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FCIC Transcript of Interview on Richard M. Bowen

Richard M. Bowen III

Victor Cunicelli

Thomas Borgers

Jerry Isenberg

Steve Kardell

United States of America

Financial Crisis Inquiry Commission

INTERVIEW OF

RICHARD M. BOWEN III

Saturday, February 27, 2010

8:14 a.m. to 12:16 p.m.

***** Confidential *****

Financial Crisis Inquiry Commission

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MR. CUNICELLI: Okay, this is Victor Cunicelli of the Financial Crisis Inquiry Commission.

Today's date is February 27, 2010. The time is approximately 8:14 a.m. I am accompanied by Mr. Tom Borgers of the FCIC, and Richard Bowen, Jerry Isenberg and Steven Kardell. We're present for the interview of Mr. Bowen. This interview will be recorded with the consent of Mr. Bowen.

Mr. Bowen, could I get your consent to that for the record?

MR. BOWEN: I consent.

MR. CUNICELLI: Will everyone please state your full name and affiliation for the record? And please spell your last name for the transcriptionist.

Why don't we start with you, Mr. Borgers?

MR. BORGERS: I'm Tom Borgers. I'm senior investigator with the Financial Crisis Inquiry Commission.

MR. BOWEN: I'm Richard M. Bowen III. I was a complainant with regard to an action that we're going to be discussing today.

MR. ISENBERG: My name is Jerry Isenberg. I'm representing Mr. Bowen, and I'm with the law firm of LeClairRyan.

MR. KARDELL: Steve Kardell, K-A-R-D-E-L-L, the law firm of Clouse Dunn Khoshbin, K-H-O-S-H-B-I-N, also counsel to Mr. Bowen.

MR. CUNICELLI: Okay, and by way of background, the FCIC was established by statute and signed into law by the President. It is bipartisan and consists of ten commissioners. It's charged with examining the causes of financial crisis and collapse or near collapse of major domestic financial institutions.

The Commission is charged with composing a report of findings to the President and Congress by 15 December 2010.

The Commission may compel attendance and testimony of witnesses and production of records.

I can provide a copy of the statute by which the Commission was formed, if you so desire.

And I've got a copy of that. I can give that to you on your way out.

Be advised that the FCIC is an agency of the United States, and FCIC staff are federal employees under the aegis of 18 United States code section 1001 concerning false statements. Lies can be problematic.

Witness instructions: Let's give you a couple of instructions at the top.

If a question is unclear, please request a clarification.

Make responses audible. The transcriptionist can't hear a head nod, okay.

And if you need a break, please advise and I'll stop the recording.

That's it, if you'd like to go.

MR. BORGERS: Thank you.

Mr. Bowen, I want to put on the record also that we'd like to thank you for giving us your testimony today. And it's going to be very much an open forum type.

What I'd like to start with this morning, is just to get a general background, your resumé, your professional resumé for the record.

So if you could start with your pre -- your education, your pre-Citi, Citi, and then your post-Citi professional career?

MR. BOWEN: Very good. I have a bachelor of science in mechanical engineering degree from Texas Tech University. I have a masters' in business administration from the University of Texas at Austin. I am also a certified public accountant in the state of Texas.

I began my career as a credit analyst with Republic National Bank in Dallas, and moved to Oklahoma City, where I was in a succession of positions.

I started out as vice president over loan administration for First National Bank of Oklahoma City. And when I left the organization in '84, I was executive vice president, chief financial officer, and over all of operations of the bank and the holding company, First Oklahoma Bank Corporation.

I had my own consulting and software business in Oklahoma subsequent to my departure from the Oklahoma Bank.

In 1990, I moved to Dallas, where I was director of credit administration over Bank One for the state of Texas. This was after Bank One had purchased the failed import from the FDIC.

I worked very closely with the FDIC and the problem bank in identifying problem assets, putting those in the problem bank so they could be collected under the contract with the FDIC. And I also administered the loan-approval process for the state of Texas, primarily on the commercial lending side.

Because of my background in MIS and the many systems that I had put together, not only at Republic but also in Oklahoma, as well as my venture, I was asked to be director of commercial management information systems for Bank One nationwide when they consolidated the commercial lending activities across the nation.

I oversaw the development and the implementation nationwide of a number of commercial banking applications -- platform systems, if you will. And when they merged with First National Bank of Chicago, I was asked if I would move to Chicago since that was going to be the new headquarters for the commercial operations for the corporation.

I declined, and joined Associates First Capital Corporation in Irving, Texas, where I was a division information officer over all of their corporate applications -- all of the accounting, the general ledger, the finance, the tax, the facilities, the insurance applications -- and oversaw a large portion of the development and the ongoing operation of those systems, working with management to develop MIS.

Citi purchased Associates in nineteen- -- excuse me, in 2001. And this was at the time my father became terminally ill. I took a package and left the organization. Spent some quality time with my father before he passed away.

And at that point, scratched on the door of Citi, and they hired me back in on the credit side, which is also my background, in risk and credit.

And I was named chief underwriter for the correspondent channel for CitiFinancial Mortgage in September of 2002.

CitiFinancial Mortgage was merged into the other mortgage operations within Citigroup in late 2005. And I was named business chief underwriter for all of the correspondent mortgage operations within the consolidated real-estate lending group, which was within the Consumer Lending Group as a major division of Citigroup.

And what else was the question with regard to --

MR. BORGERS: After you left Citi, what have you been doing?

MR. BOWEN: I have -- I'm an adjunct instructor of accounting in the MBA program at the University of Texas at Dallas. I'm in my third year of that. I have been doing some limited consulting. I was contractor for the FDIC in the closing of Silverton Bank in Atlanta. I spent the month of May last year in Atlanta as a manager of a number of the contractors there.

But for the most part, I have simply been teaching part-time and identifying what I would like to do with the remainder of my career.

MR. BORGERS: Okay, thank you.

Mr. Bowen, at this time we'd like to keep it, for the first part of our interview, to keep it very open-ended. And we'd like to give you a platform right now to just tell us your story about your concerns, especially with that November 2007 memo that you sent to the seniors at Citigroup.

So you have as much time that you'd like to present that to us, and then we might raise some questions during it, during your brief accounting of this. But for the most part, you have the floor.

MR. BOWEN: I'll attempt to keep this very high level. To the extent that you would like to dive into any of the details, I'm certainly prepared to do that.

Once again, I have submitted to the SEC over a thousand pages of documents related to the underlying fact structure of my allegations.

I no longer have access to any of those documents as a condition of my separation agreement with Citi, which was signed in January of '09.

I returned all of those documents and any copies of those documents to Citi. And I am in complete compliance with that separation agreement.

I do have notes that I have taken to myself.

I've -- given the very short time frame -- and this is as a preference during the very short time frame, obviously, that -- or notice, if you will -- as to my coming up here, I have not really had much time to review my notes. However, I am certainly prepared to share the overall story. And with consultation of notes, I'm sure I can identify documents that perhaps you can obtain that would corroborate any and all of what I'm about to tell you.

In late 2005 -- and I would like to lead up to the sending of the e-mail that you've referenced dated November the 3rd of 2007. In late 2005, when we merged the mortgage-lending operations of CitiFinancial Mortgage, CitiMortgage, and Citi Home Equity, all of the correspondent mortgage operations -- that is, the mortgage operations that actually purchased loans from third-party mortgage companies -- not those channels that actually originate those mortgages -- that function was consolidated, and I was named business chief underwriter of the various subchannels within the correspondent lending group.

As I attempted to get my arms around the operation, there was a function that reported to me that was unique to CitiMortgage underwriters. And this function was called "quality assurance." Quality assurance was charged with underwriting a sample -- and this was post-purchase, after we had already purchased the files from the correspondent lenders. These files in this channel -- and this was the flow channel -- these files were purchased from the lenders, and the lenders had underwritten these files. So it's important to note that these files were not underwritten by Citi; they were underwritten by the correspondent lenders under a delegated authority that had been granted to them by CitiMortgage.

These files were purchased. These files were purchased, and most of which were sold to third-party investors. Either Fannie Mae, Freddie Mac. Many of these, the FHA/VAs were securitized into Ginnie Mae securities. And this was done directly my CitiMortgage as a single originator. They were also sold to other securitization conduits. One was Citicorp Mortgage -- CMSI, Citicorp Mortgage Securities, Inc. -- I believe that's correct -- and the other one was CitiMortgage Alternative Loan Trust.

The purpose of the QA function was to ensure the quality of the files that were either being sold to investors or were kept within the CitiMortgage portfolio.

I, in attempting to understand this function, identified some areas that were very concerning to me, and actually identified that, although the policy called for an agree rate -- and that is where my underwriters, in sampling this small set of files, agree with the original underwriting decision by the third-party mortgage lenders. And that is, those underwriting decisions were required to be in accordance with CitiMortgage policy.

So my underwriters would underwrite these files and issue an agree or a disagree decision as to whether or not they agreed with the original decision. And, indeed, it did conform to CitiMortgage policy, or they disagreed.

According to policy, when I took over -- at least as policy, as it was explained to me -- that there had to be at least a 95 percent agree rate to assure the quality of the production and the channel.

In better understanding the processes, I discovered there was a category of "agree" that had not been disclosed to the Third-Party Origination Committee, which was the management committee that had purview over all of the correspondent interactions. This was called an "agree contingent" decision. An "agree contingent decision," as I found out, was where an underwriter agrees with the decision that was originally made by the underwriter in the correspondent lender, contingent upon receiving documentation which was missing from the file that would confirm the assumptions that were made in the original underwriting decision.

Let me give you an example. The loan might have a debt-income ratio of 40 percent, which would be within -- depending upon the particular product -- would be within the policy criteria of CitiMortgage. However, the documents evidencing the income of the borrower might be missing from the file. So the decision would be made to render an agree contingent, indicating the agree decision was contingent upon seeing the documents that proved that they had the income that the underwriter represented. In other words, these were missing documents which were required under policy to be in the file, and not only under CitiFinancial policy, but also under the various agreements with the investors that were ultimately purchasing these files.

When we got involved with that, we determined that there were at least 40, 50, 60 percent of these files that had missing critical documents from the file. The ramification of this was that these files that had been sold, to the extent that any of those that had missing documents defaulted, then the purchaser -- the investor, if you will -- could require CitiMortgage to repurchase the defaults. And this was under the reps and warrants that was made to the investor.

So to the extent that any of the files were underwritten, if a file defaulted and it was audited by the investor and it was determined that, one, there were critical documents missing or the file itself was not underwritten according to CitiMortgage criteria, then under the reps and warrants, they could issue a demand for a repurchase of the file.

CitiMortgage, in purchasing these files from the original sellers, received reps and warrants from the original sellers that they also were responsible and took accountability that they had originally underwritten these files to the CitiMortgage criteria.

The bottom line is, at the time that I became involved, which was early to mid-2006, we identified that 40 to 60 percent of the files either had a disagree decision or they were missing critical documents. Therefore, there was substantial concern that I raised as to whether or not Citi might ultimately be subject to substantial repurchase obligations separate and apart from any liability that might result because we had not properly disclosed the quality of the files that was being sold to the investors.

MR. ISENBERG: Do you want to give Mr. Borgers an idea of the dollar volume you're talking about here, to put it in context?

MR. BOWEN: In this particular channel that we're talking about here, in other words, purchasing those mortgages under the delegated authority, which was under the purview of the sampling by my QA area, the volumes approximated $50 billion annually.

MR. ISENBERG: It also might be helpful to inform him about the performance quality of the agree contingent mortgages.

MR. BOWEN: Once this was identified and once MIS was developed -- and that becomes a different story because there was a resistance within the organization to developing and supplying the resources necessary to really ascertain the ultimate performance of these files.

When that was obtained, it did confirm that not only were there substantial performance issues related to the disagree decisions, as you might think, but there were also significant defaults associated with those files that had agree-contingent decisions.

And we believe the philosophy of this was that the lenders that sold those files understood very quickly that they could get the files purchased by basically certifying that these were underwritten to CMI standards. As long as they didn't include in the file proof that they weren't, then the files would be purchased and sold.

And the processes were not in place to ensure the follow-up back to the originating sellers to get those conditions cleared or any type of enforcement activity back to the original seller.

I digress, and I'm trying to pick up the thread as to where we left off.

That was one of the concerns that I began expressing in 2006. This concern was included in my e-mails. This concern was widely disseminated within the organization through my weekly reports.

