measure of the reliability of the outcome of a sample. A confidence level of 99% in performing a test on a sample means that there is a probability of at least 99% that the outcome from the testing of the sample is representative of the outcome that would be obtained if the testing had been performed on the entire population.

[10] These requirements, conditions, and limitations are also described in the first report. *See* First Report at 5-7.

2. The Monitor's Review

At the Monitor's direction, BDO conducted an extensive analysis of the IRG's Satisfaction Review. This analysis included re-testing all of the transactions tested by IRG for each of the three Menu Item populations, following the processes and procedures set out in the Testing Definitions and IRG Test Plans.

In the course of its analysis, BDO was given access to a list of, and accompanying detail for, all 645 transactions tested by the IRG (19.2% of the total transactions submitted). BDO was also provided remote access via Citi's secure FileNet platform to the loan-level SOR screenshots captured and saved by the IRG in the course of performing its Satisfaction Review. For each transaction tested, the IRG provided the data elements and evidence necessary for validating credits in accordance with the Settlement Agreement and the applicable Testing Definition. The IRG cooperated in full with BDO.

In addition to BDO's analysis of the three samples tested by the IRG, BDO examined the three Menu Item files for the total loan populations—provided by Citi and from which the IRG samples had been drawn—in order to verify the claimed credit totals as shown in Table 1. BDO documented its findings and reported them to the Monitor.

Finally, the Monitor's review included numerous discussions with Citi with respect to Menu Items 1A, 2A, and 4A. In particular, Menu Item 2A, which relates to rate reductions and refinancing, presented a number of issues not raised by prior settlements. In addition to having criteria for creditable refinancings that are different from those in the National Mortgage Settlement, this Settlement Agreement authorizes Citi to obtain credit for facilitating third party refinancing.

Citi facilitates third-party refinancings under the Settlement Agreement pursuant to an agreement with another lender, 1st Alliance Lending, LLC ("1st Alliance"). Some of the rate reduction and refinancing issues, and the steps to ensure compliance with Menu Item 2A, that the Monitor undertook include:

- **Reviewed the 1st Alliance Agreements.** The Monitor reviewed the terms of the Master Marketing Agreement (and amendments) between Citi and 1st Alliance. The Monitor also reviewed the specific marketing programs designed to implement the 1st Alliance refinancing program. That review assisted the Monitor in determining, among other things, that Citi would "facilitate" refinances through 1st Alliance, as discussed further below. In the event that Citi decides in the future to facilitate Menu Item 2A transactions through another third party or through a different set of agreements, the Monitor will review the terms of those future agreements to confirm compliance with the Settlement Agreement.

- **Ensured Citi "Facilitates" Refinancings.** The Settlement Agreement does not define what it means for Citi to "facilitate" a refinancing in order to earn credit for a rate reduction. In the Monitor's view, the term "facilitate" must mean more than what Citi is otherwise required to do when a borrower independently seeks to refinance. The Monitor has determined that Citi may seek credit for facilitating a refinance where it provided sufficient financial assistance to the borrower in connection with the transaction. Financial assistance includes balance or principal forgiveness, payment of a borrower's transaction/closing costs, or payments to other lienholders. The loans for which Citi is receiving credit in this report include only those for which Citi has provided such assistance.

- **Ensured No Cost to Borrowers.** Footnote 12 to Annex 2 of the Settlement Agreement states: "All rate reduction and refinancing under any Menu Item must be provided at no cost to the borrower, excluding any tax consequences which shall be the responsibility of the borrower." The Monitor undertook a number of steps to validate compliance with this provision. First, the Monitor required Citi to certify that there were no hidden costs to borrowers who were provided rate reductions or refinancings for which Citi sought credit under Menu Item 2A. Second, the Monitor reviewed and discussed with Citi the 1st Alliance agreements and HUD-1 forms in the Menu Item 2A IRG sample with respect to costs paid. A few loans that were tested by the IRG and BDO involved refinancings for which the HUD-1 reflected that a borrower paid appraisal costs outside of closing. The Monitor raised this issue with Citi, and Citi provided evidence demonstrating that it had paid the appraisal fees in each of these instances.
- **Reviewed the Reasonableness of Costs Paid.** The Monitor reviewed costs paid by Citi on behalf of borrowers for reasonableness and consistency with the market. With respect to costs paid in connection with a refinancing through 1st Alliance, the Monitor directed BDO to review for reasonableness the schedule of estimated costs and fees that Citi and 1st Alliance agreed to in their Master Marketing Agreement. BDO also reviewed for reasonableness the borrower costs that Citi reported as paid for each refinancing or modification in the Menu Item 2A IRG sample. Following a discussion between the Monitor and BDO, the Monitor was satisfied that the costs paid in the schedule were reasonable and that the actual borrower costs paid were reasonable as well.
- **Reviewed the Relationship Between 1st Alliance and Citi.** Although not expressly discussed in the Settlement Agreement, the Monitor also looked at whether Citi receives, in some fashion, other compensation arising out of third party refinancings. In the context of the Settlement Agreement, it would undermine credit received under Menu Item 2A if Citi received compensation from 1st Alliance in exchange for Citi's facilitation of a refinancing. To address this issue, Citi provided a written representation that the 1st Alliance agreement, which the Monitor reviewed and which does not include such payments back to Citi, is the complete economic arrangement between Citi and 1st Alliance.

C. Results of Citi's Consumer Relief Credit Activities

1. Menu Item 1A

a. Overview

Pursuant to the Settlement Agreement, Citi receives credit for reducing or eliminating a borrower's unpaid principal balance under Menu Item 1A. Modifying loans with principal forgiveness addresses the problem that many homeowners faced coming out of the financial crisis—they had taken out mortgages based on inflated home prices, and were underwater with their homes worth less their mortgages.

