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### FCIC memo of staff interview with James Ryan and John Schachtel, Citigroup

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John Schachtel

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**Author/Creator**

James Ryan, John Schachtel, Susanna Buerger, Joyce Huang, Brad Bondi, Tom Krebs, Dixie Noonan, and Karen Dubas

**DRAFT  
MEMORANDUM**

**TO:** File  
**DATE:** February 3, 2010; 8:10am  
**RE:** Meeting with James Ryan and John Schachtel  
**This is not a transcript of the proceeding and should not be quoted as such.**

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Biographies from Paul Weiss

*Mr. Ryan has served as chief marketing officer for the CitiFinancial branch network since late 2005. Mr. Ryan joined CitiFinancial in 1992 as a management associate and joined the marketing department in 1994. Mr. Ryan served as director of field administration from 1995 to 1999, as vice president for risk management from 1999 to 2003, and as senior vice president for operations from 2003 to 2005.*

*Mr. Schachtel has served as executive vice president of CitiFinancial with responsibility for branch management of the Northeast, Atlantic, and Upper Midwest divisions since 2003. From 1997 to 1999, Mr. Schachtel was a director in the Project Management Group at CitiFinancial. Mr. Schachtel served as CitiFinancial's head of marketing from 1999 to 2003.*

Paul Weiss

Susanna Buergel, Joyce Huang

Citigroup

James Ryan, John Schachtel, male Citi counsel

FCIC

Brad Bondi, Tom Krebs, Dixie Noonan, Karen Dubas

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**BONDI:** [Explains FCIC mission and goals and requirement for interviews to be truthful.]

**NOONAN:** You both work for CitiFinancial?

**RYAN:** Yes

**SCHACHTEL:** Yes. I joined in 1987, was a financial analyst for many years and ran the incentives programs. After the mid 1990s, I worked with Travelers and other Citi affiliates. I came back to CitiFinancial in the late 1990s and joined the marketing group. I'm now the executive vice president for field management.

**RYAN:** I started in 1992 in the management training program. In 1994, I moved to marketing as an analyst. In 1999, I became vice president of risk management, and in 2003 I became senior vice president of operations. I report to Mary McDowell, the CEO of CitiFinancial.

**NOONAN:** How much of your work deals with mortgage origination?

**RYAN:** It's part and parcel of everything, but it's not a discrete focus of one thing. Our business is personal loans and mortgage loans. 90% are unsecured closed installment loans. 10-12% are mortgage loans.

**NOONAN:** Same for John?

**SCHACHTEL:** It's pretty similar. We're part of a branch network, and every role we have revolves around the branch network.

**NOONAN:** Could you tell us a little about the types of mortgages that CitiFinancial originates. Are they prime, subprime, or Alt-A?

**SCHACHTEL:** We offer first and second mortgages. We don't do purchase money mortgages—they're refinancing (home equity). We're probably 60% first mortgages and 40% second mortgages. The vast majority have been fixed-rate, fixed-term, very plain vanilla products with fairly conservative LTV ratios. We ensure that the customer has an ability to pay. There are stringent debt requirements on the ability to meet payments.

**NOONAN:** With the first mortgages, are they all prime?

**SCHACHTEL:** We've never internally used definitions of prime, near prime, or subprime.

**NOONAN:** Are they conforming?

**RYAN:** We don't use that term either.

**SCHACHTEL:** By outside definitions, we would have some prime, some near prime, and some subprime. We look for products that meet our underwriting.

**NOONAN:** What is a typical LTV ratio?

**SCHACHTEL:** It's probably the 70s and mid 80s. We have never offered products that exceed 100% LTV. We offer plain vanilla, very traditional products.

**RYAN:** The average median LTV is 70-75 %. We will make 80-85% LTVs in some cases, but that's not the average.

I've never worked in the conforming loan business. We don't originate to sell, we originate to hold

**SCHACHTEL:** We retain virtually 100% of what we originate. We portfolio virtually everything. Our employees are responsible for collecting the payments.

**NOONAN:** Are they thirty-year mortgages?

**SCHACHTEL:** Usually twenty or thirty year mortgages.

**RYAN:** We're very geographically dispersed. The largest branch counts are in Texas, North Carolina, California, and Ohio. Our mortgage portfolio concentration is highest in North Carolina. It's about 7 or 8%.

**NOONAN:** What about underwriting guidelines? You mentioned that maybe the biggest differentiator is documentation for loans.

