CITI MONITORSHIP FIRST REPORT

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JENNER & BLOCK LLP

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I. INTRODUCTION

This is the first 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, Delaware, and the Commonwealth of Massachusetts (collectively, the States).

The purpose of this report is to describe Citi's obligations under the Settlement Agreement and to provide the first interim report on Citi's progress towards meeting its obligations by the end of 2018, as the Settlement Agreement requires. To these ends, the report includes:

- An overview of the Settlement Agreement;
- A more detailed description of the consumer relief provisions;
- An overview of the Monitor's role and responsibilities;
- A description of initial testing procedures and methodologies; and
- An analysis of the relief as to which Citi has sought credit to-date.

II. THE SETTLEMENT AGREEMENT

The Settlement Agreement resolved potential federal and state legal claims for violations of law in connection with the packaging, marketing, sale, structuring, arrangement, and issuance of residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDOs) between 2006 and 2007.[1] As explained below, in the Settlement Agreement, Citi agreed to pay $4.5 billion to the settling governmental entities, acknowledged a statement of facts attached as Annex 1, and agreed to provide consumer relief that would be valued at $2.5 billion under the valuation principles set forth in Annex 2.[2] As part of the Settlement Agreement, Thomas J. Perrelli was appointed as independent monitor (Monitor) to determine Citi's compliance with the consumer relief and corresponding requirements of the Settlement Agreement. This is the first report assessing Citi's progress toward completion of those obligations.

A. Federal and State Investigations and Factual Background

As noted, DOJ and the States investigated allegations that Citi packaged, marketed, and sold defective residential mortgage loans between 2006 and 2007 before the financial crisis.[3] During that time, when Citi securitized and issued RMBS, Citi routinely provided representations to potential investors about the validity and quality of the underlying loans.[4] The investigations discovered that Citi received information indicating that, for certain loan pools, significant percentages of the loans reviewed did not conform to the representations.[5] A further recitation of the relevant facts is set forth in the "Statement of Facts" appended to the Settlement Agreement.

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[1] Settlement Agreement, Recitals.
[2] Settlement Agreement, Terms and Conditions.
[3] *See* Settlement Agreement at 1.
[4] *See generally* Annex 1, Statement of Facts, available at http://www.justice.gov/iso/opa/resources/558201471413645397758.pdf.
[5] *Id.*

B. Resolution

Citi resolved these potential legal claims in July 2014. The Settlement Agreement required Citi to pay $4.5 billion as follows: [6]

- $4 billion as a civil penalty to settle claims by DOJ;
- $208.25 million to settle federal and state securities claims by the FDIC;
- $102.7 million to settle claims by the state of California;
- $92 million to settle claims by the state of New York;
- $44 million to settle claims by the state of Illinois;
- $45.7 million to settle claims by the Commonwealth of Massachusetts; and
- $7.35 million to settle claims by the state of Delaware.

The Settlement Agreement also requires Citi to provide consumer relief that the Settlement Agreement values at $2.5 billion, which requires Citi to provide relief to distressed homeowners, borrowers, and affected communities through a variety of means, including:

- Forgiveness or forbearance of the principal on loans;
- Rate reduction and refinancing;
- Support for affordable housing;
- Community reinvestment and neighborhood stabilization; and
- Financing for the development of certain affordable rental housing projects.[7]

Under the terms of the Settlement Agreement, Citi receives a certain amount of credit for each dollar of relief that it provides, depending on, among other things, the category in which that relief falls. For example, Citi receives dollar-for-dollar credit for forgiving principal on a first lien mortgage that it owns.

Citi has until December 31, 2018, to fulfill the entirety of its consumer relief obligations.[8] Should Citi fail to do so, Citi will be required to pay the difference to NeighborWorks America, a non-profit organization that provides housing counseling, neighborhood stabilization, foreclosure prevention and other similar programs.[9] Citi has represented it will endeavor to complete its consumer relief obligations by July 1, 2017.[10]

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[6] *Id.* at 2-4.
[7] *See generally* Annex 2, available at http://www.justice.gov/iso/opa/resources/649201471413721380969.pdf.
[8] Annex 2 at 2 n.1.
[9] *Id*. at 14-15.
[10] *Id.* at 14.