Principal forgiveness was a centerpiece of the original National Mortgage Settlement ("NMS") and remains so in the Citi and other RMBS settlements. However, the Settlement Agreement's principal reduction provisions differ from the NMS's provisions in significant respects, in no small part because the two agreements were signed at different points in the mortgage market. The NMS, negotiated principally in 2011 in the immediate aftermath of the financial crisis, was predicated on a world where many borrowers were underwater and default rates were high. In contrast, in 2014 and 2015 default rates have declined significantly, and housing prices have improved.

Those differences explain some of the changes from the NMS to the Citi Settlement Agreement. Both agreements limit principal reductions to borrowers in some form of distress. Under the NMS, for example, the focus was on bringing consumers' loan-to-value ("LTV") percentage, the ratio of the size of the loan to the current value of the home, down to 120%.[11] In contrast, the Settlement Agreement requires Citi to reduce principal to 100% of LTV or below in order to get credit. That lower number (as well as the other, less stringent aspects of the principal reduction provisions of the agreement) reflects both the current state of the housing market today and the fact that Citi has a significantly smaller number of mortgages in distress that would benefit from principal reduction.

Under this menu item, Citi is eligible for dollar-for-dollar credit for principal reductions to qualifying loans,[12] as well as additional incentive bonuses of 15% added credit for (1) reductions made before October 1, 2015; and (2) reducing borrowers' LTV ratio below 100%.[13]

These principal reduction modifications may be made under the Making Home Affordable Program (including the Home Affordable Modification Program ("HAMP") and the Housing Finance Agency Hardest Hit Fund) or Citi's own proprietary modification program.[14] Under this menu item, credit to Citi is reduced to the extent that Citi receives incentive payments under government programs. Citi did not receive any HAMP incentive payments for modifications receiving Settlement Agreement credit during the time period that ended on March 31, 2015.

Under Menu Item 1A, credit may be earned only for reducing the unpaid principal balance on first lien mortgages.[15] Finally, half of all consumer relief provided to CitiMortgage, Inc. ("CMI") borrowers[16] under Menu Item 1 must be given to borrowers who reside in areas most harmed by the foreclosure crisis.[17]

b. Results

Citi provided $11,202,031 in principal forgiveness for the time period that ended on March 31, 2015. This relief under Menu Item 1A comprised modifications to 234 loans. Each loan modification submitted reduced the borrower's LTV from above 100% to 95%. Every loan submitted by Citi was thus eligible for both the early incentive credit and the credit for incremental LTV reductions below 100%, and Citi earned $1,941,489 in incentive credit for the 234 loan modifications. The Monitor has confirmed the eligibility of Citi's modifications and a total of $13,143,520 in credit under Menu Item 1A for this period.

[11] Studies have since shown that reducing LTV ratios via principal reduction lowers default rates. *See, e.g.*, Therese C. Scharlemann & Stephen H. Shore, *The Effect of Negative Equity on Mortgage Default: Evidence from HAMP PRA* (U.S. Dep't Treasury Office of Financial Research, Working Paper No. 15-06, 2015), available at http://financialresearch.gov/working-papers/files/OFRwp-2015-06_Effect-of-Negative-Equity-on-Mortgage-Default.pdf
[12] Qualifying loans under the Settlement Agreement are defined in five categories, including (1) non-performing loans; (2) loans in imminent default (as defined by Citi in its written policies with respect to implementation of HAMP); (3) loans at or above 100% LTV; (4) loans with rates substantially above Freddie Mac's Primary Mortgage Market Survey; and (5) loans with troubled loan history (where the borrower has missed two or more payments during the term of the loan). Settlement Agreement, Annex 2 at 2 n.4.
[13] Settlement Agreement, Annex 2 at 2.
[14] *Id.* at 1.
[15] *Id.* at 2 n.5
[16] As previously described in the Monitor's first report, Citi is providing its consumer relief through CitiMortgage, Inc. (CMI) and CitiFinancial Services (CFS). First Report at 15.
[17] The Settlement Agreement relies on HUD's definition of Hardest Hit Areas, *available at* http://www.huduser.org/NSP2/excel/Total%20US.zip. Settlement Agreement, Annex 2 at 7 n.11.

Each of these loans was modified by CMI as a HAMP modification. As noted above, the Settlement Agreement requires that at least 50% of CMI-modified loans under Menu Item 1 be for homes in census tracts classified by HUD as “hardest hit areas” (“HHA”). Citi reported that 172 of the 234 modifications were made to loans on houses in HHA census tracts[18]. These 172 loans were given $7,636,403 in principal reductions and earned Citi $8,961,423 in credit, which is 68% of the total credit for this submission under 1A.

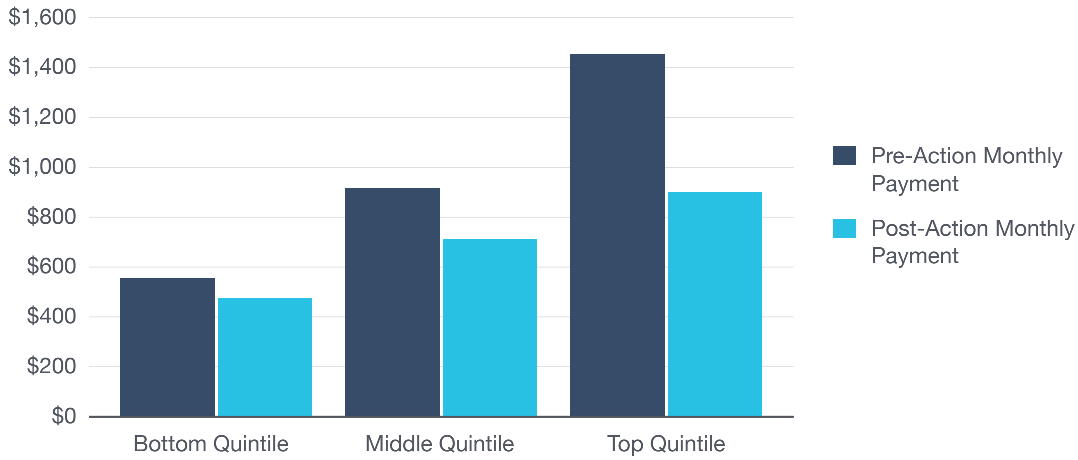
Although one cannot draw conclusions about the distribution and characteristics of Citi’s overall consumer relief efforts until later in the term of the Settlement Agreement, the Monitor makes the following observations about the relief provided under Menu Item 1A and analyzed in this report:

- **Geographic Distribution.** Citi modified loans in 33 states, including four of the five Settling States—California, Illinois, Massachusetts, and New York. Borrowers in the Settling States received $3,473,517 in forgiveness, which is 31% of the principal reductions submitted for the time period that ended on March 31, 2015.
- **Average Forgiveness.** Citi forgave, on average, $47,872 per loan, reducing the average unpaid principal balance (“UPB”) from $170,813 to $122,941. The median forgiveness amount was $39,488, reducing the median UPB from $151,455 to $111,150.
  - The largest amount of principal reduction for a single loan was $203,998, which was for a loan that had a pre-modification UPB of $393,998 and a pre-modification LTV of 197%. The smallest amount forgiven was $5,596, which was for a loan that had a pre-modification UPB of $35,046 and a pre-modification LTV of 113%.
  - The average amount of forgiveness for the bottom quintile of loan forgiveness was $13,606 for loans with an average pre-modification UPB of $102,962 and an average pre-modification LTV of 114%. In contrast, the average amount of forgiveness for the top quintile was $102,381 for loans with an average pre-modification UPB of $267,462 and an average pre-modification LTV of 171%. The average amount of forgiveness for the middle quintile was $38,837 for loans with an average pre-modification UPB of $173,568 and an average pre-modification LTV of 132%.
- **LTV Starting Point for Borrowers Receiving Relief.** The average pre-modification LTV was 144% with the median LTV at 129%. The smallest LTV on a loan that received forgiveness was 102% and the largest LTV was 501%. In all, 21 loans had LTVs at or above 200%.

Citi’s principal forgiveness not only creates positive equity for the borrowers by reducing LTV to 95%, it also decreases borrowers’ monthly mortgage payments. Borrowers who received the principal forgiveness discussed here would—assuming a hypothetical, static interest rate of 5% for a fixed rate 30-year loan—receive on average a reduction of 28% on their monthly mortgage payments (from $917 to $660 per month).

[18] Compliance with the 50% HHA requirement can only be validated based on Citi’s total submission of CMI loans at the end of the Settlement Agreement. The Monitor will track this percentage in each report that includes Menu Item 1 relief attributable to CMI loans.

Chart 1: Decrease in Hypothetical, Illustrative Monthly Mortgage Payments for the Bottom, Middle, and Top Quintiles of Borrowers Receiving Principal Forgiveness for the Time Period That Ended on March 31, 2015 If Each Borrower's Interest Rate Remained at 5% for a Fixed-Rate 30-Year Loan.



As illustrated above, the impact on a borrowers' monthly mortgage payment is dependent on the size of the pre-action UPB and amount of forgiveness. The 20% of borrowers receiving the least amount of forgiveness may have received an average monthly mortgage payment reduction of $73 or 13.2%, while the middle 20% of borrowers may have received a reduction of $209 or 22.4%, and the top 20% may have received an average reduction in their mortgage payment of $550 or 38.3%.[19]

[19] These calculations are hypothetical illustrations based on an assumption of a static 5% interest rate on a 30-year loan across borrowers. For borrowers with a higher interest rate, the decrease in absolute dollars of their monthly mortgage payment would be greater.

As Citi continues to submit loans for consumer credit relief under Menu Item 1A in the upcoming months and years, these figures and averages will likely change, and the results to date should be considered preliminary. The Monitor will continue to assess the data in future reports. With that in mind, a snapshot of the data under Menu Item 1A to date is set forth in Table 2, below:

Table 2: Citi 1A Credit for the Time Period That Ended on March 31, 2014 at a Glance

Number of Modifications	234
Total Amount of UPB Forgiven	$11,202,031
Amount Forgiven in HHAs	$8,961,423
Percentage of Forgiveness in HHAs	68%
Total Incentive Credit	$1,941,489
Total Amount Credited to Citi	$13,143,520
Average Pre-Modification UPB	$170, 813
Average Post-Modification UPB	$122,941
Average Amount of UPB Forgiven	$47,872
Median Pre-Modification UPB	$151,455
Median Post-Modification UPB	$111,150
Median UPB Forgiveness	$39,488
Average Pre-Modification LTV	144%
Average Post-Modification LTV	95%
Average LTV Reduction (percentage reduced)	29%
Median Pre-Modification LTV	129%
Median LTV Reduction	26%

2. Menu Item 2A

a. Overview

Under Menu Item 2A, Citi receives credit based on a reduction of a borrower's mortgage interest rate, "regardless of loan performance status," provided that such relief is offered at no cost to the borrower other than any tax consequences incurred as a result of the relief received.[20] If a borrower receives a rate reduction of between 200 and 400 basis points, Citi receives credit based on a formula that seeks to estimate the amount of future interest payments foregone. If the rate reduction is greater than 400 basis points, Citi receives an additional 25% credit.

