Citi Monitorship

Menu Item 1A and Road to Recovery

Tenth Report

May 2019

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I. INTRODUCTION

This is the tenth report of the Monitor pursuant to the July 11, 2014 agreement (the "Settlement Agreement") among Citigroup, Inc. ("Citi"), the U.S. Department of Justice ("DOJ"), and the states of California, New York, Illinois, and Delaware, and the Commonwealth of Massachusetts (collectively the "Settling States").

As the Monitor has explained in prior Reports, Citi agreed as part of the Settlement Agreement to pay $4.5 billion to the DOJ and the States,[1] acknowledged a statement of facts attached to the Settlement Agreement, and committed to providing consumer relief valued at $2.5 billion under the principles set forth in Annex 2 of the Settlement Agreement.[2] Under the Settlement Agreement, Thomas J. Perrelli serves as an independent monitor (the "Monitor") to determine Citi's compliance with the consumer relief and corresponding requirements of Annex 2.

This Report includes the following:

- An assessment of creditable relief provided by Citi under Menu Item 1A for the full term of the Monitorship; and

- An assessment of Citi's compliance with its borrower outreach obligations for 2018 through "Road to Recovery" events.

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[1] Settlement Agreement, July 11, 2014, at 2, available at http://www.citigroupmonitorship.com/settlement-agreement/.
[2] Settlement Agreement, Annex 2 ("Annex 2"), July 11, 2014, available at http://www.citigroupmonitorship.com/wp-content/uploads/2015/06/annex_2.pdf.

II. CONSUMER CREDIT RELIEF EARNED FOR MENU ITEM 1A

A. Introduction

In the Monitor's Third and Eighth Reports, the Monitor credited Menu Item 1A transactions submitted by Citi for relief. For the reasons described below, in 2018, Citi withdrew all of the submissions that the Monitor had credited in those two Reports—totaling $21,778,265.47 in withdrawn credit. Citi subsequently resubmitted for credit some of the 1A transactions that it had withdrawn and also submitted new 1A transactions that had not previously been submitted. According to revised agreed-upon procedures and parameters, Citi's Internal Review Group ("IRG") and the Monitor's consultant, Control Risks Group, L.L.C. ("Control Risks"), tested a statistically significant sample of the transactions that were submitted for credit in 2018 to confirm eligibility for credit. This Report credits and assesses those transactions.

B. History

Under Menu Item 1A, Citi receives credit for reducing or eliminating a borrower's unpaid principal balance. As the Monitor explained in prior Reports, principal forgiveness addresses a problem that many homeowners faced coming out of the financial crisis—they had taken out mortgages based on inflated home prices, and were "underwater," meaning that their homes were worth less than they owed on their mortgages. By reducing the amount that borrowers owe on their mortgages,

principal forgiveness is intended to improve the borrowers' likelihood of staying in the home—or making it affordable for them to sell.[3]

Pre-Action Interest Rate: The interest rate of a loan before modification.

Post-Action Interest Rate: The interest rate of a loan immediately after modification.

Post-Action Lifetime Maximum Interest Rate: The final interest rate of a loan after it steps up to the PMMS rate.

In addition to requirements associated with principal forgiveness, Citi and the Monitor agreed early in the course of the Monitorship that Citi would not submit for credit under Menu Item 1A any principal reduction associated with loan modifications if the borrower's interest rate after the modification (the "post-action interest rate") exceeded the loan's interest rate before modification (the "pre-action interest rate"). The purpose of this rule was to avoid a situation where a borrower benefitted in the short term from a reduction in principal, but ended up paying more on the loan in the long term due to a higher interest rate. In the Eighth Report, the Monitor reported that all of the loans submitted for Menu Item 1A credit had satisfied this rule: all post-action interest rates were fixed and equal to or lower than the pre-action interest rates.[4]

After the Eighth Report was published, however, through discussions regarding future credit submissions under Menu Item 1A and other menu items, it became clear that Citi had submitted relief and received credit under Menu Item 1A for loans that had gone through modifications that both reduced the principal (*i.e.*, qualified for Menu Item 1A) and changed the interest rate to a "step rate" that, although initially lower than the pre-action interest rate would, after several years, be higher than the pre-action interest rate.