III. CONSUMER RELIEF PROVISIONS

Annex 2 of the Settlement Agreement sets forth the eligibility criteria Citi must meet to qualify for credit for its consumer relief obligations under the Settlement Agreement. This section provides a general overview of those criteria and the amount of credit that Citi can claim for each type of relief. It also sets forth an explanation of other restrictions, limitations, and requirements that Citi must meet pursuant to the Settlement Agreement.

A. Menu Items

Annex 2 specifies five broad categories of relief—structured as "Menu Items"—that Citi may provide to consumers to meet its consumer relief obligation. Each Menu Item sets forth the amount of credit that Citi may receive for providing one or more forms of relief:

– <u>Menu Item 1: Forgiveness/Forbearance of Mortgages</u>

Citi may receive credit for certain loan modifications and other actions that forgive principal amounts owed on certain mortgages, as well as deferring to a later date the payment of principal amounts due on first lien mortgages. Citi may also claim credit for facilitating a borrower's effort to refinance with a financial institution other than Citi.

A number of conditions govern the relief available under Menu Item 1. For example, if the terms of the loan modification require the borrower to continue making payments (*i.e.*, the entire principal balance of the loan was not forgiven), Citi will not receive credit unless the borrower makes required payments, including trial payments.[11] Citi may also only receive credit for forgiving principal on a first lien mortgage loan if the modification results in loan-to-value that is equal to or less than 100%.

Citi must provide at least $820 million in credit relief between Menu Items 1 and 4A.[12]

– <u>Menu Item 2: Rate Reduction/Refinancing</u>

Citi may receive credit for reducing mortgage interest rates, "regardless of loan performance status," provided that such relief is offered at no cost to the borrower other than any tax consequences incurred by the borrower.[13] Citi may also receive credit for facilitating rate reductions for borrowers who refinance through third-party lenders.

Citi must provide a minimum of $299 million in relief pursuant to rate reductions.

– <u>Menu Item 3: Low- to Moderate-Income and Other Lending</u>

Citi may receive credit for providing financial assistance to low- to moderate-income borrowers. In order for Citi to get credit for this type of relief, it must be provided in relation to a loan to a borrower who (1) is located in one of HUD's Hardest Hit Areas; (2)

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[11] Annex 2 at 2 n.1. The number of required payments depends on whether the mortgage loans are owned and operated by CitiMortgage, Inc. (CMI) or CitiFinancial Services, LLC (CFS). If they are owned by CMI, three payments are required; if they are owned by CFS, two payments are required.
[12] *Id.* With respect to Menu Item 1, to the extent that Citi seeks credit from mortgages owned and operated by its CMI portfolio, 50% of the credit derived from CMI borrowers must accrue from HUD's Hardest Hit Areas. *See id.* at 7 n.11.
[13] *Id.* at 8 n.12, n.13.

lost a home to foreclosure or short sale; or (3) was a first-time homebuyer with an income at or below the area median income.[14] Only loans originated after April 30, 2014, are eligible for credit.[15]

In regard to eligible loans, Citi may receive relief credit for: down payment assistance; payment of reasonable and customary closing costs on behalf of borrowers; payment of other costs paid on behalf of borrowers, including payments to other lien holders; and payment of costs of HUD-approved counseling (as long as Citi is not otherwise required to provide such counseling).

Citi does not have to provide a minimum amount of relief for Menu Item 3.

– <u>Menu Item 4: Community Investment and Neighborhood Stabilization</u>

Citi may receive credit for activity designed to improve the stability of neighborhoods and communities. This Menu Item is divided into a number of specific sub-categories of relief.

- *Menu Item 4A*. Citi can earn credit for forgiving the entire principal balance of a loan and releasing the lien associated with property where it has determined not to pursue foreclosure of the property.[16] This relief, together with relief under Menu Item 1, must total at least $820 million. Citi has agreed that it will “in good faith, endeavor” to keep credit earned under Menu Item 4A to under $553 million.[17]

- *Menu Item 4B*. Citi can earn credit for paying the costs to demolish and remediate “abandoned and uninhabitable residential properties as part of a comprehensive local strategy to stabilize neighborhoods.”[18]

- *Menu Item 4C*. Citi can earn credit for donating mortgages or real estate owned (REO) properties to accepting municipalities, land banks, non-profits, service members with disabilities, or relatives of deceased service members.[19]

- *Menu Item 4D*. Citi can receive two dollars of credit for each dollar donated to capitalize certified Community Development Financial Institutions, land banks subject to state or local regulation, or community development funds administered by non-profits or local governments.[20] Citi must make a minimum payment of $25 million under this provision.