**RYAN:** I was referring to the documents that the loans print out on rather than the documentation that the customer brings.

**NOONAN:** Can you walk us through the document requirements? Does CitiFinancial do any stated income or Alt-A loans?

**RYAN:** We have never done any stated income loans. All of the loans are fully documented and verified.

**SCHACHTEL:** It's verified through multiple paystubs that must be current within thirty days of the application. We annualize the pay.

**NOONAN:** For 2004 through the present, were the underwriting standards changed from 2004-2007 to 2007-2009? Were they loosened, tightened, etc.?

**RYAN:** My recollection is that there were no changes as it related to the basic underwriting. If anything, we were generally tighter around 2006-2007 range.

**NOONAN:** What drove that?

**RYAN:** It was an assumption based on seeing a little bit of weakening in the marketplace.

**NOONAN:** Who at CitiFinancial has final ownership of underwriting guidelines?

**RYAN:** The risk department and certainly the CEO sign off on changes. I was a vice president of the risk department, but I was not in charge of the overall department.

**NOONAN:** When you were there, were there practices or underwriting guidelines that changed?

**RYAN:** From when I left risk to 2007 or 2008, were there significant changes? There weren't significantly different underwriting standards through that decade. There are tweaks and changes to respond to certain geographic and economic changes, but I would not articulate major philosophical changes in underwriting.

**SCHACHTEL:** I can't think of anything that has substantially changed. Pricing related to the underwriting costs would ebb and flow, but the underwriting itself didn't change.

**NOONAN:** Did interest rates on loans change?

**RYAN:** FICO score and LTV ratios are the drivers of the pricing matrix. There's some pass/fail criteria with the ability to pay (ATP).

**NOONAN:** Can you talk a little about credit scores and what the range is and what the median or average is? What's the lowest credit score you'd accept, and what is the typical score?

**RYAN:** The median FICO score was in the 625 or 630 range. In the last 12-18 months, it's been a little higher because standards have been tightened. The lowest cutoff was 500 during the time period that you mentioned.

**SCHACHTEL:** I'm not familiar with the floor of underwriting. A lot of our underwriting is built into a system, so it's uniformly executed across all branches.

**RYAN:** The FICO score is not visible to the originator. It's converted to a grade of A, B, C, or D. The front end system translates the application into a recommendation for a loan.

**SCHACHTEL:** We use a system so that we're presenting the same product to the same person across geographic regions.

**NOONAN:** Who has to sign off on exceptions? If a loan goes through system and is failed, how would a person get an exception to underwriting?

**RYAN:** I'm not 100% versed on the details of this. It can't happen in that branch—it has to go to a higher authority for review. For a new customer, there's no ability to make an exception. For a long-standing customer, there is some ability to make exception. It goes to a centralized credit group to evaluate—they have no incentive to originate a loan.

**SCHACHTEL:** There is a centralized home office credit function that is housed in Baltimore. Folks work full-time in that department and originally came from the field. The number of exceptions would be very, very small.

**NOONAN:** Susanna, can we see the number of exceptions related to each type of mortgage (first mortgages vs. HELOC, only interested in real estate loans)?

**HUANG:** To be clear, the first and second mortgages are all refi's. There are no purchased mortgages. We can show you number and percentage on a dollar basis of total loans.

**CITI COUNSEL:** Are you talking about approval versus denial of loans, or are you talking about exceptions to pricing?

**NOONAN:** I'm talking about a loan that fails the system, goes to Baltimore office, and then gets approved.

**CITI COUNSEL:** We're talking about pricing exceptions. If there is a competitor with a lower price, a borrower can come in and ask for a lower price, and we might grant exceptions for that.

**BONDI:** Can we break out the exception rate by branch?

**RYAN:** The branches do roughly four real estate loans per branch per month and roughly fifty total per year. You'll probably see lots of branches with no fail exceptions.

**SCHACHTEL:** A typical branch would do about eighty transactions per month. Only four would be real estate loans.

**NOONAN:** What are the incentives related to real estate loans?

**SCHACHTEL:** Employees are incentivized for origination and for the performance of those loans. Customer origination management, servicing and the ultimate performance of the loan are all tied into the plan.