Specifically, Citi submitted loans that it had modified under the federal government's Home Affordable Modification Program ("HAMP"), as well as loans modified under Citi's proprietary program equivalent to HAMP. Under both programs, the post-action interest rate was fixed for five years. But, beginning in the sixth year after the modification, the interest rate on the modified loans increased by one percentage point per year until it hit a certain maximum interest rate, *i.e.*, the Freddie Mac Primary Mortgage Market Survey ("PMMS") interest rate in effect at the time the loan was modified (the "post-action lifetime maximum interest rate").[5] In certain circumstances, the post-action lifetime maximum interest rate was higher than the pre-action interest rate. In other words, the highest interest rate that some borrowers would be

[3] Monitor's Third Report, September 2015, at 7-8, *available at* http://www.citigroupmonitorship.com/wp-content/uploads/2015/09/Citigroup-Monitorship-Third-Report.pdf; Monitor's Eighth Report, April 2018, at 6, *available at* http://www.citigroupmonitorship.com/wp-content/uploads/2018/04/CitigroupMonitor_8thReport_FINAL-3-red.pdf.
[4] Monitor's Eighth Report at 7.
[5] The PMMS "surveys lenders [weekly] on the rates and points for their most popular 30-year fixed-rate, 15-year fixed-rate and 5/1 hybrid amortizing adjustable-rate mortgage products." http://www.freddiemac.com/pmms/about-pmms.html.

required to pay after their loans were modified would exceed the interest rate they were paying before modification.

In the Monitor's view, this outcome contravened the agreement that Citi would not submit loans that had higher post-action interest rates. Citi's original testing caused these loans to pass initially because the interest rate at time of the modification was less than the pre-action interest rate. Although Citi believed that receiving credit for such loans was consistent with the original agreement because Citi considered the key distinction under that agreement to be whether a loan's rate was fixed or variable and Citi regarded a step-rate loan as a form of fixed-rate loan, Citi ultimately agreed to resubmit the Menu Item 1A population consistent with the testing plan described below.

Under the testing approach agreed to by the Monitor and Citi, Citi could receive credit for loans submitted under Menu Item 1A under three conditions: (1) the post-action interest rate was less than or equal to the pre-action interest rate; (2) the post-action lifetime maximum interest rate was less than or equal to the pre-action interest rate; and (3) the post-action lifetime maximum interest rate was no more than two percentage points above the post-action interest rate. These conditions aimed to ensure that even consumers who received step-rate mortgages were able to benefit in the long run from the modifications to their mortgages with principal forgiveness. Citi and the Monitor implemented these rules in a revised testing procedure.

Citi determined that the most efficient way to implement the revised testing procedures was to withdraw all of the Menu Item 1A transactions that it had previously submitted and received credit for, and to resubmit Menu Item 1A transactions for testing by the IRG and Control Risks using revised testing procedures that accounted for the three conditions discussed above. This Report describes the testing process and credits Citi sought and received for Menu Item 1A transactions under the revised testing procedure.

C. Testing

1. IRG Satisfaction Review

As with previous submissions, Citi performed the consumer relief activities for which it seeks credit and submitted them to its IRG. The IRG is a group of Citi employees and vendors; the group is required to be fully independent of Citi's mortgage loan servicing operations. In this submission, Citi submitted consumer relief activities that it had previously submitted but withdrawn, as well as additional consumer relief activities performed by the business.

The IRG tested and confirmed the eligibility of Citi's consumer relief activities and the amount of credited relief under Menu Item 1A through a review of a statistically valid sample of the loans submitted for credit ("Satisfaction Review"). This Satisfaction Review was guided by the "Testing Definitions" approved by the Monitor, as previously discussed in the Monitor's First Report.[6] The Testing Definitions applied by the IRG were updated for this Satisfaction Review to reflect the revised rules governing interest rates.