- *Menu Item 4E*. Citi can earn two dollars of credit for each dollar donated to qualified intermediaries that fund legal aid organizations to provide “foreclosure

[14] Annex 2 at 10.
[15] *Id.* at 10 n.17.
[16] *Id*. at 11.
[17] *Id.* at 11 n.18.
[18] *Id.* at 11.
[19] *Id.*
[20] *Id.*

prevention legal assistance and community redevelopment legal assistance."[21] Citi must make a minimum payment of $15 million under this provision.

- *Menu Item 4F*. Citi can earn two dollars of credit for each dollar donated to HUD-approved housing counseling agencies to "provide foreclosure prevention assistance and other housing counseling activities."[22] Citi must make a minimum payment of $10 million under this provision.

– <u>Menu Item 5: Financing of Affordable Rental Housing</u>

Citi may receive credit for financing the development of certain affordable rental housing projects.[23] Citi will receive credit for the losses it incurs for the financing of qualified rental housing projects. Citi receives either $3.25 or $3.75 of credit for every dollar of loss it incurs in these transactions.

There are a number of restrictions on the development projects that qualify. For example, half of the units receiving credit under this Menu Item must be in Critical Need Family Housing developments, which are projects that are located within HUD's Small Area Difficult Development Areas or State-Defined High Opportunity/Low Poverty Areas where none of the units have age restrictions for any of the occupants.[24] Each year, at least 40% of the units in these projects must have two or more bedrooms, calculated on an annual basis, and at least 10% must have three or more bedrooms.

Citi must incur at least $180 million in losses pursuant to projects under this Menu Item before December 31, 2018.[25]

B. General Rules, Principles, and Conditions

The Settlement Agreement provides Citi considerable discretion in how it earns the required consumer relief credits among the various Menu Items. Notably, the Settlement Agreement does not require Citi to provide any specific relief to any specific individual. Rather, Citi must provide relief which, in the aggregate and consistent with the maxima and minima in the Settlement Agreement, satisfy its total consumer relief commitment.

Nevertheless, there are certain rules, principles, and conditions that apply regardless of the type of relief being provided or the Menu Item under which credit is being sought:

– Citi may not receive credit for any relief provided before April 30, 2014, and must complete the required relief by December 31, 2018.[26]

– Citi may claim credit for multiple types of relief provided to a single borrower as long as the forms of relief can be segregated for review and calculation.[27]

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21 Annex 2 at 12.
22 *Id.*
23 *Id*. at 13.
24 *Id*. at 13 n.22.
25 *Id.* at 13 n.23.
26 *Id*. at 2 n.1.
27 Annex 2 at 2 n.1.

- Credit received for the forgiveness of loan principal will be net of any state or federal funds paid to Citi.
- Citi may receive a bonus credit of 15% for all consumer relief activity offered or completed by October 1, 2015. This bonus credit will be applied cumulatively with other available bonus credits.
- Consumer relief will not be conditioned on a waiver or release by a borrower, except that waivers and releases will be permitted in contested claims where the borrower would not otherwise have received as favorable terms or consideration if similar relief had been provided outside the scope of the Settlement Agreement.
- Eligible 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) and any proprietary or other modification program.[28]

In addition, Citi must not implement its consumer relief obligations through any policy that violates the Fair Housing Act (FHA) or the Equal Credit Opportunity Act (ECOA).

The FHA makes it unlawful for housing providers to discriminate based on race, color, national origin, religion, sex, familial status or handicap (disability) in all aspects of residential real estate transactions.[29] Prohibited activities include refusing to make mortgage loans, refusing to provide information regarding loans, imposing different terms or conditions on a loan (such as different interest rates, points, or fees), discriminating in appraising property and refusing to purchase a loan or set different terms or conditions for purchasing a loan—if done in a discriminatory manner.[30]

The ECOA likewise prohibits discrimination by creditors with respect to any aspect of a credit transaction.[31] Creditors may not discriminate against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act.[32]

As explained in Section IV, the Monitor will review Citi's consumer relief to ensure that it complies with the terms of the Settlement Agreement and is not in violation of the FHA or the ECOA provisions. The Monitor has retained an expert in antidiscrimination law to assist in these efforts and to undertake data analysis. More detail on the Monitor's efforts to review Citi's relief efforts with respect to the FHA and the ECOA will appear in subsequent reports.