My manager, the chief underwriter for the real-estate lending channel, also expressed alarm and widely distributed our concerns as it exists within the organization. And this was disseminated and discussed throughout the Consumer Lending Group.

To the extent that these problems were not addressed with any enforcement action against the sellers that were supplying these files throughout the time that I was with CitiMortgage, throughout the time that I was with CitiMortgage, to my knowledge, and it is my full belief, that there were no discussions -- excuse me, there was no disclosure made to the investors with regard to the quality of the files they were purchasing. And, in fact, there is explicit assurance made in many of the prospectuses for the securitization conduit, that the files purchased from the correspondent lenders are in compliance with CitiMortgage policy. And, in fact, I have an example of one of those with me.

Would you like to see it?

MR. BORGERS: Sure.

MR. BOWEN: Now, this is not Citi property. I actually got this off the Internet.

This, in and of itself -- and, again, this is simply off the Internet. This is a summary of the securitizations that have been made, both by CMALT, as well as CMSI.

MR. CUNICELLI: Mr. Bowen?

MR. BOWEN: Yes?

MR. CUNICELLI: Are you going to be leaving this with us today?

MR. BOWEN: Sure, you can have it.

MR. CUNICELLI: If you can read it into the record and we'll mark it.

This has a heading, it says, "CitiMortgage Securitizations." It's undated. It is an acronym at the top, CMALT, C-M-A-L-T equals "CitiMortgage

Alternative Loan Trust Securities."

I initialed and I'll date.

MR. BOWEN: Now, again, I want to emphasize, this is information that I pulled together off the Internet after I had left the organization, attempting to better understand the conduits through which my mortgages went. So, again, this is not inside information. This is publicly disclosed information.

The disclosures that were actually made were very similar to this. This is the 2006-05 pool for CMSI, and it basically says these organizations -- and we're talking about the third-party, the non-affiliated originators -- which were those mortgages which came through my area.

It says, "These organizations originated the mortgage loans under guidelines that are substantially in accordance with CitiMortgage's guidelines for our own originations."

My own sampling for that channel indicated increasing, in fact, up to 80 percent when I left the organization were not in compliance with CitiMortgage policy.

Are you entering that into the --

MR. CUNICELLI: Please.

And again, this is just something you pulled off the Internet?

MR. BOWEN: That's correct.

MR. CUNICELLI: Okay.

MR. BOWEN: You can download the proxy yourself.

MR. CUNICELLI: And you've printed off, CMSI 2006-05?

MR. BOWEN: It's simply a page off the PDF file that was downloaded off the Internet.

MR. CUNICELLI: And it reads, "Aggregate realized losses."

MR. BOWEN: Okay.

MR. BORGERS: I think what I -- this is Tom Borgers -- I think I'd like to focus on the policies and procedures that you were part of during year 2002 to 2005, prior to the merger.

Could you give us a little bit of background about what you were experiencing during that time with those mortgage underwriting responsibilities and how you felt comfortable or uncomfortable with that part?

So why don't you explain that part of your work history.

MR. BOWEN: The -- understand, with CitiFinancial Mortgage, they purchased -- and, again, I was over the correspondent part of that organization --

they focused primarily on the subprime, or the -- that’s rather politically incorrect, the non-prime, as we attempted to call it. And these were purchased in bulk, in other words, in pools of loans from sellers across the country.

I headed a team of underwriters that live in various parts of the country. And whenever we receive notice of a pool, my underwriters would travel to that location under one of my managers, then acted on the lead on that buy. And basically, opened files and made a determination as to whether or not the files met CitiFinancial Mortgage’s loan criteria. And from that, a decision was made as to whether or not we’d purchase the file.

During that time frame, we saw in the industry a loosening -- a considerable loosening of the lending standards in the industry.

Let me give you one particular example. CitiFinancial Mortgage originally had a prohibition against accepting stated loans. That is, loans that the borrower asserted an income level, but they accepted his word for what the income level was, and he was not required to provide any documentation to prove that income level.

Theses were deemed to be very high risk by

CitiFinancial Mortgage, and we did not accept those. And it was a part of CitiFinancial Mortgage's policy not to accept those.

However, the direction in the industry was that they would accept those. And, therefore, it became a very large part of the mortgage production for the subprime. The stated product, specifically. And the business started falling off dramatically, and a decision was made that, "We're going to have to start buying -- hold our nose and start buying the stated product if we want to stay in business."

So we joined the other lemmings, heading for the cliff.

This was readily apparent, especially as we did a great deal of business in California, where you had borrowers that -- and this was very apparent in underwriting files out there. The borrowers had purchased property that they clearly could not afford with a lifestyle that did not allow for the full mortgage payment. And we saw a very readily apparent pattern of borrowers refinancing every year or two, using the additional proceeds from the additional mortgage against the increased value of the house, basically, to live on and pay the mortgage for another year or two.

So there were a number of, if you will, warning signs that existed in the industry with regard to the lessening credit quality of the industry as a whole.

MR. BORGERS: But during this time period, do you believe that your group didn't have as many exceptions as you -- from the 2002 to 2005, with exceptions with the policies of CitiFinancial Mortgage?

MR. BOWEN: Well, understand, the policies of CitiFinancial Mortgage were changed to accept the additional products. So, again, as we underwrite against those policies, the level of exceptions did not change, and we tried to keep that fairly low.

And, understand, an exception to policy, in many instances, was a normal course of underwriting, where the borrower might trip over one criteria of policy, but yet there were mitigating circumstances in the file that would justify, from a prudent credit decision, to go ahead and purchase the file even though it was an exception to a specific detailed credit policy.

And so exceptions, in and of themselves -- and I don't know exactly where you were going with this -- but exceptions in and of themselves were not unusual on a low-threshold basis.

MR. BORGERS: Okay, I'd like to focus for a couple minutes on the chain of command at CitiFinancial Mortgage, and then moving over to the new merger chain of command.

Can you give us who you reported to during the CitiFinancial Mortgage years and the chain of command during that period of time?

MR. BOWEN: In CitiFinancial Mortgage, I reported to an individual by the name of Owen Davis, who was chief underwriter for CitiFinancial Mortgage. He in turn had a dual responsibility. On one hand, he reported to the CEO of CitiFinancial Mortgage.

MR. BORGERS: And who was that?

MR. BOWEN: That actually changed hats. There were several different names in the play.

Let me come back to that because we had about three different CEOs during my tenure.

The other reporting responsibility was up to the chief -- I believe it was the chief credit officer within the global consumer group of Citi. So the dual reporting responsibility was into risk and also into the business unit.

Gene Schutt was one of the CEOs that was over CitiFinancial Mortgage during my tenure. G-E-N-E, S-C-H-U-T-T, I believe.

Was that responsive to your question?

MR. BORGERS: Sure.

Now, as we go over to the CitiMortgage, who were -- what was the chain of command there?

MR. CUNICELLI: Could I ask just one clarifying point?

MR. BORGERS: Sure.

MR. CUNICELLI: You had a dual reporting to the chief underwriter, Owen Davis?

MR. BOWEN: No, sir, I reported solely to the chief underwriter, Owen Davis. He had a dual reporting responsibility.

MR. CUNICELLI: That's what I wanted to clarify. Thank you.

MR. BOWEN: Yes.

MR. BORGERS: Okay, so if we can get back to what was the chain of command with the new merger organization.

MR. BOWEN: Owen Davis was named chief underwriter of the merged mortgage entity, the real-estate lending group. And, again, operationally it consisted of CitiFinancial Mortgage, CitiMortgage, and Citi Home Equity.

I was named, and, therefore, continued to report to Owen Davis -- I was named the business chief underwriter for the correspondent channel within the consolidated mortgage operations. And Owen at that point in time reported to the chief risk officer of the Consumer Lending Group, which is what the real estate lending operation was a part of. And he reported to -- and this individual's name was Anil Hinduja, A-N-I-L, H-I-N-D-U-J-A. Again, the chief risk officer of the Consumer Lending Group.

MR. BORGERS: And who did he report to?

MR. BOWEN: He, in turn, reported to Carl Levinson, C-A-R-L, L-E-V-I-N-S-O-N, who was CEO of the Commercial -- or the Consumer Lending Group.

MR. BORGERS: When you moved over to your new spot, how were the policies and procedures set up in that new organization?

MR. BOWEN: There was a set of lending policies that were underwritten against. They were an amalgamation, if you will, of the policies that had been in existence, for example, under CitiFinancial Mortgage, CitiMortgage, and Citi Home Equity. But they became part of the mortgage lending policy within the consolidated operation. So there was a set of lending policies. These policies, again, did separately address the subprime and the prime loans, both the first mortgage and the second mortgage, or second-lien loans, that came through all of the channels.

MR. BORGERS: And during this period of 2006 to the end of 2007, while you were seeing some issues popping up, were there many exceptions to policies?

MR. BOWEN: Well, again, from a normal underwriting standpoint, you do accept some exceptions from policy. And that is a part of prudent underwriting, allowing some discretion to your experienced underwriters to make minor, if you will, exceptions to policy.

We did experience, as there became increasingly pressure, to build volumes. And there was a considerable push to build volumes, to increase market share, there were quarterly memos going out from both Carl Levinson as well as Bill Beckmann, B-I-L-L, B-E-C-K-M-A-N-N, who was CEO of CitiMortgage, extolling the increase in market share that was evidenced every quarter, the increased volumes that were made in the industry and, therefore, the associated increased profitability of the organization.

As we pushed harder and harder for volumes, the numbers of exceptions did increase, and the numbers of exceptions that were made by more senior management were also made.

So, yes, there was an increase in the numbers of exceptions. This particularly became apparent in the, if you will, the bulk side of the channel, which, again, was under my purview also.

"Bulk" is, again, where we would purchase pools of mortgage loans that were already closed.

And we got into a situation -- and this is actually summarized as Concern 2 in the November 3rd, '07, e-mail, where we would, as underwriters, identify files that did not comport with policy. And we would, as underwriters, decline those files.

The lead underwriter -- again, under my direction -- would also decline those files -- in fact, was required to add a second signature on every declination.

We had many pools from lenders that we would decline large numbers of loans. And the chief risk officer of that channel -- this was a man by the name of Jim Simpson, J-I-M, S-I-M-P-S-O-N. Jim wound up reversing those decisions. And even though those were declined in large numbers by underwriters that had the primary responsibility to determine the creditworthiness of the file, he actually reversed that decision, and the company wound up purchasing those files.

There is one particular very large pool that we purchased from Merrill Lynch, and there were many other sellers that this became apparent to also, where we turned down very large numbers of files; and in that particular pool, Jim Simpson overturned and agreed to purchase 260 of those files that had been declined. This impacted, obviously, the need for -- well, excuse me, the overall parameters in making a decision as to whether or not a pool was purchased is, to a large part, based upon the approval rate of the sample for that loan -- or for that file. So this favorably impacted that approval rate because they did -- they were given a final approved decision. And because of that, we wound up purchasing as a company -- and either retaining in the portfolio or selling to third-party investors, some pools of mortgage loans with significantly lesser credit quality than our policy required.

MR. BORGERS: And Jim Simpson reported to whom?

MR. BOWEN: He reported to Anil Hinduja.

MR. BORGERS: And was he involved in the actual purchasing of these pools also, or was his role just the overall risk?

MR. BOWEN: He was -- this channel where we purchased in bulk was given the name of "The Wall Street Channel." And he was chief investment officer of The

Wall Street Channel in terms of reporting to Anil Hinduja, who was the chief risk officer for the Consumer Lending Group. He had the responsibility to make a decision as to whether or not we were going to purchase pools.

Now, there was an overall policy that dictated minimum criteria associated with the credit quality of pools that we would purchase. Typically, that policy dictated that we would not purchase pools whereby we had an execution rate, that is, a level of approved -- a level of approved decisions for the sample that was less than 90 percent.

We wound up purchasing some very significant pools with exception rates as low as 62 percent.

And so even though he may have had the authority to make individual purchase decisions of these pools, he had to do so within the overall policy framework under which he made those decisions.

MR. BORGERS: And did he have to get approval higher up for -- let's say if we go back to that one pool where he overrode your underwriters of over 200 loans, did he have to get more senior approval on that, or was that his own authority?

MR. BOWEN: It is my understanding -- and understand that this was done over my objections. It was my understanding that he had the authority, as delegated by his boss, Anil Hinduja, to make the individual purchase decisions or reversals on the individual files.