Specifically, the IRG tested a random, statistically valid sample of all of the transactions that Citi submitted for credit under Menu Item 1A. The IRG used a 99% confidence level testing for the possibility that the credit was overstated, and used a 2.5% estimated error rate in the population with a 2% margin of error. The IRG reviewed each sampled transaction to determine whether the transaction was eligible for credit and, if so, whether the amount of credit claimed for the loan by Citi was calculated correctly. The IRG tested the sample transactions pursuant to the applicable Testing Definition Template and related IRG Test Plan for Menu Item 1A, as revised to reflect the rules regarding interest rates and approved by the Monitor. The IRG saved in its work papers screenshots from Citi's System of Records ("SOR") evidencing the relevant data.

On November 14, 2018, the IRG submitted to the Monitor an assertion indicating that it had validated the amount of credit Citi was claiming for the submission of Menu Item 1A loans.

2. The Monitor's Review

The Monitor has retained Control Risks to assist in testing and verifying Citi's submissions to the Monitor.

[6] Monitor's First Report, January 2015, at 12, available at http://www.citigroupmonitorship.com/wp-content/uploads/2015/06/citi_monitorship_initial_report_2015-01-21.pdf.

At the Monitor's direction, Control Risks analyzed the IRG's Satisfaction Review of Menu Item 1A using an internal form it created following the processes and procedures set out in the Testing Definitions and IRG Test Plans. Control Risks was given remote access to Citi's secure FileNet platform to view 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 Control Risks to validate credits in accordance with the Settlement Agreement and the applicable Testing Definition. The IRG cooperated in full with Control Risks.

Control Risks employees served as the testers of the transactions. Control Risks trained its testers by reviewing sample packages for loans and addressing any questions or issues that arose through that process. For each loan in the sample, Control Risks reviewed the evidence package provided by the IRG for that loan to confirm that each eligibility requirement was satisfied and that the amount of credit claimed for the loan was calculated correctly. Control Risks also completed an internal quality control review of its analysis.

D. Overview of Relief Provided Under Menu Item 1A

Under Menu Item 1A, Citi is eligible for dollar-for-dollar credit for principal reductions to qualifying loans. Citi receives an incentive bonus of 15% added credit for reducing borrowers' loan-to-value ("LTV") ratio below 100%,[7] which means that the new, lower amount owed on the loan is less than the value of the home. Citi also receives an incentive bonus of 15% added credit for making reductions before October 1, 2015.[8] Citi received that incentive bonus for reductions made before October 1, 2015, even when loans were not submitted to the Monitor for credit until after that date, because the actual relief was provided to borrowers before the October 1, 2015 bonus cut-off.

Citi withdrew all of the relief previously credited by the Monitor and resubmitted all of its eligible Menu Item 1A relief for crediting in this Report. Counting only the resubmitted Menu Item 1A relief for the full period of the Monitorship:

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7 Citi receives 115% credit for incremental LTV reduction below 100%. Annex 2, at 2.

8 Citi receives 115% credit for all consumer relief activity offered or completed by October 1, 2015. Annex 2, at 2 n.7.

- Citi provided $23,879,525.55 in principal forgiveness.
- This relief comprised modifications of 463 loans.
- Each submitted loan modification reduced the borrower's LTV from above 100% to 95%. Citi's reduction of LTV to 95% ensures that each borrower regains some equity in his or her property. Every loan submitted by Citi was thus eligible for the credit for incremental LTV reductions below 100%.
- Citi earned $3,651,653.26 in incentive credit for the 463 loan modifications. Of that total, $3,203,414.32 was early incentive credit (which applied to 397 loan modifications) and $448,238.93 was credit for incremental LTV reductions below 100% (which applied to all 463 loan modifications).
- Interest rates were reduced by an average of 2.540 percentage points after loan modification.

The Monitor has confirmed the eligibility of Citi's modifications and a total of $27,531,178.81 in credit under Menu Item 1A.