[28] *Id.* at 1.
[29] 42 U.S.C. § 3604.
[30] *Id.*
[31] 15 U.S.C. § 1691.
[32] 15 U.S.C. § 1691c.

C. Additional Requirements: Minimum Level of Relief in Each of the Settling States, Consumer Outreach, and Disclosure of Tax Consequences

1) Minimum Level of Relief in Each of Settling States

The Settlement Agreement requires Citi to provide a minimum level of relief in each of the States that participated in the investigation and negotiation of the Settlement Agreement. The minimum amounts of relief required in each of the States are:

- California: $90 million;
- New York: $90 million;
- Illinois: $40 million;
- Massachusetts: $10 million; and
- Delaware: $10 million.

This amounts to $240 million, or just under 10% of Citi's total consumer relief obligation.

In addition, Citi receives "extra" credit for relief provided in these States: under the Settlement Agreement, Citi will receive an additional 15% credit for relief pursuant to Menu Items 1, 2, 3, and 4A through 4C in any one of these States, if completed after it has satisfied its minimum credit obligation in that State. Through these state-specific minima and the additional credit to be gained by exceeding them, the Settlement Agreement weighs heavily in favor of Citi focusing its efforts on providing consumer relief in the settling States.

2) Consumer Outreach

To help distressed homeowners and borrowers learn of the relief that might be available to them under the Settlement Agreement, Citi is required to engage in consumer outreach, including:

- <u>Road to Recovery Events</u>

  Citi is required to hold four consumer outreach events each year during the term of the Settlement Agreement. These events—called Road to Recovery events—will provide geographically dispersed borrowers access to Citi representatives, with a priority given to those borrowers in areas hardest hit by the mortgage crisis.

  The goal of the Road to Recovery events is to allow borrowers to explore consumer relief opportunities with the added benefit of in-person assistance. The events will provide multi-lingual translation and interpretation services, providing support in English, Spanish, and, on a best-effort basis, other languages, to customers requesting such support.

  In preparation for each event, Citi is required to conduct targeted borrower outreach through personalized invitational letters, emails, and/or outbound phone calls with eligible customers. Additionally, Citi must notify state attorneys general, state housing finance authorities and local not-for-profits of the schedule of events to build awareness around the events and encourage increased participation.

– <u>Other Consumer Outreach</u>

In addition to its Road to Recovery events, Citi must provide a qualified staff of agents to participate and support events sponsored by national and local non-profit organizations across the country each year.

Citi must also create informative materials that explain the relief it is making available to its customers in accordance with the Settlement Agreement, and can be distributed online and/or through third parties. These materials must be made available in multiple languages, including at least English, Spanish, Chinese, Tagalog, Vietnamese and Korean. Citi will translate these materials into other languages as appropriate.

3) Disclosure of Tax Consequences

The Settlement Agreement makes clear that Citi is "not responsible for any tax consequences to borrowers of the Consumer Relief" as described in the Menu Items.[33] Citi is obligated, however, to "clearly disclose to borrowers [the] tax consequences of any relief offered and recommend that borrowers seek appropriate counsel as needed."[34]

IV. MONITOR'S ROLE AND RESPONSIBILITIES

The Settlement Agreement provides that an independent monitor, Thomas J. Perrelli, shall determine whether Citi is satisfying its consumer relief obligations. The Monitor has engaged outside consultants and experts to assist him in his duties under the Settlement Agreement, including the processes through which the Monitor and his team will assess whether Citi is meeting its obligations under the Settlement Agreement, and the Monitor's reporting requirements under the Settlement Agreement. Under the Settlement Agreement, any costs associated with the monitorship are to be borne by Citi.[35]

A. Consultants and Experts

To assist the Monitor in determining whether Citi has complied with the obligations described above, the Monitor has retained BDO Consulting, a division of BDO USA, LLP (BDO). The Monitor has confirmed that BDO does not have any meaningful conflicts that would interfere with the execution of its work. The Monitor expects that BDO will focus primarily on assisting in the testing and verification of the relief requirements under the Settlement Agreement.