The overall purchase decision as it relates to the pools is a separate decision, and required the approval of Anil Hinduja.

MR. BORGERS: So you feel that Anil Hinduja was keeping apprised of all these deals and --

MR. BOWEN: Absolutely.

MR. BORGERS: Okay. And over this time period, from especially the merger to -- through the November memo that you sent to Rubin and the rest, how many -- how serious were the exceptions, and how many memos do you think you wrote concerning your concerns?

MR. BOWEN: I don't know the numbers. It is certainly well documented in the thousands of pages of documents that I've submitted to the SEC. And I have discussed with the SEC, at least in the limited time that I was testifying before the SEC.

This was widely disseminated within the Consumer Lending Group, both with regard to weekly reports and e-mails and discussions.

MR. BORGERS: Since you're a seasoned professional, when you came to this part of your career with Citi -- Citigroup, how did you feel in your professional opinion? Was this in contrast to sound banking or lending -- or underwriting policies?

MR. BOWEN: If I thought it comported with sound underwriting policies, I wouldn't have raised hell about it.

In my opinion, this was placing the company in extreme risk with regard to losses, and I made that known.

MR. BORGERS: And the size of the risk were in the billions of dollars?

MR. BOWEN: Absolutely.

MR. BORGERS: And can you tell us a little bit more about, you raise your questions over and over again, and senior management does address them.

Can you spend some time discussing that?

MR. BOWEN: You asked about organization, and I do have an organization chart. This is one that I shared with the FD -- excuse me, the SEC. And, quite frankly, I also gave it to Citi in their investigation.

This is -- and this is not the official organization chart. All official organization charts that I had from the company constituted documents belonging to Citi and were returned. These were some that I constructed on my own.

These two charts represent the organization in 2006 and what it morphed to as an organization in 2007.

The organization charts reflect a large number of names at various levels within the Consumer Lending Group that were all fully aware of the issues that were being raised. And from my standpoint and my perspective, they were involved with the containment of that information, such that it was not shared with members of the organization outside of the Consumer Lending Group.

MR. BORGERS: Are these documents to stay, or can they stay?

MR. BOWEN: Sure, you can have them.

MR. CUNICELLI: I'll just read them in real quick. One says, "Organization Chart 2006," and the other "Organization Chart 2007."

And, again, you produced these? These aren't official?

MR. BOWEN: That is correct.

MR. CUNICELLI: Okay. Okay, thank you.

MR. BORGERS: For the record, why don't we go through a little bit in more detail about all the different channels that you were responsible for as the chief underwriter?

MR. BOWEN: We have described the delegated channel, if you will, that was actually a part of what is known as the "flow channel." "Flow" is the purchasing of more than likely loans on an individual basis.

There were actually two parts of the flow channel -- actually, three that reported in to me. And, again, the underwriting portion we're talking about reporting in to me. There was the -- those that were submitted under delegated authority, and that we discussed earlier, those mortgages were not underwritten prior to our purchase. Again, we purchased those under represent- -- under reps and warranties by the seller, that these were underwritten to our guidelines and we, in turn, sold those to investors or retained some portion of those in our portfolio.

To the extent that they were sold to investors, we gave reps and warrants to the investors, that they were underwritten according to our guidelines.

The other part of the flow channel consisted of loans that were actually underwritten prior to our purchase. And, in fact, they were underwritten prior to the original mortgage lender making the loan.

Let me give you a scenario. Where a mortgage lender wanted to make a loan to an individual, they wanted to have that basically pre-sold to us so they could have it funded when they closed the loan. They would submit the file to us as they were proposing to close it. And my underwriters would review these. And each and every loan was looked at by an underwriter. They would make a determination if they closed it under the proposed structure, whether or not that would be within our policy and whether we would purchase it.

We would also make changes to it, saying we did not agree with the structure, that it would be outside of our policy; but if they made these changes, then we would give them a commitment that we would purchase it upon the file being closed.

There were actually two parts of that. One of them dealt with the prime product, which we were talking about, the more conventional mortgages, most of which obviously were eligible for Fannie and Freddie, and the other part were the subprime. This was the leftover of the subprime flow operation, which originally existed under CitiFinancial Mortgage.

So there were three functions within the flow channel, if you will. One with delegated authority; and then two that actually did underwriting prepurchase. One was prime and one was subprime.

There was a channel that dealt exclusively with second mortgages. And, by the way, in the prime channel, they would also submit periodically second mortgages but it was not a primary product. First mortgages were the primary product.

There was an operation that purchased second liens in bulk that also reported to me. And very similar to the bulk operation on the first-mortgage side that I described earlier, they dealt with large numbers of -- large pools of second-lien product that we purchased from third-party correspondent lenders. And they underwrote those based upon a sample, and made decisions based upon policy given the execution rates in the sample.

The third part of that was the bulk operation for the subprime, which is what originated under my direction within CitiFinancial Mortgage.

And then there was additionally started up still another bulk operation which purchased the bulk first mortgages that were prime, and that reported up through another chief underwriter that reported to me.

So there were, if you will, two separate processes whereby we purchased the -- we purchased product: The flow operation and the bulk operation.

Bulk was given the name of Wall Street Channel; and then there was the flow operation, and that was what constituted the preponderance of the correspondent channel within CitiMortgage.

MR. BORGERS: Approximately in 2006, how many people did you have reporting to you and in 2007?

MR. BOWEN: Well, again, I have not been with the organization for two years. I had in excess of 200, I believe, at one point. I had 150 or 160 managers and underwriters under my direction.

MR. BORGERS: Now, some of your concerns were that you didn't have enough staff that you brought up over -- when did you start bringing up your concerns about the inadequate number of people on your staff to handle the volume?

MR. BOWEN: Well, the primary concerns dealt with the quality of analysis -- the quality-assurance function. Again, we had a channel that we were purchasing $50 million annually of mortgages through; that when I got involved with the organization, we were only sampling less than 2 percent of those files. And as part of my discovery process, I found that we were required by policy to actually be underwriting 5 percent sample.

Separate and apart from the alarms that were raised with regard to the very large numbers of files that we were purchasing that were outside of our policy, there was also the question that the numbers were not in compliance with the existing policy that was in place. And this was a revelation.

MR. BORGERS: So who was dictating the policy?

MR. BOWEN: That -- this was ultimately under the Global Consumer Group. And there was a lot of discussion and consternation as to really where that policy was and under whose purview it was.

As the company went through a number of reorganizations, that history became clouded.

I'm not trying to avoid your question, but there was not real clear accountability as to who exactly even had the current copy of the policy that we were supposed to be adhering to.

MR. BORGERS: So let me just get it straight. During this time, when you first took it over --

MR. BOWEN: This is 2006.

MR. BORGERS: -- you did not have written policies that you could go by?

MR. BOWEN: Well, we finally found, with the help of Business Risk and Control, a policy that was supposed to have been governing at the point in time. But this was one that I did not readily have available to me, and discovered -- and required some discovery before it was identified.

MR. BORGERS: And who was responsible for this policy prior to you coming over?

MR. BOWEN: Well, it ultimately fell with regard to responsibility under Anil Hinduja, who had overall risk responsibility for the Consumer Lending Group.

MR. BORGERS: So during this time, no one could find the policies.

And did you bring that to the attention of --

MR. BOWEN: Oh, absolutely.

MR. BORGERS: And --

MR. CUNICELLI: Just so we could get a time frame, you start when under this merged organization, and when do you actually find the policy? How long are you working without a written policy?

MR. BOWEN: Well, the processes were in place when I inherited the organization in early 2006. I started becoming involved in the April-May time frame in the QA function itself. And I was told at the time, "Don't worry about this. This is functioning well. This is a smooth-running operation. Concentrate on the problems elsewhere," which I did.

MR. BORGERS: And who told you that?

MR. BOWEN: Oh, this was my chief underwriters that reported to me and within the risk function itself.

MR. ISENBERG: Could I interject just for a second? This is Jerry Isenberg.

When we're talking about policy, I just want to make sure that it's clear for the record. I think the policy that you're talking about is the QA policy.

MR. BOWEN: Yes.

MR. ISENBERG: And that's the one that was not readily findable --

MR. BOWEN: Yes.

MR. ISENBERG: -- and was confusion about?

MR. BOWEN: QA policy.

MR. ISENBERG: Obviously, there are other policies.

MR. BOWEN: Yes. And that is worthwhile clarifying.

MR. BORGERS: And to clarify again for the record, this QA policy was -- how much product was coming through this area?

MR. BOWEN: $50 billion.

MR. BORGERS: $50 billion?

And there was no -- no one could find the written policies?

MR. BOWEN: Well, they did locate it.

MR. BORGERS: And how long did this take?

MR. BOWEN: Let me give you a time frame. I discovered my concerns initially with regard to the incomplete files in probably May of '06. I alerted the Third-Party Origination Committee and many others in this process where we were really attempting to understand what this meant. And somewhere in this time frame -- perhaps June and July, the chairman of the Third-Party Origination Committee -- and her name was Louise Sherman, S-H-E-R-M-A-N, who also was over -- I've forgotten the formal name of it, but she was over the organization that had purview over the correspondent relationships and the approval of those for delegated authority -- she finally identified what was supposed to be the existing policy. And upon reading that, we discovered that we were out of compliance with even the original policy that everyone thought that we were conforming with.

MR. BORGERS: And if I can interrupt, you come on board in 2006?

MR. BOWEN: Yes.

MR. BORGERS: Prior to you coming on board, who was handling responsible for the day-to-day operations of quality assurance?

MR. BOWEN: Well, there was a supervisor of that area. Her name was Brenda Wilson, W-I-L-S-O-N. She, in turn, reported to a chief underwriter, whose name was Connie Mourier [phonetic]. And when I took over as business chief underwriter, Connie Mourier started reporting to me.

MR. BORGERS: And prior -- so prior to early 2006, she was responsible for that function.

And were there billions of dollars of product going through that area even at that time?

MR. BOWEN: Absolutely.

MR. BORGERS: So do you have any idea approximately how much was going through that particular channel in 2005?

MR. BOWEN: No. I was not involved.

MR. BORGERS: But it was still billions of dollars?

MR. BOWEN: Absolutely. It has always been the highest volume of production for CitiMortgage.

MR. BORGERS: And when you were trying to dig for the policy, did you approach the chief underwriter there in quality assurance and Connie for a copy of the policy?

MR. BOWEN: Yes, and a copy was finally produced. I believe it was produced by Louise Sherman. But Connie Mourier assured me we were in complete compliance with it.

And a careful reading of the policy indicated we were not in compliance with it. Connie Mourier produced a memo -- a two-sentence memo that had been obtained several years prior that was ostensibly a waiver to the policy.

It was never determined if that actually constituted a waiver, but that is one she started operating under.

MR. BORGERS: So the policy actually stated that it was a 5 percent review of the sample?

MR. BOWEN: Yes.

MR. BORGERS: And somebody of authority changed that from 5 to 2?

MR. BOWEN: It is questionable whether or not someone with authority actually intended, when they wrote that two-sentence memo, that that would be used as an exception to policy.

That individual is no longer with the organization.

MR. BORGERS: And what level of authority did that person have?

MR. BOWEN: They were chief risk officer at the time, and I do not even recall the name. I did not know the individual.

And, again, he had left the organization before I became involved.

There were many aspects of the original policy that were not being adhered to, not just the 5 percent. And, again, the chief underwriter was purporting that this -- I think it was a two-sentence e-mail gave her authority to operate without meeting the requirements of the policy.

MR. BORGERS: Now, related to this, you had a committee called the Third-Party Originator Committee.

And wouldn't they have discussed the overriding of the policy for the --

MR. BOWEN: Apparently, it was never brought up. There were reports made to the committee on a monthly basis -- this was a part of their monthly agenda -- reporting the results of QA as it relates to the agree and disagree decisions. There was -- and it was apparently accepted by that committee that they review that number on a monthly basis; but I never found any evidence that -- in years, anyway -- that there had been any discussion of the actual underlying policy.

MR. BORGERS: So was there any minutes of these meetings?

MR. BOWEN: There were minutes compiled every month of those meetings.

MR. BORGERS: And did you review those minutes to see whether or not there was any --

MR. BOWEN: No. From my standpoint, it was moot. I had a problem. I wanted to address it. I wasn't interested in digging into history.

MR. BORGERS: But in your background, did you find this unusual set of policy overrides and policy reviews?