E. General Characteristics of Relief Provided

The Monitor makes the following observations about the relief provided under Menu Item 1A:

- **Geographic Distribution:** Citi provided Menu Item 1A relief in 38 states, including the Settling States of California, Illinois, Massachusetts, and New York. Illinois had the most borrowers receiving Menu Item 1A relief (with 53 modifications), followed by Florida (40), Ohio (39), Georgia (28), and California (26).

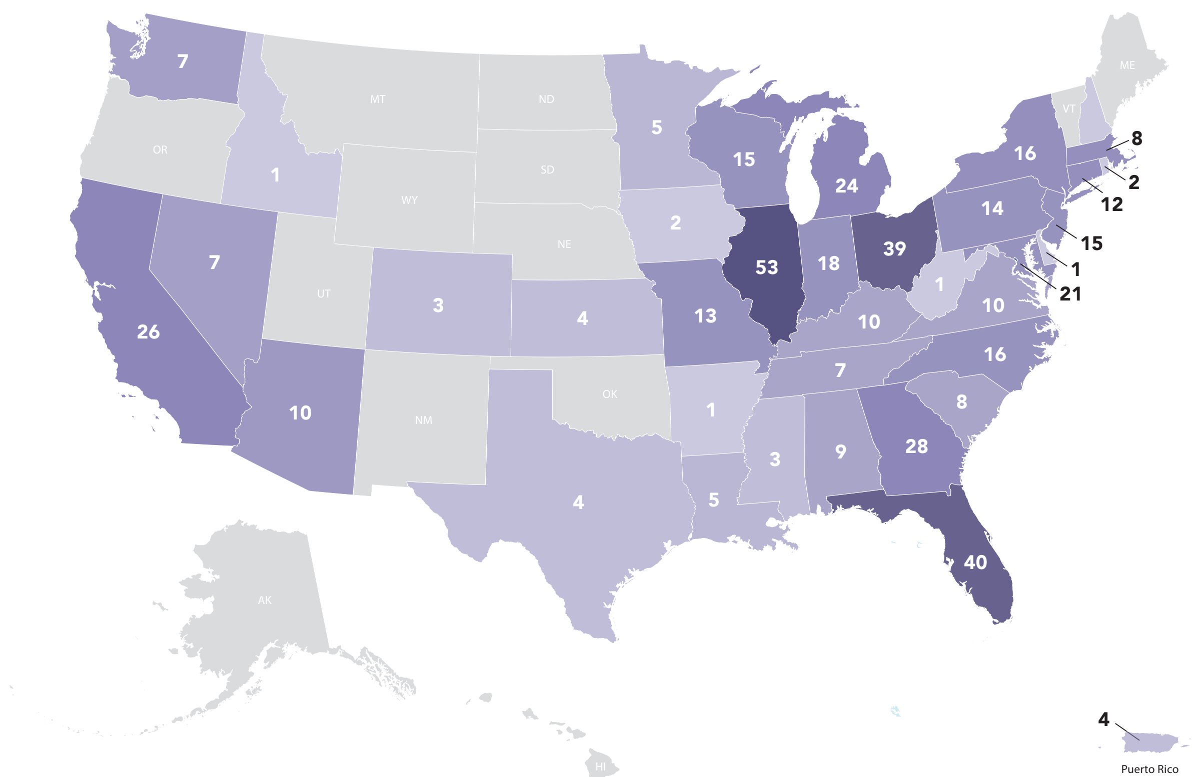
Table 1 sets forth the amount of Menu Item 1A credit that Citi earned in Settling States:

TABLE 1

	Settling States	Number of Loans	Forgiveness Amount	Total Credit
	California	26	$1,542,944.67	$1,796,692.58
	Delaware	None Submitted	-	-
	Illinois	53	$3,410,080.63	$3,887,245.32
	Massachusetts	8	$755,463.22	$859,482.23
	New York	16	$1,185,811.77	$1,380,306.83
Total		**103**	**$6,894,300.29**	**$7,923,726.96**

Map 1, below, shows the number of modifications in each state:

MAP 1

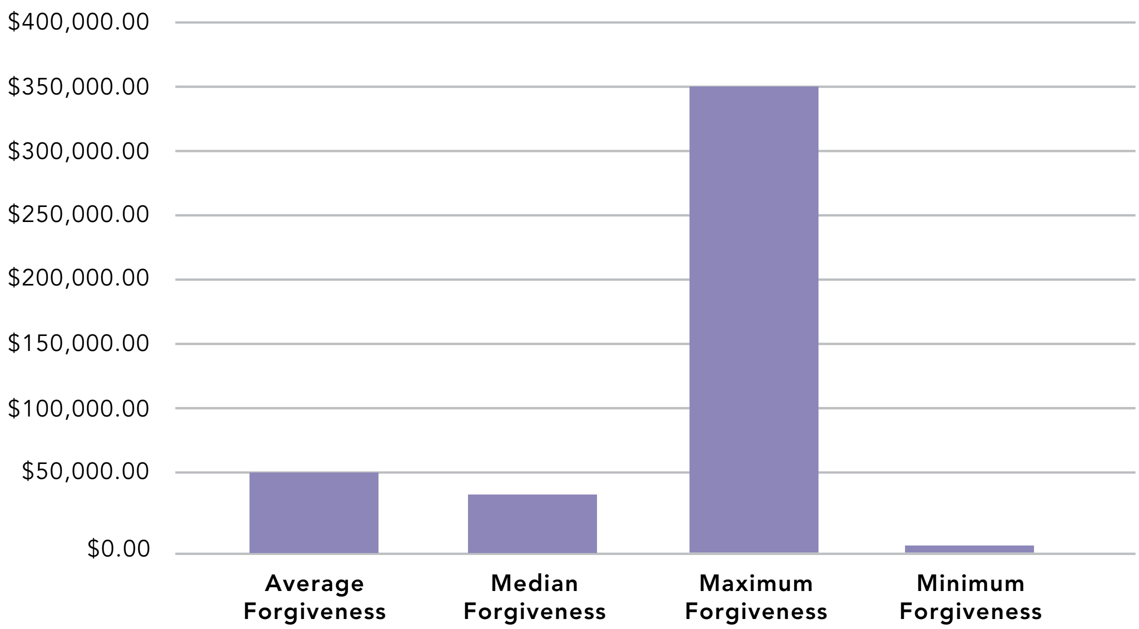


- **Average Forgiveness:** The average amount of forgiveness was $51,575.65. The median amount of forgiveness was $39,382.47. The largest amount forgiven on a single loan was $349,587.39 with a pre-modification unpaid principal balance ("UPB") (including capitalized interest and escrow amounts) of $610,837.39 and a pre-modification LTV of 222%. The smallest amount forgiven on a single loan was $3,273.32 with a pre-modification UPB of $24,648.32 (including capitalized amounts) and a pre-modification LTV of 110%.

Table 2 shows the average, median, maximum, and minimum amounts of principal forgiveness provided under Menu Item 1A:

TABLE 2

AMOUNT OF PRINCIPAL FORGIVENESS



- **Average Pre- and Post-Modification UPB:** The average pre-modification UPB (including capitalized interest and escrow amounts) was $174,204.01, with all pre-modification UPBs ranging from $24,648.32 to $610,837.39. The average post-modification UPB was $122,628.36, with all post-modification UPBs ranging from $12,350.00 to $368,600.00.

- **LTV for Borrowers Receiving Relief:** The average pre-modification LTV was 144.44% and the median pre-modification LTV was 129%. The lowest pre-modification LTV was 101% and the highest pre-modification LTV was 593%.