The Monitor has also retained the services of John J. Donohue, III (Donohue), a law professor and Ph.D economist at Stanford Law School, and a leading empirical researcher in a wide range of areas, including civil rights and antidiscrimination law. The Monitor expects that

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[33] Annex 2 at 14.
[34] *Id*.
[35] Settlement Agreement at 4.

Donohue will assist in a variety of ways, including by employing empirical analysis to determine whether Citi has satisfied its obligations under the Settlement Agreement with respect to the FHA and the ECOA.

B. Reporting Requirements

In addition to determining whether Citi has completed its consumer relief obligations in accordance with the terms of the Settlement Agreement, it is the Monitor's responsibility to communicate Citi's progress to the public. The Settlement Agreement sets forth three specific public reporting requirements:

- To issue quarterly reports on Citi's progress toward meeting its $2.5 billion consumer relief obligation;
- To report on credits earned as promptly as practicable following the date when a methodology is established to validate those credits; and
- To make a final determination and certification of Citi's compliance with the terms of its consumer relief obligation and, should there be any shortfall, to determine the amount due as a compensatory cash payment to NeighborWorks America.[36]

Consistent with these reporting requirements and the Settlement Agreement's emphasis on keeping the public well informed, the Monitor has established a website, http://www.citigroupmonitorship.com/, to provide the public with information about the Settlement Agreement and Citi's progress.

This report is the first of quarterly reports that the Monitor will issue.[37] In each report, the Monitor will report on new credit earned, as well as on Citi's overall progress. Citi will only make one claim for credit per Menu Item per quarter. The methodology established to validate Citi's progress with respect to the credit sought in this reporting period is set forth below, in Section V.

The Monitor's future reports may also address other issues, as necessary, concerning Citi's provision of consumer relief and compliance with the terms of the Settlement Agreement. For example, the Monitor believes that it is important to understand which borrowers are benefiting from the relief provided by Citi under the Settlement Agreement. In this regard, the Monitor intends to include in forthcoming reports certain demographic information about the borrowers who receive relief, such as geographic location and, if feasible, some data about likely income level, race, and ethnicity.

V. CONSUMER RELIEF TESTING PROCEDURES AND METHODOLOGIES

The Settlement Agreement does not specify the procedures or methodologies required to validate Citi's consumer relief activities. With respect to Menu Item 4A relief that is the subject of this report, the following procedure was used:

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36 Annex 2 at 14-15.

37 Future reports will assume familiarity with the information contained in this report—specifically, general information about the settlement, the consumer relief requirements under Annex 2, the Monitor's role and responsibilities, and the methods and procedures used by the Monitor to meet those responsibilities.

A. Testing Procedures

- Citi performed the consumer relief activities for which it is seeking credit and reported on them to an 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 and discussed in greater detail below.
- The IRG reported the results of its Satisfaction Review through a certification (or IRG Assertion) to the Monitor. This 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 reviewed the IRG's Satisfaction Review. In this initial review, the Monitor and BDO reviewed all of the loans that Citi submitted for credit. In future reviews for certain Menu Items, the Monitor anticipates using a sampling protocol to evaluate loans and other relief submitted for credit.
- The Monitor determined whether Citi satisfied its obligations and the amount of credit to be received. The result of this determination is set forth below.

B. Testing Methodologies

At the outset, the IRG, BDO, and the Monitor worked to establish agreed-upon "Testing Definitions." These Testing Definitions set forth the elements that Citi must establish to receive credit with respect to different types of consumer relief activities, and the types of evidence that will be required to establish each element. Each Menu Item (or sub-Menu Item) will have its own unique Testing Definition, which will include, among other things:

- General sampling definitions and clarifications;
- Sampling approach, including statistical parameters;
- Allowable error rates; and
- Testing questions to verify that, with respect to each loan submitted for credit, Citi has satisfied the necessary conditions to meet the eligibility requirements of the Settlement Agreement for that particular Menu Item.