**NOONAN:** So they have skin in the game?

**RYAN:** There are volume targets and delinquency targets related to incentives. Early stage delinquency would potentially knock you out of incentives down the line

**NOONAN:** Does CitiFinancial have balance sheet limits on the dollar amounts of mortgage loans that it can portfolio?

**SCHACHTEL:** As far as I know, if we had the opportunity to underwrite qualified loans, there was no limit as long as we were ensuring their performance. Underwriting a loan is positive and contributory. There are no particular targets.

**NOONAN:** But if you're portfolio-ing all of them, there must be some limit?

**SCHACHTEL:** Not that I'm aware of. There are theoretical limits on the size of a branch, but I'm not aware of any target limits.

**NOONAN:** How were CitiFinancial mortgage practices marketed?

**RYAN:** The vast majority of mortgage loans are sourced from customers with whom we have relationships. That's about 80% of our mortgage lending. The other 20% is through prospecting direct mail offers and through the internet. Our goal is to drive qualified borrowers into the branch. We don't market products. The branch folks can understand customers' needs and help them find best product.

We'd find the mailing list for direct mail offers through credit-bureau-sourced names. We'd look for customers that appear to meet our credit standards. But 80% of business on the mortgage side comes from existing relationships.

**NOONAN:** Do you do home equity loans?

**RYAN:** We don't talk about home equity versus mortgage loans. We look at the whole book and break it down on first and second mortgages.

**NOONAN:** What is difference between a home equity line of credit (HELOC) and a home equity loan?

**RYAN:** A HELOC is a revolving line of credit, as opposed to a closed end loan. We do not do lines of credit. We had it for a one-year period, and we shut it down for systems reasons. That was in late 2005 or early 2006.

**NOONAN:** Has CitiFinancial done any direct marketing campaigns on home equity?

**RYAN:** Some of the mailings that we've done within a prescreened pool have referenced preapproved home equity products. They might be preapproved for home equity up to \$20,000. That's about 5-15% of our mail, and is not part of our strategy today.

**NOONAN:** Did you have anything similar to a "need cash now, get home equity"



slogan?

**RYAN:** I don't believe it said that.

**NOONAN:** Can you talk about default rates?

**SCHACHTEL:** We measured delinquency rates and sent them to Baltimore daily. They would be segmented into various buckets.

**NOONAN:** Who tracks those defaults?

**SCHACHTEL:** Certainly those of us in the field. It's a number that everyone keeps their eye on across the company.

**NOONAN:** Did you see any significant shifts in default rates on CitiFinancial mortgage products?

**SCHACHTEL:** We've seen increases in delinquency rates. The 90+ delinquency might have started below 2% and eventually tripled to the mid-2% range (this is pre and post bubble). We've tracked significantly better than peers with comparable FICO scores. What were originally sub-1% losses are now at 2 to 3%.

**NOONAN:** Can you explain the differences between the first and second mortgages?

**RYAN:** A second mortgage is a debt refinancing. It's making a mortgage to a person that already has a first. We're moving into the second position, or moving to a second lien.

**SCHACHTEL:** The first mortgages are usually \$65,000 to \$75,000. The second mortgages are typically \$30,000 to \$35,000.

**RYAN:** Second mortgage default rates are typically slightly higher than the first

**SCHACHTEL:** Because second mortgages are relatively worse than the first mortgages, they are priced accordingly.

**NOONAN:** The seconds are all portfolio-ed?

**SCHACHTEL:** That's correct.

**NOONAN:** When did you first see problems in the housing market?

**SCHACHTEL:** I'm responsible for the Northeast United States. In my world we tend to look at markets on a localized basis. We look on a micro level at what's going on in our states and markets. We see changes all the time on local levels. Everything that we do

from a corporate perspective is generally looked at on a local level.

It's an evolutionary process. You might see numbers that are a little worse than 12 months before. Even today, default rates are higher than they were, but they're still not in a dangerous range. We feel pretty good about how the portfolio is performing.

**NOONAN:** Based on the data at CitiFinancial, you didn't see a tail event or a black swan coming?

**SCHACHTEL:** You see deterioration in markets. You see that portfolios are more stressed in various markets. There are still pockets today that perform extremely well.

**NOONAN:** Were there any communication channels that you had with other Citi entities about what you saw in the housing market?

**SCHACHTEL:** We really have very little contact with our peers who work elsewhere in Citi. There was no communication to my knowledge.

**NOONAN:** Did CitiFinancial combine with CitiMortgage?

**RYAN:** CitiFinancial deals directly with our customers. CitiFinancial Mortgage Corporation did a wholesale correspondent broker operation and merged with CitiMortgage.