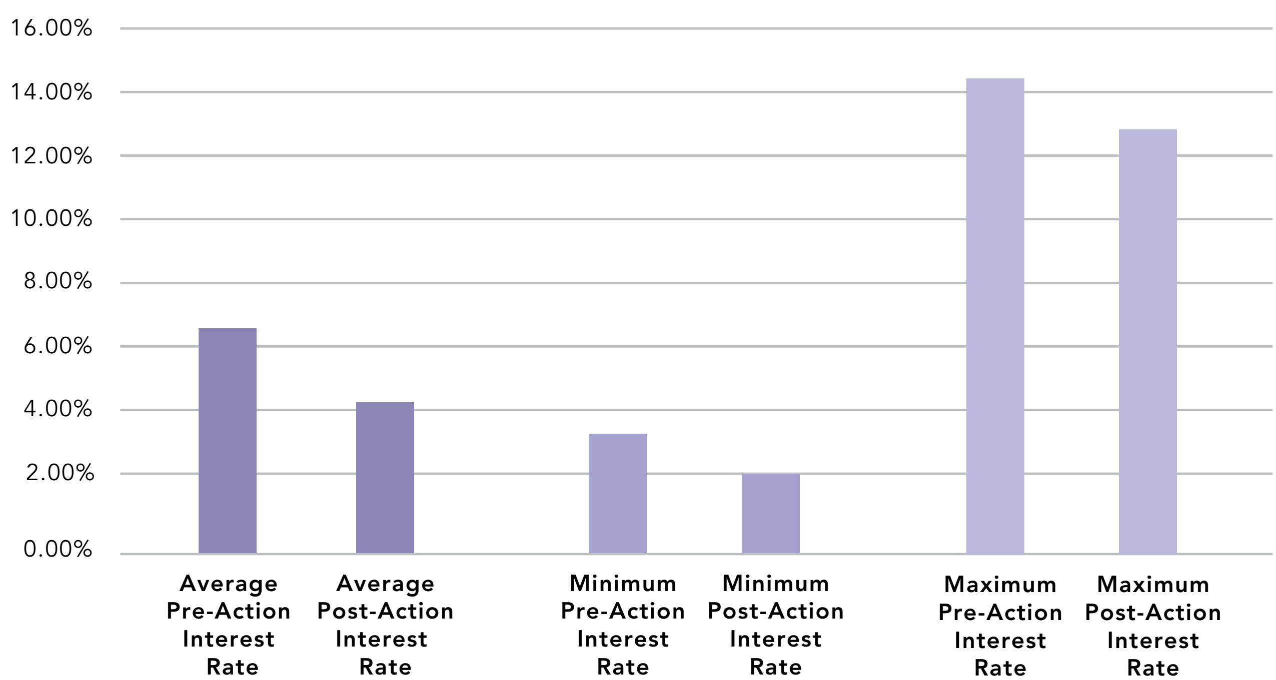
Fifty-one loans (11% of the total) had a pre-modification LTV above 200%. All loans were reduced to an LTV of 95% after modification. The average LTV reduction was 49.44 percentage points. The median LTV reduction was 34.00 percentage points; the lowest LTV reduction was 6.00 percentage points; and the highest LTV reduction was 498.00 percentage points.

- **Changes to Interest Rates:** In addition to providing principal forgiveness, Citi modified the interest rates of many of the loans that received credit under Menu Item 1A. The average pre-action interest rate for borrowers receiving principal forgiveness was 6.770%, with the pre-action interest rates ranging from 3.125% to 14.300%. The average post-action interest rate was 4.230%, with the post-action interest rates ranging from 2.000% to 12.790%. The number of modifications that had a post-action lifetime maximum interest rate that was greater that the post-action interest rate was 60. For those 60 loans, the post-action lifetime maximum interest rate ranged from 0.125 to 2.0 percentage points greater than the post-action interest rate.

Table 3 shows the average, minimum, and maximum pre-action and post-action interest rates:

TABLE 3

INTEREST RATES



- **Reduction in Monthly Mortgage Payments:** 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 principal forgiveness under Menu Item 1A received on average a reduction of $515.85 on their monthly mortgage payments (from $1,094.53 to $578.68). Reducing a $1,094.53 monthly payment to $578.68 would decrease the borrower's monthly payment by 47.13%. Reductions in borrowers' monthly payments ranged from $26.97 to $2,330.76, and the percentage reductions of borrowers' monthly payments ranged from 3.57% to 86.48%. This monthly reduction is not solely attributable to principal forgiveness; modifications to interest rates and/or increases in the mortgage term also reduced monthly payments in some cases.