Each Menu Item (or sub-Menu Item, as appropriate) will also have a related "Test Plan," which provides step-by-step procedures that the IRG will undertake to access and review the data systems needed to validate Citi's claimed credit. The Test Plans are tailored to Citi's systems of record (SORs)[38] and business practices in the areas of mortgage loan servicing.

[38] In this context, "System of Record," or "SOR," means Citi's business records pertaining primarily to its mortgage servicing and related business operations.

VI. PROGRESS TO DATE

Given the time required to establish Testing Definitions and Test Plans, Citi determined to submit a limited number of loans prior to the Monitor's first report, so that systems could be tested. The review of and credit for those loans is discussed below. This section also includes a discussion of Citi's compliance with its outreach and tax disclosure requirements.

A. Outreach Requirements

As described in Section III.C, the Settlement Agreement contains various requirements for Citi to conduct outreach. One of these requirements is for Citi to prepare a short, plain-language document, available online, and translated into multiple languages, that explains to customers the forms of relief available under this agreement.[39] Citi has fulfilled this requirement, and its document can be found at https://www.citimortgage.com/Mortgage/pdf/DOJ_Settlement.pdf.

In addition, Citi has set tentative dates for eight Road to Recovery events, to be held from April 2015 through September 2015, currently planned for Los Angeles, Dallas, Miami, Atlanta, Chicago, Philadelphia, Detroit, and New York City. The Monitor will evaluate these events for compliance with the Settlement Agreement in a future report. The Monitor notes that Citi conducted several other outreach events prior to this report, but is not seeking credit for these events, as they were planned before the Settlement Agreement was executed and may not have met all of the settlement criteria.

B. Tax Disclosure Requirements

As noted in Section III.C, Citi is obligated to "clearly disclose to borrowers [the] tax consequences of any relief offered, and recommend that borrowers seek appropriate counsel as needed."[40] Pursuant to this provision, Citi informed borrowers that they were receiving relief in connection with the Settlement Agreement through letters mailed in the fall of 2014. In these letters, Citi notified the recipient of the relief that:

> *You may have to report the mortgage forgiveness on your tax returns and pay Income tax on this balance forgiveness amount. Please consult a Tax Advisor. See footnote below for additional information.**

The footnote explained further:

> **The amount of debt forgiven (your mortgage balance) is generally income to you in the year forgiven, unless you qualify for a tax exclusion. You will be responsible for paying any income taxes due on your mortgage balance forgiven.*
>
> *CitiMortgage, Inc. will report to you and the Internal Revenue Service the amount of your mortgage balance forgiven on Form 1099-C, as required by law. Form 1099-C will be mailed to you by January 31 of the year following the year of the mortgage balance forgiveness. Please consult your tax advisor if you have any questions.*

[39] *See* Section III.E, Settlement Agreement, at 14.
[40] *Id.* (emphasis in original).

When Citi sent these letters, it was uncertain whether borrowers would be taxed on the debt forgiveness. The Mortgage Forgiveness Debt Relief Act, which exempted principal forgiveness as taxable income, expired at the end of 2013. A more detailed explanation of the tax situation—including the prospects of extension of the exemption—was likely to have been confusing to consumers. The Monitor reviewed the text of the letters prior to their release and concluded that it satisfies the requirements of the Settlement Agreement.

On December 19, 2014, President Obama signed the Tax Increase Prevention Act of 2014, Public Law 113-295, which confirmed that borrowers who received relief under Menu Item 4A in 2014 would not be taxed on the imputed income of that relief.

C. Consumer Relief Credit Claimed As of November 21, 2014

Citi determined that its initial consumer relief efforts would focus on Menu Item 4A of Annex 2, which addresses forgiveness of principal associated with a property where foreclosure is not pursued and liens are released. As represented to the Monitor, Citi identified a population of loans for which foreclosure would not have made economic sense (*i.e.*, the cost of foreclosure would have exceeded the value of the property). With respect to this population, Citi forgave the entire loan and released the lien.

On December 5, 2014, after completing a Satisfaction Review, the IRG submitted to the Monitor an IRG Assertion regarding the amount of consumer relief credit that Citi claimed to have earned as of November 21, 2014, in relation to 100 loans. Citi further informed the Monitor that, as of November 21, 2014, it had provided additional, creditable relief to borrowers on loans not included in the group of 100 loans tested by the IRG. As noted above, however, for the initial reporting period, Citi determined to submit the first 100 loans to test its and the Monitor's processes.