Citi has the option under Menu Item 2A to provide a rate reduction through a Citi loan modification or, in the alternative, to "facilitate" a refinancing through a third party to reduce the borrower's current interest rate with Citi. Citi earns dollar-for-dollar credit when it forgives a portion of the borrower's existing balance—or pays "other costs" on behalf of the borrower—to facilitate a third party refinancing that results in a creditable rate reduction. The Monitor interprets these costs to include only those for which Citi actually makes an out-of-pocket payment—not for any payment from one Citi entity to another, such as extinguishment of a lien held by Citi (which is otherwise governed by Menu Item 1H). In addition, as noted above, the Monitor reviewed costs paid by Citi for reasonableness and consistency with the market.

A common question is why Citi should be entitled to *any* credit for refinancing of loans, given that many borrowers have had no trouble refinancing in this era of historically low interest rates; indeed, some borrowers are besieged by offers to refinance. But for a substantial population of homeowners, refinancing is difficult or simply not an option. Borrowers who are underwater have significant difficulty refinancing—a new lender will not want to pay off a pre-existing mortgage that is greater than the value of the home. Borrowers suffering economic hardship, including those who are delinquent on their current mortgage or have a poor payment history, may find lenders unwilling to offer them a new loan.

Thus, for this substantial category of borrowers, historically low interest rates have benefitted them little or not at all—such rates simply have not been within their grasp. And thus, while current borrowers with above-water LTVs—*e.g.*, those who may not have needed help—were able to refinance to lower and lower interest rates, those in greater need could not.

This problem—especially as it related to the many borrowers who were in economic hardship but who scrimped and saved to stay current on their mortgages—was the genesis of the refinancing provisions of the original NMS. The state Attorneys General, in particular, while having varying views on the value of reducing principal to help delinquent borrowers, felt strongly that borrowers who were current on their mortgage payments, but nonetheless struggling, were also victims of the financial crisis and needed some relief. To achieve that end, credit for certain types of refinancing was included as part of the NMS, and credit for similar relief is also part of the Citi Settlement Agreement.

[20] Settlement Agreement, Annex 2 at 8 nn.12-13.

The Settlement Agreement does not obligate Citi to provide rate reductions or facilitate refinancings to any particular borrowers or limit credit to relief provided to borrowers who otherwise are unable to refinance. Whether because of payment history, an underwater mortgage, or inertia, the borrowers receiving rate reductions/refinancing pursuant to the agreement appear, in general, to have not benefitted previously from historically low interest rates. On average, these borrowers had interest rates above 10%. As Citi continues to submit loans for credit under Menu Item 2A in the coming months and years, the Monitor will examine the impact of this menu item in greater detail.

In addition, as noted above, Citi may submit credit for facilitating third-party refinancings that reduce a borrower's interest rate. To date, all such third-party refinancings submitted by Citi for credit were made by 1st Alliance. Under its agreement with Citi, 1st Alliance offers four loan products to Citi borrowers. The terms of the four loan products vary, depending primarily on: (i) the borrower's mortgage history (*e.g.*, 1st Alliance generally requires no missed payments over the past 12 months or, for borrowers with stronger credit and equity characteristics, no more than one missed payment over the same period); (ii) post-refinancing equity (e.g., two of the products require borrowers to have equity in their homes, and all four require borrowers to have post-transaction LTV/CLTV[21] ratios less than 100% and 105%, respectively); and (iii) borrower credit characteristics (*e.g.*, two products require minimum FICO[22] scores of 500, and two products require minimum FICO scores of 580). In many cases, Citi had to forgive principal (as well as pay costs) in order to make the borrower eligible for one of the loan products offered by 1st Alliance.

b. Results

Citi provided $95,230,694 million in consumer relief under Menu Item 2A for time period that ended on March 31, 2015. The Settlement Agreement also provides that Citi is entitled to adjustments, including (i) a 115% early incentive credit, as discussed in prior reports; (ii) a 125% credit for rate reductions greater than 400 bps; and (iii) a 115% credit for LTV reductions where the final LTV is below 100% (*e.g.*, reducing a borrower's LTV from 95% to 85%).[23] With those adjustments factored in, the Monitor has confirmed that Citi is entitled to a total of $119,910,186 in credit under Menu Item 2A for this time period.

[21] Combined Loan to Value ("CLTV") ratios are used by lenders to determine the risk of default by prospective borrowers when more than one loan is used.
[22] A FICO score is the most widely used measurement of a consumer's credit risk and is calculated using certain information from a consumer's credit report.
[23] Credit for LTV reductions is awarded for the LTV percentage difference between 100% and the final LTV.

Citi submitted 2,498 claims for credit under Menu Item 2A. The 2,498 claims submitted under Menu Item 2A include the following[24]:

Table 3: Summary of 2A Relief

Type of Credit	Number of Claims	Total Credit	Average Pre-Action Interest Rate	Median Pre-Action Interest Rate	Average Post-Action Interest Rate	Median Post-Action Interest Rate
Citi loan rate reduction	664	$36,067,282	10.66%	10.59%	5.62%	5.00%
Citi-facilitated creditable rate reduction with 1st Alliance (i.e., 200 or more bps)	480	$37,859,930	10.12%	10.14%	5.78%	5.75%
Type of Credit	**Number of Claims**	**Total Credit**	**Average Amount Paid or Forgiven by Citi per Borrower**		**Median Amount Paid or Forgiven by Citi per Borrower**	
Other Costs Paid	727	$15,095,684	$18,056		$15,463	
Balance Forgiveness	627	$30,887,289	$42,675		$35,653	

Based on the claims for relief submitted to date by Citi under Menu Item 2A, the Monitor observes the following:

- **Geographic Distribution.** While Citi provided Menu Item 2A relief across 48 states, five states accounted for nearly 40% of the 2,498 claims of relief, or $36.2 million of the $95.2 million in relief (Florida (214 claims), Ohio (234 claims), Virginia (206 claims), New York (169 claims), and Pennsylvania (140 claims)).
- **Reductions in Monthly Mortgage Payments.** As illustrated below in Chart 2, the average borrower who received a creditable rate reduction from Citi had her monthly mortgage payment (assuming a 30-year mortgage and no balance forgiveness) decreased by $257 or 38%. The average borrower who received a creditable rate reduction, without an associated balance forgiveness, from 1st Alliance had her monthly mortgage payment reduced by $311 or 34%.
- **1st Alliance Refinancings.** For eligible consumers, the end result of the arrangement between Citi and 1st Alliance is a no-cost refinancing—the benefit of which, in many cases, is an overall rate reduction. That

[24] As noted previously, see n.7, Citi initially submitted relief under Menu Item 2A for balance forgiveness and costs paid to facilitate third-party refinances that did not result in creditable rate reductions. The Monitor determined that these transactions were more appropriately categorized under Menu Item 1G—as Menu Item 2A, by its terms, requires a rate reduction. Pursuant to representations by Citi that these transactions meet the requirements of Menu Item 1G, including the eligibility requirements for each loan, the Monitor has determined that Citi is entitled to creditable relief for these transactions. For purposes of this report, the transactions are included in the Menu Item 2A figures, with the understanding that they will not be credited toward the Menu Item 2A minimum of $299 million or the Menu Item 2A maximum of $74 million for balance forgiveness. Furthermore, those transactions are not entitled to the incentive credit available under Menu Item 2A for LTV reductions below 100%. For future transactions of this type (where there is no rate reduction), Citi will submit those transactions pursuant to Menu Item 1G.

rate reduction can be significant. For example, as illustrated in Charts 3 and 4, 480 borrowers received no-cost refinancings with 1st Alliance products that reduced their interest rates by at least 200 basis points and 386 of these borrowers also received balance forgiveness. On average, these refinancings reduced borrowers' rates from 10.12% to 5.78%. For a hypothetical consumer with a 10% interest rate on a $100,000 mortgage, the impact of a 4% reduction in rate and a principal write-down of $30,000 would be a decrease in monthly mortgage payment from $878 to $420.[25]

Chart 2: Hypothetical, Illustrative Average Creditable Reduction in Monthly Mortgage Payment for Rate Reductions by Citi and 1st Alliance (Assuming Fixed 30-Year Mortgages Before and After Modification/ Refinancing and No Balance Forgiveness):

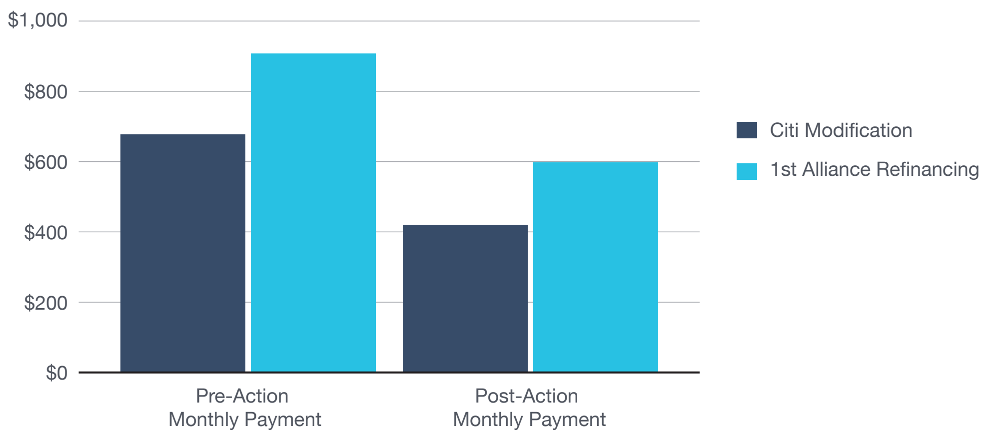
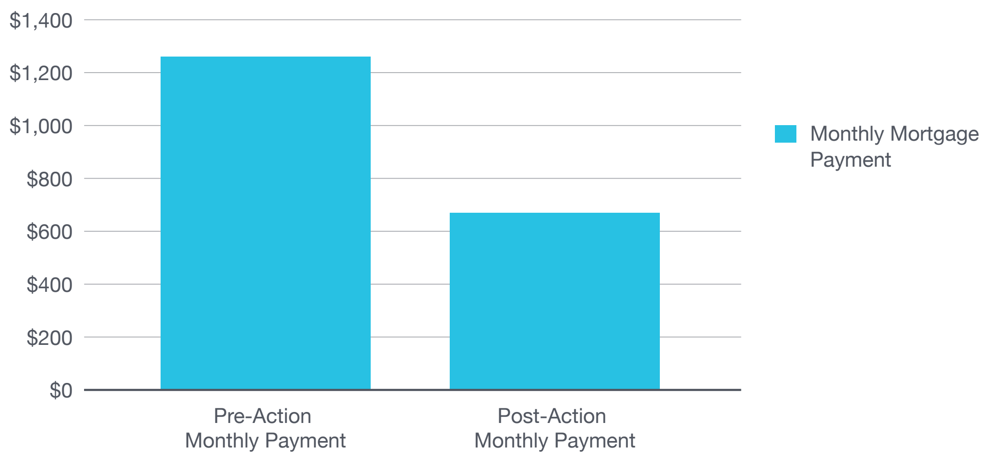


Chart 3: Hypothetical, Illustrative Average Creditable Rate Reduction in Monthly Mortgage Payment for Creditable Rate Reductions by 1st Alliance, for Which Citi Also Provided Balance Forgiveness (Assuming Fixed 30-Year Mortgages Before and After Refinancing):

[25] This calculation assumes a fixed, 30-year mortgage both pre- and post-modification/refinancing.