F. Illustrative Example

To illustrate how relief works under Menu Item 1A, we can consider a hypothetical borrower with a $142,000 home who owes $175,000 on a mortgage loan for that home before Citi forgives $40,000 of the amount owed. Before forgiveness, the borrower is underwater by $33,000 ($175,000 minus $142,000), and the loan's LTV is 123% ($175,000 divided by $142,000). After forgiveness, the loan balance drops from $175,000 to $135,000.[9] The borrower is no longer underwater and, in fact, has $7,000 of equity in the home. Forgiveness decreases the loan's LTV from 123% to 95%.

In addition to the $40,000 principal forgiveness, the hypothetical borrower also receives relief in the form of reduced interest payments. First, the borrower no longer has to pay interest on the forgiven $40,000. If the borrower has 20 years remaining on the loan at the time of forgiveness and if the loan has an annual interest rate of 6.770%,[10] the $40,000 principal reduction will save the borrower approximately $33,000 in interest payments over the lifetime of the loan (provided that the borrower timely makes the required monthly loan payments).[11]

Second, if we assume that the hypothetical borrower is one of the borrowers who receives a reduced interest rate during loan modification, the borrower will also save

[9] The relevant values for this hypothetical borrower have been selected to correspond approximately to the relevant median and average values for Menu Item 1A loans, though some values have been rounded for ease of understanding. As indicated above, for Menu Item 1A loans the average unpaid loan balance was $174,204.01, the median principal forgiveness was $39,382.47, and the median LTV was 129%.
[10] As indicated above, the average pre-action interest rate for Menu Item 1A loans was 6.770%.
[11] Inflation will reduce the value in real dollars of all interest-related relief.

money on interest payments on the remaining loan balance. Assuming that the rate reduction is the average 2.540 percentage-point reduction for this group of loans, the interest rate drops from 6.770% to 4.230%. As a result, in addition to the benefit derived from the principal forgiveness, the borrower will now pay significantly less interest on the remaining $135,000 loan balance. Making regular monthly payments over 20 years on $135,000 at 4.230% rather than at 6.770% will save the borrower approximately $46,000.

Thus, the hypothetical borrower will receive approximately $119,000 in total relief over the lifetime of the loan:

- $40,000 in principal forgiveness;
- $33,000 in interest not paid at the pre-action interest rate on the forgiven principal;
- $46,000 in reduced interest payments due to the reduced interest rate on the remaining unpaid principal amount.

Before principal forgiveness and interest rate reduction, the hypothetical borrower paid approximately $1,330 per month. After forgiveness and rate reduction, the borrower pays approximately $830 per month, a reduction of approximately $500 (a percentage reduction of approximately 38%).

G. Citi's Earned Credit to Date

Menu Item	Total Credit Earned
Menu Item 1A	$27,531,179
Menu Item 1G	$31,172,235
Menu Item 1H Secured	$36,586,150
Menu Item 1H Unsecured	$274,000,933
Menu Item 2A	$371,304,201
Menu Item 4A	$275,955,575
Menu Item 4D	$57,500,000
Menu Item 4E	$34,500,000
Menu Item 4F	$23,000,000
Menu Item 5	$759,704,640
Total	**$1,891,254,913**

III. Consumer Outreach Events

As the Monitor has discussed in previous Reports, the Settlement Agreement requires Citi to host four "Road to Recovery" events each year for the term of the Settlement Agreement. The purpose of these events is to provide outreach to Citi borrowers who may be eligible for Citi relief programs, including relief that may qualify for credit under the Settlement. At these events, borrowers have the opportunity to talk face-to-face with Citi representatives to learn about their eligibility for relief and to obtain assistance applying for such relief.