1) The IRG's Satisfaction Review

Citi's IRG reported to the Monitor the results of its Satisfaction Review, which specified the consumer relief for which Citi sought credit, the IRG's review of that relief, and a certification that Citi had met the requirements, conditions, and limitations of Annex 2. For this initial reporting period, the IRG reviewed all 100 loans that Citi was submitting. The IRG also confirmed the calculation of the amount of relief Citi was claiming.

When conducting its testing, the IRG accessed from Citi's SOR the various data inputs required to undertake the eligibility determination and credit calculation for each loan. Additionally, the IRG captured and saved in its work papers available screenshots from Citi's SOR, evidencing the relevant data. For each loan, the IRG determined whether it was available for credit based on the assembled data for that loan, and recalculated the credit amount, again following the Testing Definitions and Test Plan.

After testing all of the loans, the IRG compared the sum of the recalculated credit for eligible loans (the Actual Credit Amount) against the total amount of credit claimed by Citi (Reported Credit Amount). According to the definitional template, if the Actual Credit Amount equals the Reported Credit Amount, or if the Reported Credit Amount is not more than 2.0% greater or less than the Actual Credit Amount, the Reported Credit Amount will be deemed correct and will be certified by the IRG to the Monitor.

For other categories of relief where sampling may be performed, if the Reported Credit Amount were to exceed the Actual Credit Amount by more than 2.0%, the IRG would inform Citi, which would then be required to perform an analysis of the data of all loans, identify and correct any errors, and provide updated data to the IRG. The IRG would then retest the data according to the same process.

By contrast, if the IRG determined that the Actual Credit Amount was greater than the Reported Credit Amount by more than 2.0%, Citi would then have the option of (1) taking credit for the amount it initially reported to the IRG, or (2) correcting any underreporting of consumer relief credit and resubmitting the loans to the IRG for testing according to the same process.

D. The Monitor's Review

In addition to negotiating the testing procedures and methodology, and conducting an analysis of the IRG's Satisfaction Review and Citi's claimed credit, the Monitor's review also included interviews and meetings with Citi to gain an understanding of its mortgage banking operations, SOR, and IRG program. The Monitor also reviewed how Citi selected the population of loans for which it initially sought credit.

1) Interviews and Meetings with Citi

In August 2014, the Monitor and his team met with representatives of Citi to gain an understanding of its mortgage banking operations, SOR, and IRG program. This meeting was attended by approximately 15 Citi employees, representing both CitiMortgage, Inc. (CMI) and CitiFinancial Servicing (CFS), the two primary entities that Citi expects will engage in consumer relief activities. CMI is the sixth largest mortgage servicer in the United States, and is a top-ten mortgage lender, servicing approximately $336 billion in loans. CFS is an arm of Citi whose portfolio consists of relatively small loans. Attendees of the meeting represented CMI's and CFS's business, compliance, and legal functions. IRG employees and information technology specialists were also in attendance.

On December 15 and 16, 2014, members of the Monitor's team conducted follow-up interviews of IRG employees. The primary purpose of these interviews was to evaluate the IRG's independence from Citi's business units that will be providing the consumer relief, as well as to understand better the IRG's capacity, structure, procedures, and governance. The interviews did not raise any concerns about the IRG's independence from Citi's business units. A future report will contain a more robust discussion of these interviews as part of the Monitor's full evaluation of the independence of the IRG.

2) Analysis of the IRG's Satisfaction Review and Citi's Claimed Credit

At the Monitor's direction, BDO conducted an extensive analysis of the IRG's Satisfaction Review. This analysis included re-testing each of the 100 loans tested by the IRG, following the processes and procedures set out in the applicable Testing Definition and Test Plan.

In the course of BDO's analysis, BDO was afforded access to a list of, and accompanying detail for, the 100 loans for which credit was claimed by Citi and tested by the IRG. BDO was also provided remote access via Citi's secure FileNet platform. Additionally, for each loan tested, the IRG provided the data elements and evidence necessary for validating credits in accordance with Annex 2 and the applicable definitional template. The IRG cooperated in full with BDO.

After its review, BDO determined that Citi had earned consumer relief credit as set forth below.