Chart 4: Hypothetical, Illustrative Average Creditable Rate Reduction in Monthly Mortgage Payment for All Creditable Rate Reductions by 1st Alliance Including Loans Whether or Not They Received Balance Forgiveness (Assuming Fixed 30-Year Mortgages Before and After Refinancing):



3. Menu Item 4A

As described in the first report, under Menu Item 4A, Citi may seek credit when it: (i) foregoes its right to foreclose on a property; (ii) forgives all principal associated with the property; and (iii) releases the Citi-held liens associated with the property.[26] Citi may receive dollar-for-dollar credit under Menu Item 4A for any principal forgiveness on a mortgage loan that is in the first lien position.[27] During the time period that ended on March 31, 2015, Citi provided approximately $25.8 million of relief under Menu Item 4A, and was entitled to an early incentive credit of 15% for consumer relief activity completed by October 1, 2015.

The Monitor has confirmed that Citi is eligible for $29,651,048 in credit under Menu Item 4A. The Monitor makes the following preliminary observations:

- Citi submitted credit for 636 instances of relief under Menu Item 4A, all of which came from CMI.
- The value of the loans forgiven averaged $40,540 per loan and the median loan was $40,610.
- Citi provided Menu Item 4A relief for the time period that ended on March 31, 2015 across 33 states, with just eleven states accounting for approximately 78 percent of the total submission amount. Each of these states received in excess of $1 million in principal forgiveness.[28] Michigan was the largest recipient of Menu Item 4A relief, with 80 residents receiving a total of approximately $4.7 million in forgiveness.
- Five states (MI, IN, OH, PA, and TN) account for nearly half of the 636 credit submissions. The five settling states (i.e., CA, DE, IL, MA, and NY) received approximately $2.8 million of the $29.7 million of consumer relief credit.

[26] Settlement Agreement, Annex 2 at 11.
[27] Consistent with the Settlement Agreement's requirements, Citi has confirmed via an outside vendor that all 636 mortgages at issue were in the first lien position within 180 days of Citi's offer.
[28] The eleven states are AL, FL, IL, IN, MI, MO, NY, OH, PA, TN, and WI.

IV. MENU ITEM 5: INVESTMENTS IN AFFORDABLE RENTAL HOUSING

The Monitor's second report noted that the Settlement Agreement includes provisions requiring Citi to provide subordinate financing to affordable rental housing projects, a form of consumer relief that was not included in prior settlements.[29] The Monitor stated that Citi expected to submit specific transactions for credit. As of publication of this report, Citi has submitted approximately 94 transactions to the Monitor.[30] The Monitor and his team are actively reviewing those transactions and will address them in a future report.

As discussed in previous reports, Menu Item 5 requires Citi to provide "gap financing" for affordable rental housing projects.[31] A large portion of affordable rental housing projects in the United States is financed through a combination of low-income housing tax credits ("LIHTC"), which are awarded to developers for specific projects by state and local LIHTC allocating agencies, market rate senior notes, and mezzanine or "gap" financing to fill the shortfall between LIHTC and market rate senior notes.

This gap financing is subordinate to other obligations of a project and generally is not expected to be repaid. Prior to the financial crisis, this financing frequently was provided by state and local governments. By providing financing, these governments were able to be active partners in projects and exercise some control over where they were located and how they were managed. However, the impact of the financial crisis on state and local government budgets caused this source of financing to decrease considerably.[32]

To address that shortfall, the Settlement Agreement requires Citi to provide a certain amount of this type of financing to projects in certain locations, an activity in which it has not traditionally engaged.[33] While Citi has historically provided senior notes for affordable rental housing projects, the economics and incentives associated with gap financing are very different.

As noted in the Monitor's second report, Citi and the Monitor have worked together to define procedures to evaluate these transactions.[34] Defining and applying these standards has proved a challenging exercise. The Settlement Agreement does not obligate Citi to provide this financing in the form of a grant; instead, Citi receives credit based on the difference between the par value and fair value of the gap financing provided as reflected on the books and records of Citi.[35] As a result, Citi and the Monitor have addressed the following issues:

- **Loan Valuation.** Because of the way credit is calculated, establishing the fair value of the gap financing provided is critical to determining what credit Citi should receive. Under the Settlement Agreement, that loss is calculated as of "the date the commitment to lend is issued."[36] This date precedes the closing of the transaction. As a result, neither Citi nor the Monitor has any information concerning loan performance or repayment at the time credit must be determined (and likely would not have such information for years). To address these challenges, the Monitor has worked with Citi to develop an approach to estimate the value of the loan based on the likelihood of repayment. Under this approach, Citi will present both interest and

[29] Second Report at 6.
[30] *Id.*
[31] Settlement Agreement, Annex 2 at 13.
[32] Second Report at 6.
[33] Settlement Agreement, Annex 2 at 13.
[34] Second Report at 6.
[35] Settlement Agreement, Annex 2 at 13 n.23.
[36] *Id.*

principal valuation components for each transaction based in part on projections included in the loan application. In most of these transactions, there is little chance that Citi will receive significant repayment and the valuations will likely reflect that; where, however, there is a low, but material, likelihood of repayment, the loan will be deemed to have some value (which then reduces the amount of credit that Citi can obtain under the Settlement Agreement). It is likely that for at least some transactions, over time, the fair value estimate at commitment, though accurate when made, will diverge from the actual fair value in the future. Given the structure of the Settlement Agreement, the Monitor cannot wait seven, ten, or perhaps more years before evaluating Citi's submissions for credit. The above approach is reasonable given the Settlement Agreement's structure and is intended to value fairly Citi's likely loss.