In previous Reports, the Monitor has discussed the Settlement Agreement's requirements with respect to Road to Recovery events and has provided background information about the way in which Citi conducts these events, informed by Citi's pre-Settlement Agreement experience in borrower outreach. In 2018, Citi held four events, located in New York, Chicago, Miami, and Dallas. Citi chose to hold events in New York and Chicago because those two cities and surrounding areas had the highest numbers of delinquent customers in Citi's portfolio. Dallas, Miami, and Houston all had similarly high levels of delinquent customers, but Citi chose to hold events in Miami and Dallas, and not Houston, because an event was held in Houston in 2017.

A. Compliance

As described in previous Reports, the Settlement Agreement requires that Citi engage in targeted outreach to eligible borrowers by letter, email, and phone calls, in English, Spanish, and, on a best efforts basis, other languages. As previously reported, the Monitor and Citi have worked together to translate these requirements into a set of operational parameters for Road to Recovery events that are informed

by Citi's pre-Settlement Agreement experience conducting borrower outreach. The Monitor's team has reviewed Citi's mail, email, and call schedules, as well as invitation and follow-up templates and collateral, and hereby confirms Citi's compliance with these outreach requirements for the four Road to Recovery events in 2018.

The Settlement Agreement also requires Citi to ensure that specialists in new loan origination, loss mitigation, and refinancing are on site for each event to guide borrowers through various relief alternatives. As with its initial outreach, Citi must provide on-site translation and interpretation services in Spanish and, on a best efforts basis, other languages for customers requesting such support. The Monitor has reviewed the materials that Citi has provided and has confirmed that Citi complied with these requirements for the four Road to Recovery events in 2018. For each event, there was at least one loss mitigation specialist, one loan officer with experience in both refinance and new loan origination, and one bilingual representative among the collective staff members. A representative of Citi's Office of Homeownership Preservation was present at each event.

Finally, Citi is obligated to notify state government agencies and officers, including state attorneys general and housing finance authorities, as well as local non-profit organizations, about Road to Recovery events. Through such notifications, Citi can build awareness and encourage participation in the events and can provide additional avenues for Citi borrowers to obtain relief or related assistance. Citi provided the Monitor with materials that confirm its notification and outreach to non-profit organizations, state attorneys general, and state housing authorities in compliance with the Settlement Agreement's requirements for the four Road to Recovery events held in 2018.

B. Results[12]

Citi has reported to the Monitor the following data for the four Road to Recovery events in 2018, presented below in Table 4.

TABLE 4: SUMMARY — ROAD TO RECOVERY RESULTS 2018

2018 Road to Recovery Events	
Invitees	6,179
Attendees	95
Accounts Evaluated for Loss Mitigation Program	
In Process for Modification	6
In Repayment Plan	1
In Trial Period Modification	11
In Unemployment Plan	1
Declined or Chose not to pursue loss mitigation program or failed to complete evaluation	76
Accounts Evaluated for Refinances/Consolidation Loans	
In Process	0
Withdrawn	2

[12] In the Eighth Report, the Monitor reported on the 2017 Road to Recovery but explained that the Report did not include data from the final event, which was held in December 2017. The following chart updates the information provided in the Eighth Report and contains complete data for the 2017 events, including the December 2017 event. Monitor's Eighth Report at 20.

2017 Road to Recovery Events	
Invitees	7,970
Attendees	130
Accounts Evaluated for Loss Mitigation Program	
In Process for Modification	1
Withdrawn Application or Declined	84
Booked into a Modification	15
Chose not to pursue loss mitigation program or failed to complete evaluation	28
Account Evaluated for Refinances/Consolidation Loans	
In Process	0
Withdrawn	6

While a relatively small number of borrowers received tangible assistance at these events, those borrowers who attended had a positive experience. As reported previously, Citi tracks the cumulative Net Promoter Score ("NPS") for the Road to Recovery events. As the Monitor has previously explained, this metric generally is 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. A positive NPS (i.e., above zero) is generally considered to reflect a high level of customer satisfaction, and any score above 50% is considered to be excellent. Citi's reported average NPS for the 2018 Road to Recovery events was 95%.