MR. BOWEN: Again, I wouldn't call it "overrides." It's really unclear what the form of this was.

It was very distressing to find that we had $50-billion of product going to a channel that did not have truly-defined operational policies.

MR. CUNICELLI: If I could take you back one second. You said that the 5 percent review was only one instance of --

MR. BOWEN: That's right.

MR. CUNICELLI: -- being non-compliant with policy.

Could you specifically recall any other?

MR. BOWEN: Well, the policy that was found actually required sampling on the individual seller basis. That was not being done. There was an aggregate sample taken -- and a very small one at that -- on the aggregate, without regard to individual sellers. So that was not being complied with.

There was also requirements in the policy that if individual sellers ran afoul of the 95 percent agree rate, that the required sample on those individual sellers would be increased. That was also not being complied with in practice.

MR. BORGERS: Were these noncompliance issues ever brought up to the auditor?

MR. BOWEN: To my knowledge, this subject was never brought up with any internal or external auditors.

MR. BORGERS: Did you feel, being a seasoned banker, that this is unusual that this was never brought up to the audit committee?

MR. BOWEN: I didn't focus upon where the reporting of this went. I tried to fix it, and was widely involved in disseminating the issues and the urgency associated with these issues, and trying to get management's attention to address them.

MR. BORGERS: And let's focus on that for a few minutes.

You bring these noncompliance issues?

MR. BOWEN: Could we take a quick break?

MR. BORGERS: Sure.

MR. CUNICELLI: Why don't you hit record?

(Recess from 9:29 a.m. to 9:39 a.m.)

MR. BORGERS: This is Tom Borgers. We've stopped the recording at 9:29. It is now --

MR. CUNICELLI: 9:39.

MR. BORGERS: -- 9:39. And we will resume questions.

And the questions right now relate to the policies for CitiMortgage around the time of the merger.

So, Mr. Bowen, we'd like to follow up on that a little bit more.

As you outlined before, it was not just one aspect of the policies that the quality-assurance area was not adhering to; it was several different parts of the policy that you were concerned about; that you couldn't find the policies, number one; and number two, someone did override the policies without even discussion -- formal discussion with the Third-Party Originating Committee. Is that correct?

MR. BOWEN: I do not know if formal discussions took place in that original time frame of several years prior with the Third-Party Origination Committee or not.

I know the e-mail that was presented as evidence that Ms. Mourier had acted within an authorized capacity, that the famous two-sentence e-mail, I think, I am not familiar with what discussions surrounding the issuance of that e-mail.

MR. BORGERS: And when you brought this to the attention of the committee, were they surprised that no one could find the policies? How did they react? And do you remember any of the specific reaction of some of these -- of the top-level committee people?

MR. BOWEN: Again, this committee had been functioning long before I became a part of the scene.

MR. BORGERS: Right.

MR. BOWEN: So they were used to reviewing the normal agenda, which included the results of the QA function for the previous month; and they were, I think, somewhat surprised that we were not in compliance with policy. And concern was expressed with regard to the circumstances that I brought to their attention, as it relates to the true creditworthiness, and particularly as it relates to the very high portions of files, or percentage of files that were missing documents that were actually required by our policy, as well as our investors’ policies.

MR. BORGERS: Now, as far as the committee was concerned, was -- Mr. Anil Hinduja, is it?

MR. BOWEN: Anil Hinduja.

MR. BORGERS: Was he aware of what had happened with the quality-assurance area?

MR. BOWEN: He was not a part of the TPO committee, and he did not attend.

I attended from -- as business chief underwriter for the correspondent area, I represented the underwriting function there.

He was made fully aware of everything that had transpired with regard to the discovery process. He was duly notified, and I am -- not only my boss, Owen Davis, but I also had discussions directly with him.

The initial discussions not only were concerning the seriousness of the condition that we found the QA function in and the quality -- the underlying quality of the files being purchased and resold, but also questions as it relates to the performance of the chief underwriter over that function, Ms. Mourier.

I initiated a -- I requested, if you will, an investigation by our Business Risk and Control area. They assigned two people. One them was over Business Risk and Control for CitiMortgage. And they also assigned a manager from HR that jointly conducted an investigation and interviewed a large number of employees. And based upon the results of that investigation, which was presented in a meeting at the end of August -- I believe it was the very end of August -- and at least a draft of their findings, which were the only thing that was made available to me and my boss, is entered into the documents that the SEC has.

Their findings confirmed that policy was not being adhered to; there were large numbers of files that did not have complete documentation and, therefore, potentially involved risk to the organization. And in discussions, we made the recommendation that Connie Mourier be terminated, and the conference call that ensued, which included the head of HR for the Consumer Lending Group, the head of Business Risk and Control for the Consumer Lending Group. And I'm not sure of the others that participated in that conference call. It was decided that that should be the course of action. And I subsequently terminated Connie Mourier.

MR. BORGERS: A question about the -- I know this body -- this investigative body was a part of the risk group; is that correct?

MR. BOWEN: No. The investigative body called Business Risk and Control was a separate organization that existed within -- Business Risk and Control is a corporatewide organization. The purpose of Business Risk and Control is to supplement, as I understand it, to supplement internal audit. However, Business Risk and Control actually reports into the business manager for the individual units. In this case, Business Risk and Control was headed within the Commercial Lending --

or the Consumer Lending Group by a Dick Oparowski. I'll attempt the spelling -- well, it is on the organization chart. O-P-A-R- -- excuse me, O-P-A-R-O-W-S-K-I. He, in turn, reported to Carl Levinson, CEO of the Consumer Lending Group. And this was under his direction that the investigation took place.

The Business Risk and Control function is supposed to ensure that the internal controls are in place in accordance with policy of the corporation. And their conclusion is that they were not in place.

It is my belief that the results of that investigation were never shared with internal audit. That did not report because internal audit did not report into the Consumer Lending Group.

MR. BORGERS: However, in your view, was what the outcome of this investigation, do you believe it was material?

MR. BOWEN: Absolutely. It confirmed the dire circumstances and the risk posture that the company had with regard to potential exposure to a volume of $50 billion of mortgages that were being purchased and resold under our representations and warranties that these adhered to credit policy.

MR. BORGERS: And it was even probably more than $50 billion, because it was prior to your coming on board also?

MR. BOWEN: We know and, in fact, the investigation by Business Risk and Control confirmed that this condition had existed since 2003.

MR. BORGERS: So is there any idea approximately how many billions of dollars flowed through that area over that time? I mean, we can safely assume that was more than 50 billion from 2003 through 2006 because it was just 50 billion at that time.

So could it have been $100 billion for that entire period?

MR. BOWEN: It could easily have been.

I know from the -- it's my belief during the 2006-2007 time frame, at least up until the point that I wrote that e-mail, I believe that there was a volume of close to $90 billion just in that time frame that flowed through that channel.

MR. BORGERS: So as I said before, and you agreed, this was, you believe, a material problem for the bank.

Did anyone --

MR. BOWEN: Understand, we were not officially a part of the bank; we were a part of Citigroup. The bank is a separate entity within Citigroup.

MR. BORGERS: Okay. Could you ever discuss at any of these meetings with the risk investigators and as such, whether they were going to bring this to the audit department for proper follow-up to the audit committee?

MR. BOWEN: I was not privy to any conversations.

It is my understanding it was never reported to audit. It is also my understanding -- and, in fact, I was involved in a, I believe, a conversation where, when it was discovered that we were not in compliance with the Global Consumer policy, that we were obligated to report that as an exception. And I do not believe that that was ever reported as an exception.

MR. BORGERS: So no one on the committee discussed this as far as whether or not they should -- meaning, the committee -- let me clarify that for the record. The TPO committee, the third-party originators, no one ever -- this was never discussed on whether or not they should bring it to the audit committee?

MR. BOWEN: Not to my recollection.

MR. BORGERS: Okay. Did you ever discuss that with Anil Hinduja and your boss Owen Davis?

MR. BOWEN: I don’t recall specific discussions as it relates to internal audit.

My concern was attempting to get management’s attention to address the situation and that is what my focus was.

I am aware that, in drafting a new QA policy, which was adopted in late '06, I believe November or December time frame -- it was Fred Bader, B-A-D-E-R, who was the chief risk officer for CitiMortgage, and was the author of the new QA policy -- was going to submit that. And I saw an e-mail that he was going to submit that to audit.

I also saw an e-mail to him from Anil Hinduja, saying, "We need to discuss this before you submit this to audit."

It is my understanding it was never submitted to audit.

MR. BORGERS: And did you at that point, with this particular comment, did you feel that that was unusual?

MR. BOWEN: I didn't focus on that particularly.

Not only was this not reported to audit, this was never reported to the credit risk committee of the Consumer Lending Group, which was chaired by Anil Hinduja.

It was my belief, and the belief of my boss, none of this was ever reported to the chief credit -- or the -- I guess it was the Consumer Lending Group risk committee, which again is at a higher level within the organization than obviously the mortgage TPO committee. And, again, this risk committee was chaired by Anil Hinduja, who was the chief risk officer for the Consumer Lending Group.

This was never placed on the agenda to even discuss at that risk committee.

And it is my belief that the agenda -- and, in fact, I recall hearing that the agenda for that risk committee was always shared with audit.

And it was my belief that this was withheld from that committee because it would have become apparent to audit.

MR. BORGERS: And then there would have -- because it was material, it would have gone to the audit committee?

MR. BOWEN: I don't know what the calculation process is within the audit committee. Certainly, you're talking about very material issues.

MR. BORGERS: Okay. If we can get back into the QA development of the new policies, procedure, and staffing. You've said that at the end of 2006 these were developed.

Could you focus some time on whether or not the staffing needs were met as directed by the review over the next year or so, and also how the compliance issues were met?

MR. BOWEN: Let me attempt to address that. That's a rather wide net you threw.

The new policy that was finally adopted -- and, again, the formal -- it was identified in June and July and, in fact, it was documented in July that we had to have a new policy for QA. And it was accepted that Louise Sherman would work with Fred Bader under his direction to develop that policy.

The policy was never approved until, I believe, late November of that year, despite many e-mail weekly reports and continued attempts to focus attention on the extreme urgency in developing a new policy and being able to address this situation.

The new policy that was adopted required a significant increase in the sample size; required individual seller sampling which, of course, was not being done but was originally required by the policy that was supposedly being operated under.

And the dire circumstances were acknowledged by Bill Beckmann, CEO of CMI, the CitiMortgage unit. He actually approved in the '07 budget, in meetings that took place in late '06, a significant addition to my staff to allow me to increase the sample size to satisfy the new policy.

With regard to staffing, I was told that I could not hire the additional staff because there was a freeze on hiring, although my other areas, I could hire substantially additional staff. It was only the QA function that the freeze adhered to within my area.

I was finally given authorization to hire additional staff, I believe in April or May of '07. And this was only, from my belief, in response to internal audit discovering, in their very small sample in an audit, some QA files that had been approved that were clearly outside of our credit policy. And they raised the issue in their audit, what is going on in the QA or in the delegated channel.

MR. BORGERS: What year -- what year or month was that?

MR. BOWEN: The audit itself took place in early '07. And the issue is, they identified there was a potential challenge in the delegated channel. Again, they took a very small sample and identified, I don't know, two or three files that were clearly outside of our policy that we had purchased in the delegated channel.

They were told that, "Well, we have changed our policy, and we're in the process of staffing up, and the new policy will address this." And audit accepted that, but then that became a part of their subsequent audit plans. And it was known that they were going to be looking at that next time they came in. And I was -- I pointed that out in a number of documents.

So in response to that stimulus, I was finally given approval to start interviewing, to hire additional staff in April or May of '07. Again, this is a year after the initial discovery of the situation.

Now, I want to point out one thing, Mr. Borgers. We're actually dealing with two separate issues. We're dealing with -- although they're intertwined -- first of all, there is the audit function with regard to the sample size, with regard to the procedures and the logistics associated with the sampling that goes on.

The other is the overriding issue, from my standpoint, that the situation existed within the business channel. And so even though the staffing was to address the sampling, there was no substantive management action that was taken during my time that addressed the true underlying risk situation associated with the large volume of mortgages that we were purchasing. The focus was attached to, "Well, let's start sampling more."

And so I don't want to divert attention to the fact that, yes, they increased staff finally to address that. That was not to address it; that was simply to address a larger sampling.

MR. BORGERS: And what was the size of the sampling that was now adhered to?