**NOONAN:** Could you explain what wholesale and correspondent business is?

**RYAN:** It's buying prefunded mortgages. There are probably a few different definitions. Correspondent means that there is a relationship in place that flows deals on a regular basis, Wholesale means that you're buying a bulk of mortgages as a stock.

CitiFinancial Inc. deals with one customer on a one-to-one basis.

**NOONAN:** Have you had problems with fraud with your employees?

**RYAN:** There have been frauds, but I'm not very familiar with it.

**SCHACHTEL:** Any suspicion and investigation gets elevated to the compliance group. They have a number of investigative processes that they follow.

**NOONAN:** Have any employees been fired over the past few years for fraud? Can you give us a ballpark number of how many?

**SCHACHTEL:** Yes, employees have been fired. I'm not sure of the number—there are thousands of employees.

**NOONAN:** I'm interested in the falsification of documents.

**SCHACHTEL:** We've had larger investigations that have involved multiple employees in the same branch. There was one in Indiana, and one in Wisconsin. There are so many types of investigations that I wouldn't want to hazard a guess on details.

**CITI COUNSEL:** Are you talking about mortgage fraud within the application?

**NOONAN:** What about fraud by the borrower?

**SCHACHTEL:** Identity theft is clearly an issue. There have been instances of customers falsifying paystubs, but it's not a significant issue in the business.

**RYAN:** We're dealing face-to-face with the customer. Identity theft, if it's done well, is very hard to detect. But fraud losses are very minimal on our P&L.

**NOONAN:** Are the automated system and verification process done at the branch?

**SCHACHTEL:** It is. It's audited. A typical branch would have a field audit once a year. Individual loans are pulled and sent to Baltimore for review. There's a self-assessment process that the district managers go through monthly. There are multiple layers of audit, compliance review exams, and field training to assist the branches to identify fraud. The number of transactions involving fraud are relatively small in the scheme of overall transactions, so we try to train employees to recognize them.

**NOONAN:** Could you two help us with underwriting guidelines for CitiFinancial for first and second mortgages since 2004 or 2005? I'm interested in every time the guidelines changed.

Also, are there any examples of the marketing documents that you sent out to market your services? I'd like to see a few per year since 2004.

**BONDI:** Do you have a marketing binder for each year?

**RYAN:** Yes.

**BONDI:** Do subprime mortgages perform differently than prime mortgages?

**RYAN:** It depends on the definition of subprime and prime. All things being equal, I think FICO is a good indicator of performance.

**BONDI:** Let's assume that a loan to a person with a lower FICO score will perform differently than a loan to a person with a higher FICO score.

**SCHACHTEL:** We focus more on segmentation of FICO indicators as an external measure of risk. Prime and subprime labels are never something that we've used to identify our customer base. We look at FICO score, but we don't see a need to label it.

**RYAN:** We make pass or fail decision based on all of the parameters of the transaction.

**BONDI:** Is there a report on default rates broken down by FICO?

**SCHACHTEL:** Yes. There are different reports. The risk department sends out monthly summaries, but we have the access to pull reports at will on a daily basis. I can't think of an exact name of all of those reports.

**RYAN:** I see less than John, but I see a monthly report from risk and a month-end assessment.

**BONDI:** What are the categories on delinquency?

**RYAN:** There are 30-59 days, 60-89 days, and 90+ days in the delinquency buckets that we look at.

**BONDI:** Are there subcategories within these buckets?

**SCHACHTEL:** Some of those reports would have those subcategories. You can look at them by FICO, LTV, etc.

**BONDI:** You can ask the report to slice and dice the data to see it split out how you want?

**SCHACHTEL:** Most of the data is reported in a canned fashion. I cannot customize a report beyond what might be available in the system. But others might be able to.

**BONDI:** I'd like to see how the different categories of mortgages performed over time. Could we have reports that can be customized for our purpose?

**SCHACHTEL:** That should be a request made through the risk folks, but I suspect that they could get something to you.

**BONDI:** In May 2004, the Fed entered into a settlement with Citi where Citi paid \$70 million to its customers. This was the largest penalty imposed by the Fed for consumer lending violations. Are you familiar with it?

**SCHACHTEL:** I'm generally familiar with the settlement, but not with the specifics of the report.

**BONDI:** It was for unsafe and unsound practices in which Citi did not adequately assess a borrower's ability to pay. Tell me about that. What was the conduct at Citi that led to that settlement?