- **Documentation.** The Settlement Agreement requires that all qualifying transactions meet certain criteria related to the mix of units at various levels of affordability, land use restrictions, and the mix of units of various sizes.[37] Because the Settlement Agreement provides for credit as of the loan commitment date, however, it can be difficult to verify many of these elements. Simply put, many of the loan documents related to these activities do not exist at the time Citi becomes eligible for credit under the Settlement Agreement. To address these concerns, Citi and the Monitor have worked to develop a process by which the Monitor evaluates certain "template" documents that Citi expects to use in these transactions. The Monitor will then receive, at loan commitment, the existing package of transaction documents. Citi will also provide the Monitor with the additional executed transaction documents post-closing, as requested by the Monitor to ensure that the process functions as anticipated. It is the Monitor's view that this process is consistent with the timing envisioned by the Settlement Agreement, while ensuring that the Monitor can evaluate the key requirements set forth in Menu Item 5.

- **Relationship between Senior and Gap Financing.** Finally, the Settlement Agreement is silent as to the relationship between senior loans and gap financing for which Citi can receive credit. Citi has indicated that in the transactions in which it intends to seek credit it will provide both the senior financing as well as the gap financing to the affordable rental housing project in question. This structure is permitted by the Settlement Agreement, but it raises questions related to the interaction between the two types of financing. Because the Settlement Agreement predicates credit only on the gap financing, there could be an incentive for institutions providing both levels of financing to shift the economics into the senior loans to make the losses on the gap financing larger, thereby generating additional credit. The Monitor raised this issue with Citi and, after a dialogue, Citi and the Monitor reached an agreement regarding a process through which the Monitor will be able to verify that the senior loans were provided on market rate terms and that returns that should be attributable to the gap financing are not improperly allocated to the senior loans. The Monitor will also be able to assess that the senior loan documents do not include terms that also affect the value of the gap financing.

Resolving these issues has been challenging, but the Monitor believes the process set forth above for evaluating these consumer relief activities is reasonable. The Monitor's next report will include validation of specific transactions and will report on particular affordable rental housing projects that were funded through this Menu Item.

[37] *Id. at 13.*

V. CITI'S CONSUMER OUTREACH EVENTS

A. Schedule

The Settlement Agreement requires Citi to host four "Road to Recovery" events each year for the term of the Settlement Agreement (from 2014 through 2018), including 8 events in 2015.[38] These events are intended to provide outreach to Citi borrowers who may be eligible for programs that Citi offers, some of which relief may qualify as creditable consumer relief under the terms of the Settlement Agreement. The events allow for Citi borrowers, on a face-to-face basis, to learn about their eligibility for relief and obtain the assistance necessary to apply for such relief. In his second report, the Monitor addressed the Settlement Agreement's requirements with respect to Road to Recovery events and provided background information about the way in which Citi conducts the events.

To date, Citi has held eight of its Road to Recovery events:

- Los Angeles (April 21, 2015)
- Miami (May 7, 2015)
- Dallas (May 28, 2015)
- Detroit (June 4, 2015)
- Washington, DC (June 18, 2015)
- Chicago (July 21, 2015)
- Atlanta (August 11, 2015)
- Philadelphia (August 25, 2015)

Representatives from the Monitor's team have attended each of these events. Citi has informed the Monitor that it intends to host at least one additional event in 2015, which representatives of the Monitor plan to attend:

- New York (September 22, 2015)

The Monitor will continue to work with Citi to identify additional markets within the Hardest Hit Areas and Participating States for future Road to Recovery events in 2016, 2017, and 2018.

B. Compliance

As discussed below, the Monitor has reviewed the information provided by Citi and has confirmed Citi's compliance with the Settlement Agreement's Road to Recovery requirements for the first five events.[39]

As explained in the Monitor's prior reports, Citi has two different mortgage operations that are providing consumer relief under the Settlement Agreement: CMI and CitiFinancial Servicing ("CFS"). CMI began hosting borrower outreach events in 2011, but CFS began participating in such events only in 2015 pursuant to the terms of the

[38] Settlement Agreement, Annex 2 at 14.
[39] Citi has not yet provided information to allow the Monitor to confirm compliance for the Road to Recovery events held in Chicago, Atlanta, and Philadelphia.

Settlement Agreement. During the early years of these events (shortly after the financial crisis), large numbers of borrowers attended, generating news reports of long lines at large venues. Over time, Citi's experience has been that attendance numbers have dwindled significantly, reflecting the rebound of the housing market and the passage of time since the homeowner displacement resulting from the financial crisis.

Citi is obligated under the Settlement Agreement to notify state government agencies, including state Attorneys General and Housing Finance Authorities, as well as local non-profit organizations, about Road to Recovery events to build awareness and encourage participation in the events. Citi has provided materials that confirm its outreach to not-for-profit organizations and local government agencies in compliance with the Settlement Agreement's requirements for the first five Road to Recovery events held in 2015. At several of the events, non-profit organizations made representatives or information available on-site to assist borrowers: the NID Housing Counseling Agency and REACH (Real Estate, Education, and Community Housing) sent local representatives to the Miami event; the Michigan Homeowner Assistance Nonprofit Housing Corporation ("MHA") provided materials for Citi to distribute regarding the Michigan Hardest Hit Funds Program; and the Housing and Community Services of Northern Virginia sent two on-site representatives to the event in Washington, DC.