MR. BOWEN: The sampling that was adhered to when I inherited the situation was, typically, a 1 percent random sample and a 1 percent, as they termed it, target sample.

It is the random sample that actually gave you what should be a representative indicator, if you will, of the overall credit quality.

The targeted sample was dictated on a monthly basis by Louise Sherman's crew as it may relate to specific borrowers that they want to look at more.

But we're dealing with a channel that purchased mortgages from in excess of 1,000 correspondent lenders.

So even the target sample of 1 percent -- and so we're looking at a -- excuse my digression -- we're looking at a total of a 2 percent sample. And my people that staffed these areas, that were very experienced underwriters, they only had seven or eight. They were maxed out at even doing 2 percent.

MR. BORGERS: And in November, what was the new policy, what was the total sample that was required?

MR. BOWEN: 5 percent random, with a targeted sample on top of that.

MR. BORGERS: And --

MR. BOWEN: And that's my recollection of the policy. And that is also on an individual seller basis, with required escalation of sample sizes to the extent that individual sellers don't adhere to the overall 95 percent agree rate that was expressed in the policy.

MR. BORGERS: So over the -- once they put the new policy in place, you did not have additional staff, your staff could only do 2 percent even under the best circumstances?

MR. BOWEN: That's right.

MR. BORGERS: So they were --

MR. BOWEN: So we had no resources to adhere to the new policy.

MR. BORGERS: So they were not adhering to the policy from that time, because it was a 5 percent required sample review; right?

MR. BOWEN: In the original policy, as I understand it.

MR. BORGERS: But then -- then in November, it was 5 percent -- again 5 percent?

MR. BOWEN: Yes.

MR. BORGERS: And your staff couldn't do it from November to -- at what point in time in the future?

MR. BOWEN: Well, understand -- and I want to clarify this -- this not only dealt with the human resource necessary to adhere to the new policy, but there was no systems support that allowed adherence to the new policy.

As an example, the 1 percent random sample that my underwriters did, this was achieved -- the sample selection was achieved by my supervisor of that area actually going down a list of files that have been generating, and she would tick off every 100 -- I mean, one out of every 100, and then that became the sample.

It was not a truly scientific means of determining the sample, but there were no systems support to support that -- or systems support to, if you will, embrace the new policy from a statistically valid random sample.

In addition to that, there were the underlying support systems that were unavailable to follow up with the sellers for the individual decisions, where we were missing documents and we requested those missing documents from the seller. There was no system in place to allow us to follow up on that, to identify where the sellers had not submitted the underlying documents that we requested.

MR. BORGERS: And during this whole period, after they developed the new policies, TPO and Anil Hinduja and Bill Beckmann and the other seniors knew that, even though there were new policies, you still could not be in compliance with the new policies until the new system was put in place until all of the staffing was put in place; were they all aware of these major problems for the billions of dollars of product that were going through your shop?

MR. BOWEN: I believe so. And I, on a continuous basis, apprised all of senior management with regard to using the old methodology, the 1 percent sample, the deteriorating credit quality that we experienced.

When I first became aware of the situation, we had 40, 50, as much as 60 percent of the files that were outside of compliance. In fact, I make reference to that in the November 3rd e-mail, 40 to 60 percent.

This continued to deteriorate during 2007, such that at the end of 2007, we were at 80 percent plus that were out of compliance with our policy; that we continued to purchase and sell to investors.

MR. BORGERS: And I think there's a good point to just -- you mentioned there were about a thousand different sellers that went through.

MR. BOWEN: It was a very large number. I can't give you a specific number.

MR. BORGERS: And we're not asking you to give a specific number.

But it was hundreds of sellers. And they -- is it fair to say that they had various, different levels of performance or quality issuance?

MR. BOWEN: Understand from our sampling methodology, we did not have -- we knew the aggregate performance; but because we did not have the systems support, we could not report on individual seller performance. All we could do was raise the issue as it relates to the aggregate performance of what's flowing through this channel.

I could not tell you that individual sellers, X-Y-Z, were out of compliance by 80 percent. I couldn't do that until we finally got the MIS that would allow us to identify those, which was in late 2000 -- well, we started being able to report on individual sellers, I believe, in May of 2007.

MR. BORGERS: And just to give our record a little sampling of some of the sellers, who were some of the leading sellers that you were buying mortgages from?

MR. BOWEN: Oh, gosh. I referenced one in that e-mail, being Aegis. Aegis actually had -- or a sale during 2007. And they're one of the very large sellers. We had actually purchased -- I believe I referenced in that e-mail two and a half billion dollars from that one seller during the 2006-2007 time frame.

And I took that number from a specific report that was delivered.

Many large sellers -- I don't recall some of the more predominant ones. I think American Home was one. There were very large mortgage companies that we were actively purchasing a large volume of product from.

MR. BORGERS: Was New Century --

MR. BOWEN: I don't recall if New Century was a flow customer. I know that we looked at purchasing pools of mortgages from New Century, but I do not recall if that came through the delegated channel.

MR. BORGERS: But focusing -- let's get back to focusing on analyzing the quality of loans of each of these sellers by seller.

You could not tell whether or not a specific seller was giving you good product or not until virtually the end of 2007?

MR. BOWEN: Well, we started getting some reporting, I think, in May of '07.

MR. BORGERS: But you did not --

MR. BOWEN: This was the early generation, if you will, of the reporting that we had to fine-tune to truly be operational.

We knew the overall problem was very large, but I could not get the support for a more timely implementation of systems or the resources necessary to expand the sample until the 2007 time frame.

MR. BORGERS: Do you feel that this is unusual for such a large channel to take this additional risk on without knowing what the risk was?

MR. BOWEN: With the risk that was apparent in this channel on an aggregate basis, from my standpoint, it was unconscionable that they would not dedicate resources to address this risk.

MR. BORGERS: And, therefore, over the years, since they were not doing this, you did not have any obvious trend analysis by seller?

MR. BOWEN: No, we did not.

MR. BORGERS: And in your professional opinion, do you believe that that should have been standard practice?

MR. BOWEN: Absolutely. We should have been adhering to the original policy which required individual seller determination of compliance.

MR. BORGERS: So the original policy did have that in there?

MR. BOWEN: Yes.

MR. BORGERS: And you did not -- you could not identify who overrode the policy?

MR. BOWEN: There were a -- the chief underwriter that that function reported to, Ms. Mourier, apparently in budget considerations, made substantial reductions to staff in that area, in the number of underwriters that were there in the face of ever-increasing volume in that channel. And this was justified based upon this two-sentence e-mail that she received from the chief risk officer at the time in a previous year.

So there were actions that were taken. These were taken in response to budget considerations. It’s my understanding that Ms. Mourier received high acclaim because she was so effective in cost control in previous years. And it is my belief, and certainly was the belief of the investigators that conducted the BRC investigation, that this was part of the overall performance of Ms. Mourier, which was not acceptable.

MR. BORGERS: However, after Ms. Mourier left, or was terminated, the new policies went into place, and which were much better than what you -- what was under her administration. But there was a lack of implementing all the many different aspects of those new policies; right?

MR. BOWEN: Resources were not forthcoming to allow for the actual implementation of the new policy.

The new policy was touted as addressing all of the concerns. But as a practical matter, we were not given the resources to implement, from an operational standpoint, the new policy.

MR. BORGERS: And you brought this to the attention of -- through e-mails and -- tell us how you brought this to the attention of senior management.

MR. BOWEN: Weekly reports, e-mails, conversations.

I am not a shy individual and, quite frankly, a large part of the documentation, as evidenced by the thousand pages that has been presented to the SEC documents those complaints, those requests, those pleadings to senior management within the company.

MR. BORGERS: And as you went through these complaints over the months, were you having also personal telephone calls or meetings with the seniors from Bill Beckmann and Anil Hinduja and the rest about your concerns?

MR. BOWEN: I don't know that I would

characterize them "personal conversations." I certainly documented this well. I did have conversations with Fred Bader, with Jeff Walker.

Jeff Walker is W-A-L-K-E-R. He was over sales. This was communicated up in writing to Bill Beckmann. This was certainly communicated to the original investigators of BRC.

As a matter of fact, I insisted that the staffing challenges be inserted into a system called MARS. MARS is a system that retained all issues that have got to be addressed within the business. It was part of the internal controls within the organization. And I had a manager -- actually, this is the manager that succeeded Connie Mourier -- I had her put those issues in, that we did not have the MIS necessary, that we did not have the staffing necessary.

And I put those in the MARS system, giving it the highest priority available within that system. I've forgotten what they call it.

Well, this system is referenced by internal and external audit when they do their procedures. And in December of 2006, my manager, Sherry Hunt -- H-U-N-T -- who became chief underwriter in place of Connie Mourier, and was the person that I originally instructed to put into MARS these very serious concerns, she was instructed by Business Risk and Control to lower the priority on those MARS items, which she did according to instructions by Business Risk and Control.

The effect of lowering the priority on those MARS items meant that audit would not look at them when they came in.

MR. BORGERS: So when you found out about this, what did you do? Did you send another e-mail that you were upset that this was circumventing --

MR. BOWEN: No, this was just one of a series of items that went on.

I did nothing specific with regard to this, other than note that it occurred.

MR. BORGERS: So in your eyes, the investigation by the BRC concluded that there were serious concerns there; but then the BRC, after they developed their report and said that there were serious concerns, they lowered their understanding then of what those risks were in your area?

MR. BOWEN: All I know is that Business Risk and Control directed my manager to lower the priority for those items related to my area that related to the serious credit situation that we had in the delegated channel.

MR. BORGERS: Did they do that through you, or did they do that around you?

MR. BOWEN: They told Connie directly, since she was the author of those MARS items, even though she had done so under my direction, they basically told her to go in and lower the priority on those items, which she did.

MR. BORGERS: And when you say "they," who specifically at Business Risk?

MR. BOWEN: It was documented, and it is documented. And what was submitted I don't recall. It may be in my notes, I just don't know where.

MR. BORGERS: And I don't know if you've said it -- if you did, I apologize -- MARS, is that an acronym for some sort of asset risk?

MR. BOWEN: I'm sure it is.

MR. BORGERS: Okay, okay.

So the audit department -- how -- you mentioned a few minutes back that the audit department was doing a very small-scale audit review of your area.

And in a normal area that is of deep concern to any auditor, isn't it a function to do a much more detailed audit review of a high-risk area?

MR. BOWEN: Where they have -- where they identify areas that they do not think have been addressed, yes, it is, they were convinced that this had been addressed.

MR. BORGERS: So in your belief, the audit department was not addressing it or is not being apprised of the serious concerns in your area?

MR. BOWEN: Audit was told -- and I drafted this response to audit, informing them that we had changed the policy -- which we had.

I then used that fact -- and audit went away after seeing that we had adopted a new policy.

I used that fact, that audit was aware of it and was expecting the new policy as leverage to finally get resources to address my issue. That is why I finally received authorization to hire staff, and I finally received MIS support in 2007.

MR. BORGERS: And I think this is a good time to focus on your November 3rd, 2007, memo to Robert Rubin, David Bushnell, Gary Crittenden, excuse me, Bonnie Howard, the chief auditor.

MR. BOWEN: Let's just spell that out real quick. Rubin is R-U-B-I-N. Bushnell, B-U-S-H-N-E-L-L. Crittenden is C-R-I-T-T-E-N-D-E-N, and Howard is H-O-W-A-R-D.

MR. BORGERS: So when the next time period came around, what prompted you to write this memo at this time?

MR. BOWEN: As I've talked about earlier, I was seeking assistance in getting these very serious issues addressed within our business unit. And within our business unit, there was not management support, in my opinion, to effectively address the risk that I saw in this business unit.

In the same time frame, I think it was in the -- well, Citi had announced some initial losses. There was concern in the banking industry in general. There was widely reported in the press that the board of directors was going to have a -- I don't know if they termed it emergency meeting, but a special meeting that was going to take place on Sunday. It was widely speculated in the press that Charles Prince, CEO of Citigroup, was going to step down because of the problems.

And all of the reported problems appeared to deal with the investment side of Citigroup.

The losses that they had taken on CDOs, on other items, some of which were in special-purpose entities and off the balance sheet -- and I don't even think it became aware until later, you know, the circumstances surrounding some of the losses.