**RYAN:** I don't know that I could answer the question. I understand the allegations, but I don't understand all of the back and forth.

**BONDI:** Was it isolated conduct in one branch, or was it across all branches?

**SCHACHTEL:** I don't know any details, but it was probably more than one or two branches.

**BONDI:** Who would know the details?

**SCHACHTEL:** I would defer to folks in the legal department.

**BONDI:** But the penalty was for folks in the business department, not the legal department. Did anyone lose their job?

**SCHACHTEL:** I don't know.

**RYAN:** I don't know.

**BONDI:** Were any changes implemented after the settlement?

**SCHACHTEL:** I think so, but I'm not sure what they would be.

**RYAN:** We made a voluntary commitment to better guidelines for underwriting. The lawyers in the room would know this better.

**BONDI:** Did you close any branches since 2000 for noneconomic reasons?

**RYAN:** There were branch closings that were driven by an evaluation of their profitability or the future outlook of the market. That's related to economic performance.

**SCHACHTEL:** I don't know about that.

**BONDI:** Could defaults at a branch have motivated Citi to close it?

**RYAN:** Yes, that's a fair statement.

**BONDI:** From 2000 to 2006, were any branches closed because they had higher default rates on their loans?

**SCHACHTEL:** Branches were closed because of economic reasons. Every calendar year, branches close.

**BONDI:** Were there reports or memos written about why a branch was closed?

**SCHACHTEL:** There's a list in Baltimore of branches that have been closed.

**BONDI:** Who made that decision to close a branch?

**SCHACHTEL:** It would be the senior field manager for the region. I would have made those decisions for the Northeast from 2003 onward.

**BONDI:** In your region, what was the worst branch that you closed?

**SCHACHTEL:** I couldn't tell you numerically that one single branch that would have been the worst. There's not one particular branch that stands out among all of the dozens of branches that I've closed. Even a relocation of a branch is called a closing.

**BONDI:** Was there a problem child branch that could not get its act together? I'm not interested in a branch that was relocating or was trying its best.

**SCHACHTEL:** There are always branches that have challenges. When I think of closing a branch, the challenges tend not to be compliance-based or operationally motivated challenges. That's not the genesis for the closing. Typically, it's a branch that the marketing support that we expected wasn't able to produce customers. Or we decide that we don't need more than one branch in a geographic area.

**BONDI:** From 2000 to present, did you close any branches for compliance reasons?

**SCHACHTEL:** No.

**BONDI:** There would be reports about the closings of branches, or if there are not, I'd like you to create a narrative of why every branch that has closed under your watch since 2000 was closed.

**SCHACHTEL:** That's about 120 or 140 branches.

**BONDI:** I'd like a narrative description of the reasons for closing each specific branch. How many branches have closed in Baltimore?

**SCHACHTEL:** Our regional office is in Baltimore. There may be one or two branches that have closed in the Baltimore area.

**RYAN:** There are people who are terminated for compliance reasons. The branch is not closed for compliance reasons. A branch is closed for economic reasons.

**SCHACHTEL:** Branches themselves are an ongoing entity regardless of the actions of one individual.

**BONDI:** Have branch managers been terminated for compliance reasons?

**SCHACHTEL:** Yes. Over the last six years, there probably have been six or seven people terminated. I don't recall their specific names.

**BONDI:** Rather than focus on the branches that closed, could you give me a list of the branch managers who were terminated for compliance reasons and a narrative of why they would have been terminated?

**SCHACHTEL:** Typically a compliance issue might have been a last straw. It was probably not the sole reason.

**BONDI:** I'm interested in them if their compliance might have been a factor in termination.

**HUANG:** You're only interested in John's region during his tenure?

**SCHACHTEL:** I've managed about 6700 branches, and manager turnover rate is under 20%. Involuntary termination is a smaller subset of that.

**CITI COUNSEL:** What do you mean by compliance?

**BONDI:** Let's start more generally and first look at overall compliance.

**BONDI:** Did you get reports on exception rates by branch?

**RYAN:** I don't.

**SCHACHTEL:** Not at a branch level. I have not seen that data.

**BONDI:** Have either of you given a deposition or interview in connection with litigation?

**RYAN:** No.

**SCHACHTEL:** No.

**BONDI:** Did you ever use any correspondents or agents or finders or brokers for

origination?