Testing Population	Loans Reviewed by Monitor	Validated Credit Amount Earned
Forgiveness of principal associated with a property where foreclosure is not pursued and liens are released	100	$13,971,004

In addition to BDO's analysis, the Monitor and his team reviewed the method by which Citi selected the 100 loans under Menu Item 4A. As noted above, Menu Item 4A calls for Citi to provide funds in support of community reinvestment and neighborhood stabilization—specifically, for forgiveness of principal associated with a property where foreclosure is not pursued and liens are released.

In conversations between Citi and the Monitor, Citi represented that it selected the 100 loans from a group of loans within its CMI portfolio. Citi further clarified that its selection was based on an equity analysis through which Citi estimated what potential recovery it could expect following foreclosure. Citi compared that amount to the expected costs of foreclosure to reach a determination on whether foreclosure should be pursued. The 100 loans selected were ones in which there was no equity—that is, the expected costs of foreclosure exceeded the expected recovery for Citi in foreclosure.

In the Monitor's review of these 100 loans, he noted that a number of the loans had high unpaid principal balances. Because unpaid principal balances are typically indicative of homes that, at least at the time of sale, have relatively high values, these loans at first would seem to fall outside the scope of Citi's stated equity analysis—in other words, foreclosing on a home with a relatively high value would seem less likely to result in a situation where the cost of foreclosure exceeded any recovery. The Monitor and his team therefore requested additional information from Citi and reviewed the loan files with the highest unpaid principal balances.

The Monitor and his team found that there were special circumstances in each case tested. For example, one home had been subject to significant damage from a devastating hurricane. Current photographs of this property clearly indicated the damage and the reduced value was reflected in Citi's SOR. In addition, several properties were subject to substantial tax liens, confirmed by the Monitor's team through a review of public records. These tax liens have priority over Citi's first mortgages such that even if Citi decided to pursue foreclosure, the proceeds would first go to paying the taxes, leaving little, if any, recovery for the lienholder.

3) Impact of Relief Provided

To evaluate fully the impact of the relief that is the subject of this report and authorized under the Settlement Agreement would require a variety of activities not contemplated by the settlement and not easily achievable (*e.g.*, interviews with individual homeowners). Isolating the effect of this settlement, the National Mortgage Settlement, and other RMBS settlements from the broader housing market is also difficult.

One question frequently asked is whether the relief provided to borrowers and for which Citi has received credit would have been provided in any event (*e.g.*, is this really additional?) On this question, the answer is mixed. Given ordinary accounting practices, loans for which foreclosure does not make economic sense are frequently written-off by financial institutions. In that circumstance, however, the banks may not release liens as a matter of routine, leaving borrowers with an ongoing burden and impeding potential efforts to redevelop the property. To get credit under the Settlement Agreement, Citi was required to release the lien, thus giving an additional benefit to the homeowner to allow him or her to make a fresh start and to remove any legal obstacles from the transfer of the property.[41]

4) Future Testing

As noted above, the Monitor intends to do a more extensive analysis, through interviews and data analysis, of Citi's compliance with the FHA and the ECOA provisions of the Settlement Agreement. Because the 100 loans submitted were intended to test processes between the IRG and the Monitor, rather than to reflect the full amount of Menu Item 4A relief that Citi will seek, an FHA/ECOA analysis would not have led to conclusive results. As Citi submits additional loans for credit, the Monitor intends to complete a more thorough analysis of these issues and to evaluate compliance based on a more extensive record.

In addition, the Monitor will undertake further reviews to ensure that the actions taken by Citi comport fully with the Settlement Agreement. For example, with respect to the loans submitted for credit under Menu Item 4A, Citi has released its liens. The actual documentation may not, however, appear in local land records for some period of time. The Monitor intends to undertake a review to ensure that such documentation is properly filed so that long after the Settlement Agreement is completed, there is no dispute about the relief the consumer received.

VII. SUMMARY AND NEXT STEPS

Based on the above information, the Monitor reports that:

- Citi has earned $13,971,004 of consumer relief credit under Menu Item 4A of Annex 2, for the period from April 30, 2014 through November 21, 2014.

The Monitor's next report to the public on Citi's consumer relief activity will be issued in the spring of this year.

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[41] The Settlement Agreement does not require that homes for which relief is provided under Menu Item 4A be owner-occupied.