The point being, the board of directors was trying, from my perspective, to get their arms around this situation. And I desperately wanted to communicate to Citigroup corporate and to the board of directors that, hey, there are some very serious issues that exist within this unit of the company that you are not even aware of. And that was the underlying impetus, if you will, for issuing this November the 3rd, which was on the Saturday before the special board meeting.

Yes?

MR. CUNICELLI: Could I play devil's advocate for once?

MR. BOWEN: Certainly.

MR. CUNICELLI: And just two parts. Just, why -- it seemed management was very interested in keeping this information away from audit. So why not send this to audit and why not send it earlier, since it --

MR. BOWEN: I wish I had.

MR. CUNICELLI: Okay.

MR. BOWEN: In hindsight, I wish I had.

I firmly believed -- and there is certainly adequate evidence in the documents I've submitted, that all of the management of the Consumer Lending Group were well aware of this issue. And I also saw instances which I believe to be the containment of this information in keeping it away from audit. And we haven't even addressed all of the circumstances with regard to Concern 2 yet, which is referenced in the e-mail.

This was my attempt to raise to the attention of the company that I believe there was serious risk to our shareholders involved here, and they needed to be aware of this. And that is why I sent this e-mail.

MR. KARDELL: I've got a question. It's a really global one but -- anybody can answer this.

What you're saying, Dick, is that you had -- by reading the matrix business press and all, you saw what the board of directors was really concerned about, some of the investment stuff, like the CDOs, that's collateral -- whatever it is.

MR. BOWEN: Collateralized debt obligations.

MR. KARDELL: Right. Stuff like that, then some other major investment products, all of which the board's looking at this, saying, you know, "We've got a little bit of a problem with our investment side," and what have you.

Here's my question -- and I, obviously, don't know the answer to this -- are the things we're talking about here part of what manifested itself in the big investment picture?

Stated somewhat differently, had these

purchases, these bulk purchases been better, would that have made the investment side better? Were the CDOs built off of this product that we're talking about here?

MR. BOWEN: To my knowledge, the product that came through the mortgage operations did not feed any of the product that went into the securitizations on the investment side of the shop.

Now, in a previous conversation, I heard the name Susan Mills. I looked at my notes; yes, I do know Susan. I had a number of meetings with her, including her chief underwriter I got to know fairly well, a man by the name of Matthew Bollo.

MR. BORGERS: Matthew Bollo was her chief underwriter?

MR. BOWEN: Yes, Matt Bollo, M-A-T-T, B-O-L-O, I believe.

MR. CUNICELLI: Double, L-L.

MR. BOWEN: Double L.

And again, the volumes that came through our area I think were a separate process than was involved in theirs. They set -- as a matter of fact, in the marketplace, when we were competing to purchase mortgage loans from third-parties, from mortgage companies, it is my understanding they actually -- we actually competed against the global markets group.

MR. CUNICELLI: Okay, and I'm going to ask you to stop there because I'd rather you deal with what's in your wheelhouse, what you dealt with day-to-day, rather than your conjecture on what another group was tasked with doing.

MR. BOWEN: Very good.

MR. KARDELL: Let me ask another question, kind of follow-up.

With regard to the big picture at Citi, when Citi started having problems and what have you, if you were -- if you had a pie chart here, what would be related to, in your wheelhouse, to use Vic's apt analogy, as opposed to other problems with Citi on a pie chart? Does anybody know the answer to that?

MR. BOWEN: I can't make a relevant judgment. I'm just focusing on my issue.

MR. KARDELL: It sounds like your issues are like the quality of the packages that are being purchased and the lack of sampling and what have you.

MR. BORGES: Thanks, Steve.

I do want to get back to the other issues that -- we've covered the quality-assurance side, which is related to at least $50 billion worth of product in 2006, and many tens of billions prior to that, and had serious problems probably, even though it was before your time, from 2003 to 2006.

Can we go through some of the other concerns, some of the other compliance issues that you were very concerned about, that you were telling everyone, both at the senior level, at your level and your own underwriters?

MR. BOWEN: Well, understand that with regard to Concern 1, specifically we continued during this time period, even though the results of our analyses indicated a significant deterioration in an already, from my standpoint, perilous credit condition, we continued to purchase and sell product, again, to not only the GSEs, but also Ginnie Mae. These continued to be sold at Ginnie Mae, despite the very specific underwriting results. And this is where we did do a specific example on the FHA/VA, which indicated in excess of 70 percent, and in some months, I think it got close to 80 percent of the FHA/VA loans that were actually put into Ginnie Mae securities.

Now, understand, these were given insurance by the originating mortgage companies, the FHA/VA insurance. But our sampling indicated at least 70 percent of these had conditions that, had FHA/VA known about, the insurance would have been declined. And, in fact, to the extent that it became aware of upon default, the insurance could be canceled.

MR. BORGERS: And so this is just one of the areas of concern --

MR. BOWEN: Yes.

MR. BORGERS: -- also?

And who did you bring this to, the attention to, and when did you start?

MR. BOWEN: Oh, this was -- we also discussed -- this was part of the overall discussions that took place. And there was a separate sample of FHA/VA, and it was reported separately.

MR. BORGERS: To?

MR. BOWEN: To the TPO Committee.

MR. BORGERS: Before we go on to Concern 2, are there any other areas of Concern 1 that we haven't addressed?

MR. BOWEN: Just that we continued to feed the securitization conduit despite representations in the individual prospectuses that these loans adhered to are credit policy.

As it relates to Concern 2 -- and we did touch on this briefly, where Concern 2 dealt with the bulk purchases, the Wall Street Channel. I indicated earlier that there were many instances that we purchased loans that had actually been declined by underwriting, and were clearly not underwritten to our policy. And this was evidenced in a number of large pools. In fact, I think I referenced in the e-mail some of the sellers that we did this with.

The concerns that we were purchasing product, some of that which went into portfolios, some of which may have been sold off, that was declining substantially in credit quality, because our underwriting indicated that. It also indicated that we were significantly outside of our own policy with regard to the minimum credit criteria that had to be adhered to before we would purchase these 200-, 300-million-dollar pools of mortgages.

I also made these complaints known.

As a result of the very poor performance of particularly the Merrill Lynch pools, a request was made of Business Risk and Control to do an audit, if you will, of what went on with Merrill Lynch.

I was contacted by -- in fact, I think Fred Bader asked me to contact Dick Oparowski, again, who was over Business Risk and Control for the Consumer Lending Group. And I had a lengthy phone conversation with Mr. Oparowski. I brought him completely up to speed on all of the issues that we were facing in the unit.

I sent him substantial documentation

evidencing the objections that were made, the purchase of these pools at significantly lesser credit quality indication than required by corporate policy. And as they had been requested, they selected a pool to audit, if you will -- or at least to investigate.

And from my perspective, this pool was selected because this was the first major pool that was purchased, that did not have the specific approval of Anil Hinduja on, because Mr. Hinduja had been promoted because of his outstanding performance to be CEO of an operating unit, Citi Home Equity. Because of his promotion, this pool actually went to the chief risk officer of the Global Consumer Group, Yasmin Avani [phonetic]. And I will attempt to spell it but I honestly don't know if I will do this justice. Yasmin Avani, A-V-A-N-, maybe -I-T-I. I don't recall specifically the spelling. This went to her because -- again, this was in excess of $300 million worth, and she was not used to approving these. She did approve it based upon the recommendation by the chief risk officer of The Wall Street unit, Jim Simpson, that we need to purchase this.

I think the execution rate on that pool was only 62 percent, as contrasted with the minimum required by credit policy to purchase a pool of 90 percent.

MR. BORGERS: So the -- excuse me for one second.

So the execution rate of 62 percent means that -- tell us what that means.

MR. BOWEN: That means that the sample that was underwritten -- and, again, it was a sample -- the execution rate is the approval rate that we made on that sample.

And without getting into great detail, there is a random sample and a targeted sample taken. It is the random sample that actually dictates whether or not -- and is the execution on the random sample that is referenced in credit policy, and dictates what the expected credit performance of the entire portfolio will be.

And the expected credit performance, as outlined in policy, dictates a minimum execution rate of 90 percent. This one is 62 percent.

MR. CUNICELLI: So the execution rate is the underwriting -- you look at the files based on your underwriting standards?

MR. BOWEN: Yes.

MR. CUNICELLI: And you need to get 90 percent to meet your underwriting standards, and these came to only 62 percent, is that what you're saying?

MR. BOWEN: That is correct.

MR. CUNICELLI: Okay.

MR. BOWEN: We turned down 38 percent of the files we looked at.

MR. CUNICELLI: Because they didn't meet your credit standards?

MR. BOWEN: That is correct.

MR. BORGERS: Continue on with the story.

MR. BOWEN: The Business Risk and Control conducted an investigation. They came up with some general suggestions that we needed to adhere to policy.

Because I was so vehement in my objections to purchasing this pool -- and understand that my authority was not requested, nor was it allowed as it relates to the previous policy, I could not sign, and was not allowed to sign on a pool of loans that large. It had to go to a higher authority.

So the suggestion was -- and I made it very clear, there is no way in hell I would have ever signed off on that. They made the recommendation that the chief underwriter -- business chief underwriter -- meaning me -- would actually have to approve every pool in addition to the higher level of authority, which I, of course, totally agreed with. And those recommendations came out of that.

MR. BORGERS: So in this case, Jim Simpson said, "We're going to do this deal"; is that correct?

MR. BOWEN: He recommended to Yasmin Avani that the deal be approved. And he submitted the formal execution rate, which she approved based upon assurances -- and I'm not even sure that Ms. Avani was even conversant with the policy under which these were approved.

She was not involved in that process previously. There was a gap in point when Anil Hinduja was promoted -- and this was termed a big promotion for Mr. Hinduja -- to be president of CitiMortgage -- Citi Home Equity. So there was a gap in place.

They finally replaced him with a lady by the name of Denise Ellwell, E-L-L -- or E-L-L-W-E-L-L.

But this was a pool that, again, did not have, if you will, Mr. Hinduja's fingerprints on it. And this was -- from my belief, this was the reason -- this was selected to be investigated by BRC.

MR. BORGERS: And normally, in a process like this -- and correct me if I'm wrong, if Anil Hinduja should have signed that deal and there was no one else at his level, it would have gone up the chain of command.

Did they go to some above Anil Hinduja --

MR. BOWEN: And Yasmin Avani was above Anil Hinduja.

So, yes, because there was no one in his place, it went to the next level, which was the chief officer of the Consumer Lending Group -- of the Global Consumer Group.

MR. BORGERS: Of the Global?

MR. BOWEN: Yes.

MR. BORGERS: Which is on the other side --

MR. BOWEN: No, the Global Consumer Group was -- Consumer Lending Group was within the Global Consumer Group.

MR. BORGERS: I got it.

It would seem with that, that we're through Concern 2, unless there is anything that you feel you need to add to Concern 2 or any --

MR. BOWEN: Yes, I do.

MR. BORGERS: Go ahead.

MR. BOWEN: Besides the large numbers of loans that we turned down and expressed reservations on the pools, whereby not only the loans but the pools were purchased, there was another change, if you will -- and this was not officially in apologize -- but with regard to direction that the chief underwriter -- I'm sorry, that the chief risk officer for The Wall Street Channel gave, Mr. Jim Simpson.

Now, for you to fully understand this, we have always -- and this went back to the days of CitiFinancial Mortgage and CitiMortgage, we purchased against the policy of CitiMortgage, so that when we evaluated the underwriting, we were doing so -- and we're specifically talking about subprime pools here. We specifically evaluated the creditworthiness of each individual file against our policy.

Many companies -- our companies obviously underwrote files against their policy. And some people in the industry purchased pools and individual mortgages based upon a seller's policy. We had never done that. And, in fact, in the policies, it relates to our policy in purchasing these pools.

A decision was made by Mr. Jim Simpson that we would -- for some sellers, we would start purchasing against their policy. First NLC was the first example of this. We had been purchasing pools from First NLC for, quite frankly, many years. And we have, again, always judged the purchase recommendations and the individual underwriting against our policy.

Mr. Simpson made the decision -- and this is in the midst of a big push to increase volumes -- Mr. Simpson made the decision, "Well, we will start buying from First NLC based upon their policy. And not only we will buy against their policy, but we will also buy from First NLC the files that we have turned down for months, because now we're going to buy against their policy. And to the extent to which these previous turn-downs meet their policy, then we will purchase them."

And, by the way, the name of Tony Ellwell was brought up. He was the account officer for the First NLC relationship.