**SCHACHTEL:** The only channel that we used was a bank referral program where we had employees on site at other bank branches. That was less than 5% of our business. Sit started in the late 1990s and has pretty much been shut down, if not completely shut down. That included both personal loans and real estate loans.

**BONDI:** I've seen a document that in 2005 and 2006, subprime originations at CitiFinancial increased by 85%. Does that surprise you? Would you agree with that?

**RYAN:** I would not agree with that.

**SCHACHTEL:** I would disagree.

**BONDI:** Do you have any sense of whether there was an increase in subprime mortgage originations in 2005 and 2006 if we define subprime as low-end FICO scores (620 or 660)?

**RYAN:** I would say generally that yes, it increased. We would have been originating more, year over year.

**BONDI:** Were you involved in any discussions about growing the subprime mortgage origination business or the mortgage origination business to individuals with lower FICO scores?

**SCHACHTEL:** No.

**RYAN:** No. Our goal is to grow the business, but focused on a particular segment of customers.

**BONDI:** From 2000 to the present, can you identify by name the differing mortgage products that were offered?

**RYAN:** There are 4.1 products to talk about:

- Fixed rate first mortgages: generally thirty-year mortgages, some were shorter term; average length was about twenty-five years
- Fixed rate closed end second: 18-20 years
- Fully indexed variable rate first mortgages: not offered today
- Fully indexed variable rate second mortgage products: not offered today
- HELOC product: offered in late 2005 and early 2006

**BONDI:** Did you do option payment ARMs, teaser rates, etc?

**SCHACHTEL:** No.



**BONDI:** Did you do variable rate mortgages?

**RYAN:** No. There were no teaser rates.

**SCHACHTEL:** Fixed rate mortgages would have been 80-90% of the business.

**BONDI:** Can I see reports breaking down the categories and the percentages of the loans? We're trying to understand the mortgage origination business. If you think of any document that you think would be particularly helpful to us that we haven't asked for, would you mind providing that to our attorneys?

**RYAN:** Sure.

**SCHACHTEL:** Sure.

**BONDI:** You indicated that the underwriting guidelines have not changed. Have the number of exceptions changed?

**SCHACHTEL:** Those pricing exceptions have probably decreased over the years.

**BONDI:** Did the way that exceptions were handled change?

**SCHACHTEL:** Since the 1990s, exceptions have been handled by a centralized group.

**BONDI:** Were there any audits?

**SCHACHTEL:** A centralized audit is done for each branch every 12 months on average. There are also credit quality reviews to look at individual accounts and the quality of the underwriting and self-assessments. Reviews by branch managers of their branches are done at least every six months, and sometimes quarterly.

**BONDI:** There were practices with other originators where borrowers that may have qualified for a lower interest rate loan were put into a higher interest rate loan. Was that ever a problem at CitiFinancial?

**RYAN:** No.

**SCHACHTEL:** No.

**BONDI:** Would there have been a system in place to catch that?

**SCHACHTEL:** I don't know if there would have been an automated system, but in an audit or in another review, if there is something identified, there is a process to remediate

that by recalculating the rate for the customer.

**BONDI:** Say that Tom Krebs walks in to get a loan. He doesn't have great credit score or history, and he's not a previous Citi customer. He asks for a loan. What happens then? Who would touch his file?

**SCHACHTEL:** One of the employees in the branch would take the application

**KREBS:** Is it a Fannie 10-03?

**SCHACHTEL:** No, it's a generic CitiFinancial application. After enough information is obtained, a credit report is pulled by the system, their income is calculated and pulled into the system, and whatever products the person is eligible will come up on the screen.

The system will estimate an LTV ratio that would be subject to a prepaid appraisal. After the appraisal, the ultimate products will come up on screen and be presented to the customer.

**BONDI:** What is the name or title of the person meeting with the customer?

**SCHACHTEL:** There's the Branch Manager, some larger branches have an Associate Branch Manager, and Account Executives. There are no mortgage specialists. It depends who picks up the phone or greets the person.

There are credit authority limits built into the system at different levels. Most of levels are within the Branch Manager's credit authority, but would not be within the Account Executive's authority.