Citi is also required under the Settlement Agreement to engage in targeted outreach to eligible borrowers by letter, e-mail, and phone calls, in English, Spanish, and, on a best efforts basis, in other languages. The Monitor's team has reviewed the mail, e-mail, and call schedules, as well as invitations, follow-ups, and other targeted outreach, and has confirmed Citi's compliance for the Road to Recovery events held Los Angeles, Miami, Dallas, Detroit, and Washington, DC. For each of these five events, CMI sent letter invitations to all borrowers within a 40-mile radius of each event in both English and Spanish at least 14 days in advance of the event;[40] sent reminder letters to all invitees in both English and Spanish (but not in any other languages) at least seven days in advance of the event; sent e-mail reminders, where possible, to invitees at least two days in advance of the event; and made multiple automated pre-event calls to invitees, where possible, to encourage participation. Similarly, CFS sent letter invitations to borrowers within a 40-mile radius of each event in both English and Spanish at least 14 days in advance of the event; sent reminder letters to all invitees in both English and Spanish at least six days in advance of the event; and made pre-event manual outbound calls to invitees, where possible, to encourage participation.[41]

The Settlement Agreement also requires Citi to ensure that specialists in both loss mitigation and refinancing are on site for each Road to Recovery event to guide borrowers through various relief alternatives. Specialists in new loan origination must be available for eligible borrowers as well. Citi must additionally provide translation and interpretation services for customers requesting such support. The Monitor has reviewed the materials that Citi has provided, including lists of CMI, CFS, and other staff available on site, and has confirmed that Citi complied with these requirements for the first five Road to Recovery Events in 2015. For each of these events, there was at least one representative from the Citi Office of Homeownership Preservation ("OHP") Travel Team on site; one loss mitigation specialist on site; one mortgage consultant with expertise in both refinancing and new mortgage origination on site; and one bi-lingual (English/Spanish) representative among these staff members. In addition, translation services were available by phone.

[40] In the Second Report, the Monitor erroneously referred to a 30-mile radius. The actual distance is a 40-mile radius. Citi has noted that, although one could do outreach to borrowers from a larger radius, there are significant diminishing returns as, in Citi's experience, borrowers are not likely to travel longer distances.

[41] Citi has explained that most CFS invitees receive a follow-up phone call, and most CMI invitees with a home phone number receive an automated follow-up call. Citi has explained to the Monitor that while CMI attempts to e-mail invitees, CFS does not attempt to contact invitees by e-mail, based on its assessment that such e-mail contact would not be likely to be successful. CFS nonetheless attempts to contact borrowers in at least two ways—*i.e.*, by letter and by telephone.

C. Results

Citi has reported to the Monitor the following data for the first five Road to Recovery events of 2015 (i.e., Los Angeles, Miami, Dallas, Detroit, and Washington, DC):

Table 4: Summary of Relief Provided at Road to Recovery Events

	CMI	CFS
Invitees	9,101	996
Attendees	204[42]	32
Loans Reviewed	218[43]	81[44]
Applications Pending	121	40
Applications Resulting in Relief	3	5[45]

In addition, Citi has tracked the cumulative Net Promoter Score ("NPS") for the Road to Recovery events for both CMI and CFS attendees. This metric is generally used to measure customer satisfaction and loyalty by asking customers to report the likelihood that they would recommend a product or service to a friend or colleague. An NPS can be as low as -100 or as high as +100; any score above 0 is generally considered to reflect a high level of customer satisfaction—and any score above +50 is considered to be excellent. Citi has reported an NPS of 76 for CMI borrowers and an NPS of 77 for CFS borrowers. These scores reflect Citi's reported anecdotal evidence from past experience that the opportunity to have a face-to-face interaction with a specialist is significant to many borrowers.

As the data show, only eight of the approximately 1,000 borrowers invited to the first five Road to Recovery events have obtained relief so far. The effectiveness of Road to Recovery events in providing borrowers with relief under the Settlement Agreement, however, must be measured over a period of months. As explained in the Monitor's second report, while it is possible that borrowers who attend Road to Recovery events will obtain same-day relief, Citi's experience is that in practice this rarely happens because borrowers typically do not have all of the materials necessary to submit a complete application. It may take weeks or months for a borrower to complete an application. Moreover, as with borrowers who seek relief from Citi without attending a Road to Recovery event, it can take time for Citi to review, process, and act upon a complete application. Indeed, as the data show, there are currently 161 additional loans pending from the first five events. It is possible that Citi may ultimately deem some of these loans eligible for relief. For all of these reasons, the number of borrowers obtaining relief from the Road to Recovery events held to date may increase in the coming months. Citi will continue to update these data, so that the Monitor can see how many borrowers obtained relief from each event. Citi will also continue to provide the Monitor with all of the required data for upcoming events. The Monitor will provide further reporting on the effectiveness of Road to Recovery events in providing borrowers relief in future reports.

[42] As noted in the Monitor's second report, the relatively low attendance rate is consistent with Citi's expectations, and may reflect a variety of factors, including the changing housing market and the number of borrower relief events that have been held previously.
[43] Citi has explained that for CMI, the difference between the number of attendees and loans reviewed is due to the fact that some borrowers may have more than one loan. The majority of CMI loans reviewed were considered for modification; only a small percentage were considered for refinancing.
[44] Citi has explained that for CFS, the difference between the number of attendees and loans reviewed is due to the fact that CFS was able to assist some borrowers over the telephone or at other meetings who were invited to the Road to Recovery events. A majority of loans reviewed were reviewed for refinancing; approximately a quarter of loans were considered for modification; and the remaining loans were considered for short sale or settlement.
[45] For CFS, relief took the form of a complete workout, a refinancing, or a short sale or settlement.

VI. SUMMARY AND NEXT STEPS

Citi earned the following consumer relief credit for the time period November 22, 2014 through March 31, 2015: $13,143,520 under Menu Item 1A; $119,910,186 under Menu Item 2A; and $29,651,048 under Menu Item 4A, for a total of $162,704,754. In addition, Citi previously earned $13,971,004 in consumer relief credit under Menu Item 4A for the prior period. Accordingly, to date Citi has cumulatively earned $176,675,758 in consumer relief. The Monitor's next report to the public on Citi's consumer relief activity will be issued in the fall of this year.