Against my objections, we started buying their files against their policy, and they stacked up a large number of files for us to purchase that we had previously underwritten and said, "No way in hell." But because they met their policy, we now had to purchase them.

This was also widely documented.

MR. BORGERS: And what month and year?

MR. BOWEN: I don't recall.

MR. BORGERS: But the year -- I mean, it was --

MR. BOWEN: Again, 2006 and 2007 were together. I believe this must have been in late '06 or early '07 when this took place.

Now, with regard to this particular instance, or at least with regard to Concern 2 -- and, by the way, this was also widely shared with Business Risk and Control -- in the audit that I referenced earlier in '07, internal audit, where they sampled a very small selection of files across all of the production channels, they identified one file, they found a file from one of the Merrill Lynch pools that underwriting had turned down. And it was clearly documented that underwriting has found this file unacceptable, and yet we purchased it. In this particular pool, we purchased -- we turned down a large number of files. And Jim Simpson, in a decision process that took I think about an hour one afternoon, decided we would buy these 260 files, against my objections.

One of these 260 files was identified in the audit. And audits sent out a formal request, "Explain to us how we can turn down a file in underwriting and still buy it."

At this point in time -- so this must have been -- at least the audit was 2007, when Mr. Hinduja had been promoted to Citi Home Equity -- Mr. Hinduja's replacement for The Wall Street Channel was Daniel Wu, W-U. And W-U -- Mr. Wu became Mr. Simpson's boss.

The request went out for documentation explaining how the hell this can happen.

I sent to Mr. Wu, who had received the request, along with Jim Simpson, complete documentation as to the objections of underwriting, and the fact that this was one of 260 files that had been purchased. And I specifically told Mr. Wu had audit had requested documentation, and, "Here is the documentation." And this has not been shared with audit.

Now, this was at the time my boss's boss because of the reporting relationship.

This documentation was not shared with audit. I saw the response that went to audit from Mr. Simpson, in conjunction with Mr. Wu; and the documentation said that in light of the large pool, Mr. Simpson, being chief risk officer for The Wall Street Channel, had made an individual decision on this one file, that we should buy this one file.

It was never disclosed to audit that this was one of 260 that we purchased over the objections of underwriting.

MR. CUNICELLI: Again, to play devil's advocate, if audit asked for documentation and you provided it to Mr. --

MR. BOWEN: They did not ask me for the documentation. I was copied on a wide request for responses.

My response was requested on the QA side, which is what I responded on.

But also, because I was copied on the request for all the documentation, I saw where there were requesting for Mr. Wu and Mr. Simpson documentation related to the Merrill Lynch file.

MR. ISENBERG: Okay, so to clarify, you provided documentation to Mr. Wu --

MR. BOWEN: Yes.

MR. CUNICELLI: -- but Mr. Wu never sent the documentation on?

MR. BOWEN: That is correct.

MR. CUNICELLI: And, in fact, you provided documents of 260 loans, which had been declined by underwriting --

MR. BOWEN: Over underwriting -- and were purchased over underwriting's objections.

MR. CUNICELLI: Were, in fact, overturned by Mr. Simpson?

MR. BOWEN: Yes.

MR. ISENBERG: But Mr. Wu's response indicated that it was one loan?

MR. BOWEN: No, Mr. Simpson filed a formal response to audit, and he said that he made an individual decision in light of the magnitude of the relationship that we should buy this one file.

MR. CUNICELLI: This one file or --

MR. BOWEN: The question from audit was as it relates to this one file. And the phrasing of the response was, "He made an individual decision on this one file."

MR. BORGERS: So in your view, he was using his words very selectively and was not forthcoming in telling the entire truth about the 200 additional loans that he did approve with the same pool?

MR. BOWEN: That is absolutely my belief.

MR. BORGERS: Did you -- since Mr. Wu knew about this -- Mr. Wu knew that -- and we're repeating it again, I just want to make sure for the record -- Mr. Wu knew that Mr. Simpson had approved not only this one, but also two hundred-odd others?

MR. BOWEN: Absolutely.

MR. BORGERS: And Mr. Wu knew that this was being reported to the audit that it was just one?

MR. BOWEN: Yes.

MR. BORGERS: Did you make this known to anyone else, that you were upset with this?

Or maybe I should backtrack on that and say --

MR. BOWEN: I widely circulated my objections to purchasing the files, to start with.

With regard to specifically objecting and raising the question as to whether or not everyone had been truthful with audit, no, I didn't specifically raise that issue.

MR. BORGERS: Did you mention this to anyone else -- did you mention it to your boss, Owen Davis, about your concern?

MR. BOWEN: At this point in time, Mr. Davis had been stripped of his underwriting responsibilities and assigned a special project. So I think at this point in time I reported to Mr. Hoffman.

MR. CUNICELLI: If I could clarify something. You said that you saw Mr. Simpson's response --

MR. BOWEN: Yes.

MR. BORGERS: -- to audit?

MR. BOWEN: Yes. And that is included in the documentation the SEC has.

MR. BORGERS: Right.

Were you cc'ed by Mr. Simpson or --

MR. BOWEN: No, this was -- audit requested all of the responses to their issues. I supplied the response requested with regard to QA.

All of the responses were compiled and submitted at once, and I was copied on that.

MR. BORGERS: By whom? Who --

MR. BOWEN: I don't remember who coordinated it. But I saw the formal response that went to audit, which they accepted.

MR. BORGERS: And did you share this with your new boss, Mr. Hoffman?

MR. BOWEN: Actually, it was Coffman, C-O-F-F-M-A-N.

MR. BORGERS: Spell that again? I'm sorry.

MR. BOWEN: C-O-F-F-M-A-N.

Yes, I did.

MR. BORGERS: And do you know if he shared it with anyone else?

MR. BOWEN: No, I do not.

MR. BORGERS: Do you think that he would have?

MR. BOWEN: I do not know.

MR. CUNICELLI: Does that clear us of Concern 2? Or do you have anything else that you'd like to declare on Concern 2?

MR. BOWEN: I believe, off the top of my head, those are the major issues related to Concern 2.

MR. BORGERS: Well, we'll show you your e-mail. I don't know if you have a copy with you or not.

MR. BOWEN: I do but not in front of me, yes.

Are we ready to move on to the rest of the setting with regard to the e-mail?

MR. BORGERS: Just one other thing. Besides the -- this one pool that Jim had approved, were there other pools like this that he was overriding underwriting's recommendations? Or was this the only one?

MR. BOWEN: No. That took place -- in fact, I think I referenced in the e-mail for Concern 2, this took place for other pools also.

MR. BORGERS: Was this the worst of his overriding of your recommendations?

MR. BOWEN: Is this the worst? Are you talking about that one pool?

MR. BORGERS: Yes.

MR. BOWEN: I don't recall.

MR. BORGERS: But there could have been others equally as bad?

MR. BOWEN: We were buying some pools and some files that were significantly below our previous quality criteria.

MR. BORGERS: And so prior to coming over with the merger, just to get a clarification, you felt pretty comfortable with the CitiFinancial Mortgage's underwriting to their own policies, but not comfortable with underwriting to other sellers' underwriting?

MR. BOWEN: I was not comfortable with purchasing files based upon a seller's underwriting policy.

MR. BORGERS: Okay. And --

MR. CUNICELLI: Just to clarify, the 62 percent execution on this one --

MR. BOWEN: On that one --

MR. CUNICELLI: -- pool was against your policy; right? Or was it against the seller's policy?

MR. BOWEN: That, I believe, was against our policy. And that was -- that was not -- that pool was not purchased under the seller's policy. That pool was purchased under our policy. And that 62 percent was against our policy.

MR. CUNICELLI: So there's two issues here?

MR. BOWEN: Yes.

MR. CUNICELLI: One is that you believe that the credit quality with respect to purchasing under your policy was significantly reduced because they weren't listening to your objections; and second, there's another issue that --

MR. BOWEN: That's right. We started purchasing under an even more liberal policy: That of the seller's.

MR. BORGERS: And I just want to focus on your staff. You have a staff of up to 200 people?

MR. BOWEN: At one time.

MR. BORGERS: And you felt very comfortable -- they're seasoned -- at least your senior managers, your managers on your staff --

MR. BOWEN: Yes.

MR. BORGERS: -- were very seasoned, qualified underwriters?

MR. BOWEN: Absolutely.

MR. BORGERS: And did your staff also share the same views as you did, as far as underwriting?

MR. BOWEN: Yes.

MR. BORGERS: Were there any exceptions to that?

MR. BOWEN: Where any of my staff was comfortable with some of the crap we were buying?

MR. BORGERS: Yes, right.

MR. BOWEN: Excuse my French.

MR. BORGERS: No, that's okay.

MR. BOWEN: No.

MR. BORGERS: So all your entire staff of --

MR. BOWEN: I didn't take a poll of all 200 of my underwriters.

My underwriters are very seasoned, very experienced underwriters, and they know what is good quality and what is bad quality; and we were buying bad quality. And that was not in question.

MR. CUNICELLI: What Mr. Borgers is getting at is basically some of your consternation here welling up from your employees?

MR. BOWEN: Absolutely.

MR. CUNICELLI: Okay. And could you --

MR. BOWEN: I am supporting my own employees in this.

MR. CUNICELLI: And could you give us a few names -- just a few of your key underwriters that could also share your views?

MR. BOWEN: Let me think about that and give that to you.

Again, I haven't been there for two years, and I don't want to spend a lot of time thinking back on individual names. Again, I haven't had interaction with these folks in at least two years.

MR. CUNICELLI: Okay, we'll look forward to --

MR. BOWEN: That's fine.

MR. BORGERS: So besides -- this clears up your Concern 2.

And what else would you like to tell us today?

MR. CUNICELLI: Could we take a break?

MR. BORGERS: Absolutely.

MR. BOWEN: Is your bladder finally kicking in?

MR. BORGERS: Yeah, we'll go off record, 11:06.

(Recess from 11:06 a.m. to 11:17 a.m.)

MR. BORGERS: This is Tom Borgers. We went off at 11:06 and it's now 11:17. And we're following up with our interview with Mr. Bowen.

Mr. Bowen, we left off with your concern on Number Two, and we've covered that as far as you indicated, very well.

And you had some other issues that you wanted to address today, and we'd like to walk you through those, if you don't mind.

MR. BOWEN: Well, I think there was a part of that e-mail that I would like to emphasize because, as we have discussed previously of the widespread knowledge that existed within the Consumer Lending Group, I really was seeking some assistance in giving notice to senior executive as well as the board of potential problems -- in fact, not just potential, I know they existed -- within our business unit. And I specifically asked in that e-mail, that I acknowledged that hopefully this was going to raise some concerns and would warrant a further investigation. And I specifically asked that those that investigate this be outside of the Consumer Lending Group.

And as I referenced, that it's specifically in that Rubin e-mail.

I would like to briefly, if I can, tell you some aspects of the story, following up on that e-mail. And some of this may not have direct bearing, if you will, on the underlying issues involved, but it is my belief that they have an integral bearing to the entire management structure of the company and, ultimately, the management decision-making that already I have witnessed within the Consumer Lending Group.

I sent that e-mail on a Saturday, and I explained why the sense of urgency in sending it on Saturday.

After hitting "send," my wife, in fact, was beating me up towards the end of composing this. This was exposed on our dining-room table with my laptop via VPN connection.

When I hit "send," because of the security on my company laptop, I'm unable to print, except at the office setting. So I really had no evidence, if you will, of what I had sent.

And my wife was after me. We had a wedding to go to, so I quickly changed and we left for the wedding dinner and festivities.

The e-mail that I sent, I included a blind copy to myself at my primary personal e-mail address. I wanted this because I wanted to be able to print it out. And, plus, I wanted to reread later what I had sent. But I just felt like it was prudent that I do that.

When we returned from the wedding, the blind copy was not in my personal e-mail address, my "in" box. However, I have my personal e-mail configuration established, at least back in 2007 I did. I had it configured such that I have a secondary personal e-mail. And this secondary personal e-mail was set up such that it would sync with my PDA so that I could edit and view everything that had come in to my personal e-mail address without really worrying about deleting it or anything else on this -- on my PDA, even though the copy was not in my primary e-mail address in my personal "in" box.