**RYAN:** It's possible that the loan would not have to leave the branch for approval.

**SCHACHTEL:** The account executive can take the application, but the approval must go through the branch manager.

**KREBS:** If I walk into the office four different times, would I talk to the same person each time?

**RYAN:** Yes, you might.

**BONDI:** Would there be a note on his file about who he talked to before?

**SCHACHTEL:** Yes.

**BONDI:** If there are problems with the application and there is something that the branch manager doesn't have authority to do, what reasons might cause it to be transferred to

Baltimore?

**RYAN:** Loan size is the biggest reason for referral to Baltimore.

**BONDI:** If Tom does not qualify for a mortgage, can the branch manager ask for an exception from Baltimore?

**SCHACHTEL:** The branch manager can ask the Home Office Credit Process, but I think that the experience of not receiving exceptions would eventually limit future requests.

**BONDI:** You mentioned that loans that are originated by CitiFinancial are portfolio-ed. Are any ever securitized?

**RYAN:** Never.

**BONDI:** What are the losses that CitiFinancial has incurred from the mortgages on their book?

**SCHACHTEL:** The gross losses are about 3% of the portfolio—about \$500 million. Those are the total lending losses—the mortgage and personal loan portfolios are not allocated separately. The mortgage business is probably about a breakeven business.

**RYAN:** We don't separate mortgage loans from personal loans because it's hard to decide how to allocate expenses.

**SCHACHTEL:** My guess would be that it's about breakeven.

**BONDI:** Is there a report on losses to CitiFinancial that are specifically from the mortgage portfolio?

**SCHACHTEL:** I don't think there's any data.

**RYAN:** I think it was profitable for many years, but it's now about break even.

**BONDI:** I'd like to see the losses on the mortgage portfolio from 2000 to the present. I'm interested in P&L losses, but you can do credit losses too if that's possible.

We're coming off of the subprime crisis. Can you talk to me about when you started seeing problems or warning signs in the housing market? It could be something you read in the paper rather than something you saw at Citi.

**SCHACHTEL:** There's no discrete point in time. There was stress in Detroit in 2001, and other markets are still not distressed. I look at branch, market, city, and state, and they are all completely different. I look at a market-specific level.

**BONDI:** What were the early warning signs that you saw?

**SCHACHTEL:** There is a vintage analysis that we go through with risk department. We look at how loans that are 1, 2, and 3 years away are performing. Those are the objective indicators. We look at them all of the time.

**BONDI:** Is there a point in time when you thought that something looked abnormal?

**SCHACHTEL:** There was no inflection point. It's something that you just see here or there.

**RYAN:** In the late 2007 time frame I started to see HPI (House Price Index) data that was concerning. Those were external indicators; looking at our portfolio itself—because of our conservative products and our proactive risk management—we did not see the shift that others have.

**SCHACHTEL:** We've seen the market separate from us. We haven't seen the uptick in defaults that others did.

**BONDI:** When did you see the signs in the industry? When they started to pull away?

**RYAN:** It was maybe 2006 when you started to see some of the new entrants, the New Century's, have trouble. My recollection in hindsight is 2006.

**BONDI:** If you don't look back but think about what you were thinking at the time, was there a point when you felt that the housing market was facing trouble. When is the earliest that you thought about this?

**RYAN:** Probably early 2008. Maybe late 2007. In early 2006, I did not at the time think that was a harbinger of early economic destruction.

**SCHACHTEL:** Early 2007. There were people I knew who went to work for other lenders and faced much tougher times than they had expected. Their early feedback was that those companies were hitting the headwinds.

**BONDI:** Did either of you have any conversations with anyone in the investment banking side at the securitization or CDO desk about anything you might be seeing in the housing market?

**RYAN:** No.

**SCHACHTEL:** Not at all.

**BONDI:** In the 1999 to 2000 time frame, Citi acquired Associates First Capital.

**RYAN:** That was 2000.

**SCHACHTEL:** They were in credit cards, consumer finance, international markets, truck leasing, and so forth.

**BONDI:** What was Associates Financial Services?

**RYAN:** I don't know. A portion of what Associates did was similar to CitiFinancial.

**BONDI:** There was an October 22, 2005, article in the *New York Times* called "Along with a Lender, Is Citigroup Buying Trouble?"

Mr. Prince said that Citigroup officials did meet with coalition officials to talk about the Associates acquisition, and that there was a discussion of Citigroup paying for a financial literacy program through the organization. But he said no specific monetary offer was made.

According to community-lending activists, Citigroup officials have discussed several steps with them to curb overly aggressive lending practices. These include eliminating loans with large "balloon" payments; starting a pilot program to have branch offices "refer up" customers with good credit ratings into less-expensive conventional loans; limiting prepayment penalties to the first three years of a loan; and limiting the amount of certain up-front fees to 9 percent of the loan value.

I'll go through this step by step. Was there a financial literacy program at CitiFinancial in early 2000?

**SCHACHTEL:** Yes. I don't know all aspects of it. We provided training and encouraged employees to help support financial literacy within their communities. That could be through contributing content or curriculum to local schools. From a marketing perspective, we provided a financial literacy calendar. That was probably a microcosm of the overall financial literacy program.

**BONDI:** "According to community-lending activists, Citigroup officials have discussed several steps with them to curb overly aggressive lending practices. These include eliminating loans with large "balloon" payments..."

**SCHACHTEL:** CitiFinancial never offered balloon loans, nor did we originate balloon loans after the acquisition.

**BONDI:** "...starting a pilot program to have branch offices "refer up" customers with good credit ratings into less-expensive conventional loans..."

**RYAN:** Yes, we did that.

**BONDI:** "...limiting prepayment penalties to the first three years of a loan..."

**RYAN:** Yes, we did that.

**BONDI:** "...and limiting the amount of certain up-front fees to 9 percent of the loan value."

**RYAN:** I believe it's lower than that, but that should be in the underwriting guidelines.

**BONDI:** What's being done now with mortgages? What programs are in place at CitiFinancial to help consumers stay in their homes if they are late on payments?

**SCHACHTEL:** HAMP has been in place since mid-November and is based on eligibility and qualification. We make loan modifications to customers who are eligible.

**BONDI:** How has performance been under the HAMP program so far? Can you provide us with data?

**SCHACHTEL:** We have ongoing loss mitigation efforts that include loan adjustments that have always been a part of these efforts. It's for customers who are stressed or have trouble making payments. That's been an integrated part of our business for decades.

**BONDI:** Are there any new programs since January 2008?

**RYAN:** Outside of HAMP, I don't think there have been other changes.

**KREBS:** Do you review a loan application for compliance issues?

**SCHACHTEL:** Some of the reviews, audits, and credit quality analyses are done after the loan. Typically, a review of an application will be done by a branch manager. If something needs to be rectified, that will need to be addressed or you might need to resubmit a loan application.

We look at the type of collateral. We use a company that takes the decisions for appraisals out of the branch. Branch managers don't have the ability to choose an appraiser. In terms of the collateral, non-investor, non-commercial properties are the only ones that are eligible. The owner must be the primary resident of the house.

For income, the applicant must provide several recent pay stubs. Tax returns may be requested. All income documentation must have the logo or contact information for the employer.

**KREBS:** What about a pay stub that might include a bonus?

**SCHACHTEL:** We would typically look and base compensation. We're not going to annualize the bonus.

**KREBS:** Do you look at the value of assets or 401Ks?

**SCHACHTEL:** That's not considered in the underwriting. We're strictly looking at cash flow.

**KREBS:** You don't use Fannie Mae forms. Are your forms modeled after Fannie Mae?

**RYAN:** I'm not familiar with Fannie Mae's forms.

**BONDI:** Have your forms been modified? How long have you been using the form that you have now?

**SCHACHTEL:** I don't remember when it was different.

**BONDI:** Perhaps we could come to one of your branches, and you could show us around and show us the forms.

**KREBS:** In the Baltimore area specifically, there have been stories relating to problems in the minority community with abuse in lending practices. Have you looked to see if Citi was involved in this?

**CITI COUNSEL:** These are not the right people to speak to that. We can get you fair-lending people to talk to.

**BONDI:** Did CitiFinancial ever do targeted marketing to racial or ethnic groups?

**RYAN:** No.

**BONDI:** Did CitiFinancial ever try to increase minority lending?

**RYAN:** No.

**BONDI:** Do you know what reverse redlining is?

**RYAN:** I believe it refers to intentionally targeting low income, typically minority, typically stressed communities.

**BONDI:** Has CitiFinancial ever engaged in reverse redlining?

**RYAN:** I cannot speak for 10,000 people, but from a strategy standpoint, no we have not.

**SCHACHTEL:** I'm not aware of anything whatsoever.

**NOONAN:** Are the owner-occupied requirement included in underwriting guidelines?

**SCHACHTEL:** Yes.

**NOONAN:** [Request for confidentiality]