It was set up -- it was in my secondary e-mail address. And, again, it was set up such that a copy was made -- this was my e-mail provider -- a copy was made of everything that was received, and my primary e-mail address was put into my secondary e-mail address. The copy was in my secondary e-mail address, which told me that one of the recipients of my e-mail issued a directive, it is my belief, that my e-mail be recalled.

Now, this caused some real concern. And, quite frankly, I called my son Saturday night and told him that I needed to see him the next day. And he came over with his wife on Sunday, after church. I refused to allow any discussions related to any of this in the house. We went outside, next to the pool.

I gave him a copy -- a printed copy that I made from my secondary personal e-mail address, and told him I wanted to make sure that someone else had a copy of what I had sent, because I believe in the -- and I am not a technical guru -- but the person within IT of Citi, whoever sent the recall request, would have received a confirmation that the recall was successful; and, therefore, there probably was a belief that the only copy outside of Citi had been successfully recalled.

The Monday, when I went to the office, the very first thing I did was print a copy of the e-mail, and I also printed evidence which I had to do through a screen-print for facility, because a printed copy will not show the blind copies -- that I had blind-copied myself on the e-mail.

MR. BORGERS: Okay.

MR. BOWEN: And I ran out to the car, and I put that in the car and locked it.

I did not hear anything from Citi in response to that e-mail all day Monday.

I did receive a call on Tuesday from a Stephen Simcock [phonetic], who was a -- either "the" or a general counsel within Global Consumer Group. It was a very brief conversation, saying that they had been given a copy of the e-mail by someone in Risk -- I think he said we received it from Risk. He acknowledged my desire for confidentiality, said that they needed to do some background investigation.

And the essence of the conversation was, "Don't call us, we'll call you."

In reflecting on that conversation, I was very concerned that the brief summary that was contained in that e-mail didn't adequately convey some of the extreme issues that were underlying the e-mail.

So I sent him another e-mail -- I sent him an e-mail, specifically to Mr. Simcock, on that Friday, saying, "There's some issues you really need to understand in your background investigation," and asking someone to contact me.

I never received an e-mail.

MR. BORGERS: Okay.

MR. BOWEN: I never received a phone call.

MR. CUNICELLI: The after-the-fact stuff, I'd like to maybe handle at a later date, I'm thinking. Here, I'd like this to be the day-to-day stuff, if we could. The day-to-day business operations, what caused you concerns, and that sort of thing.

MR. BOWEN: Well, there is a concern as it relates to one of those issues. And, all right, I will truncate this and another story that also, I think, bears relevance, but we can take care of that later.

I attempted to contact Mr. Simcock again in December, I think it was December the 20th, sent him another e-mail, saying, "Please contact me. You need to understand these issues." I did not hear back until after the end of the year.

It is my belief that this was so that the executives could sign a section 302 certification at the end of the year, that the internal controls were effective at the end of the year, because they had not followed up. And I will skip forward to the rest of the story.

MR. BORGERS: Well, one of the things maybe, this was never listed on the Citigroup's filings?

MR. KARDELL: What wasn't?

MR. BORGERS: Mr. Bowen's --

MR. KARDELL: I don't know.

MR. CUNICELLI: You mean, as a footnote on 10K or a 10Q or something?

MR. KARDELL: I don't think there was anything in their filings.

MR. BOWEN: No, I looked at all their filings. They signed a normal 302 certification.

MR. KARDELL: Dick's allegations.

MR. CUNICELLI: 302 is the adequacy of internal controls; right?

MR. BOWEN: Yes.

To continue with the story, I was contacted by Mr. Simpson -- or by Mr. Simcock after the beginning of the year. Mr. Simcock and I set up follow-up conversations. There were a series of conversations that took place.

He introduced another general counsel by the name of Neil Barry. Neil Barry, as it was represented to me, was in charge of internal investigations.

MR. CUNICELLI: You said after the turn of the year.

Citi goes by calendar year?

MR. BOWEN: Yes.

MR. CUNICELLI: They don't have a fiscal year?

MR. BOWEN: That is correct. Well, the calendar year is their fiscal year.

MR. CUNICELLI: Is their fiscal year? Thank you.

MR. BOWEN: We had a series of interviews. I would reserve a conference room.

And I think, all told, we had four and a half or five hours' worth of interviews and conversations as they explored the issues.

I'm trying to remember the chronology of events.

MR. KARDELL: Can I ask what it is -- I mean, now that Dick's gone through his concerns in the e-mail, clearly if you guys want to hear about the investigation, we'll go on with that.

Is that something you want to hear about or is there something else that you want him to focus on?

MR. CUNICELLI: I'd rather circle back. But you've been doing the QA, Tom.

MR. BORGERS: I think -- could we save this for the end? I think that's a good point, and just cover any other issues that were pressing on your mind, and then save this to the very end?

MR. BOWEN: I think we've addressed the real issues associated with the concerns that I was trying to communicate to both the executive officers as well as the board.

MR. BORGERS: Okay. Vic, do you have --

MR. CUNICELLI: Yeah, I do. That's basically why I was interested in circling back.

What I'd like to do -- two areas that I'd like maybe a little compare and contrast on. And the first area is compensation. With all due respect, I know it's a little invasive, but I'd like to deal with your compensation, what it was, how you were compensated salary and bonus, if there was a bonus structure. And I'd like to maybe establish the risk group or the sales side, to your understanding -- because I know that's outside your group -- how they're compensated and what their bonus structure is.

MR. BOWEN: All I can address is mine.

MR. CUNICELLI: Okay.

MR. BOWEN: I received a salary of 175,000 a year.

For the 2007 -- well, let's see. At the beginning of 2007, for 2006, I received a bonus of, I believe, $105,000 or $106,000. This was comprised of cash, as well as deferred stock that vested over a period of time.

For the 2007 time period, what was paid in January of 2008, I was still at a salary of one hundred and -- excuse me, $175,000 and my bonus was $90,000, again, consisting of a mix of deferred stock as well as cash.

MR. CUNICELLI: The bonus portion of that, upon what is the bonus based? How could you improve it, how would it be reduced?

MR. BOWEN: There were not, as I recall, specific components of the bonus.

I was obviously in a staff function. I was not in a sales function.

And as I understand it, it depended, obviously, upon job performance as evaluated by your managers. And there was some component related to company performance, even business-unit performance. But the quantification was not there, as I recall.

MR. CUNICELLI: So a component of business performance as well.

Your -- in my observation, your bonus was reduced from ‘06 to ‘07, 105K to 90K.

Would -- to the best of your recollection, would that have been a function of management, saying you didn’t perform as well in ‘07, or of Citi’s returns that year, Citi’s financials not meeting ‘06’s financials?

MR. BOWEN: It was conveyed to me that, obviously, the company had not done as well.

Now, my performance evaluation was also lowered from "exceeding expectations" -- I believe that was the phrase that I had received the previous year -- to "meeting expectations," which was given in January of '08.

MR. BORGERS: One of the things, Mr. Bowen, I'd like to cover with you on your performance, from 2002 to 2005, what were your performance levels with CitiFinancial Mortgage?

MR. BOWEN: As I recall, I always received an "exceeds expectations."

MR. BORGERS: And then in 2006, you had --

MR. BOWEN: "Exceeds expectations."

MR. BORGERS: And 2007?

MR. BOWEN: Well, 2007, again, which was awarded -- or at least which was graded in January of '08 was "meets expectations."

MR. BORGERS: So one level below?

MR. BOWEN: Yes.

MR. CUNICELLI: And that would be after you drafted -- it's awarded after you drafted the e-mail?

MR. BOWEN: Yes, from a chronological standpoint. The e-mail was never referenced in that review.

MR. CUNICELLI: Right.

How -- you've been reduced from "exceeds expectations" to "meets expectations."

Was there some verbiage in there that told you the justification for the reduction?

MR. BOWEN: Well, you need to understand our chronology of events with regard to reorganizations that took place. Beginning in late '07 there were a series of reorganizations, where I went from a staff of at the time perhaps 220, 230 personnel -- professional underwriters, for the most part, and a series of three different reorganizations.

I was left with a last reorganization announcement being made, being announced on February the 6th of 2008. I think I was left with two people reporting to me, neither of which were underwriters.

MR. CUNICELLI: Okay. And, again, you really can't speak to compensation on the other side of the house?

MR. BOWEN: I can't.

MR. CUNICELLI: Okay. Business plans --

MR. BOWEN: But I do know that sales particularly, obviously, had some sales goals involved --

MR. CUNICELLI: Right.

MR. BOWEN: -- in determination of

compensation.

Beyond that, I am not familiar.

MR. CUNICELLI: I'll fill that in elsewhere.

MR. BORGERS: Excuse me, Vic, for one second.

Mr. Bowen, as far as your staff was concerned, they were all rated pretty well, too? You had excellent staff, I think we addressed that before, for the --

MR. BOWEN: Well, I had very experienced staff. Obviously, you don't give everyone an "exceeds expectations" rating.

MR. BORGERS: Right.

MR. BOWEN: And, in fact, it's -- it is dictated you can't, as you shouldn't.

So I had some people that reported to me that received "exceeds expectations" throughout the organization. And, you know, the majority of people received a rating of "meets expectations."

MR. BORGERS: And what I'm getting at here, you were pretty well comfortable with your staffing?

MR. BOWEN: Absolutely.

MR. BORGERS: Okay, thank you.

MR. BOWEN: Other than we needed more staff. But with regard to the quality of the people I had reporting to me, yes.

MR. CUNICELLI: Okay, you had experience, I think, in your initial bio, you told us about experience at the Oklahoma bank.

First National?

MR. BOWEN: Yes, First National Bank of Oklahoma City.

MR. CUNICELLI: And did you have some underwriting responsibilities there?

MR. BOWEN: Initially, yes.

You had asked me if I had anything in writing -- I think this was in a previous conversation. And I did draft something that was actually put together in conjunction with a concern I had related to what was going in'08 on the -- in Congress, when they were considering TARP and so forth. And I actually considered -- and the only reason I bring this up is because I did have something from that time frame -- I actually considered taking my story to The Wall Street Journal.

But I did write up my background as it relates to my experience in Oklahoma, my experience as it relates to the last credit cycle, and what I saw evidence in Oklahoma. And I can certainly give that to you, if you want, we can simply walk through it.

MR. BORGERS: If you have it in writing, I'd love it in that form. That would be great.

MR. BOWEN: And, again, this is -- I'm giving this to you only because this is part of --

MR. KARDELL: Just some clarification. He was thinking maybe this would be something The Wall Street Journal might like to see and print it. I asked him the other day, is it still all clear, with hindsight.

MR. BOWEN: This was never given to The Wall Street.

MR. CUNICELLI: The Wall Street Journal.

MR. BOWEN: Did I get you one or two pages?

MR. CUNICELLI: You gave me one, two -- three pages. The first page is an e-mail. It's from Dick Bowen to Steve Kardell, your attorney.

MR. BOWEN: Uh-huh.

MR. CUNICELLI: The second page is headed, "Confidential draft, not to be shared. A Whistleblower's Perspective on the Bailout."

And the third page also headed, "Confidential draft, not to be shared." The first line reads, "Now, fast-forward to early 2006…"

Okay, and I'll just --

MR. BORGERS: And while you're doing that --

MR. BOWEN: Again, I'm giving that to you, not from a perspective of actions that I might have taken, which were obviously subsequent to my leaving the organization, but from the standpoint of my sharing a perspective that I felt very strongly about then, and still feel very strongly about, related to the credit cycle and management posture that I had witnessed in the early eighties, and then also as it relates to current Citi situation and the current cycle that we're going through. And, again, whatever you all want to do with that.

MR. CUNICELLI: The page says, "Is history repeating itself in terms of the FDIC problems, and what have you.

MR. BORGERS: One of the things that I just wanted to -- along these lines. Have you ever had the opportunity, especially over in the last few years, in 2006 and '07, to discuss, in a general nature, your concerns of the market with peers outside of Citigroup?

MR. BOWEN: There was discussion as it relates to the direction of the mortgage industry.

I did not share specific discussions of what was going on within the company with outsiders.

I don't know if that's responsive to your question or not.

MR. BORGERS: Just -- yes, it is. I mean, I just -- you had discussions with your peers at other organizations but not about sensitive Citigroup stuff --

MR. BOWEN: That's correct.

MR. BORGERS: -- but about the market underwriting concerns and the market?

MR. BOWEN: Yes, yes. The industry itself, as I've discussed earlier, we were seeing a succession of new products that had increasing risk, and there was a general concern as it relates to the direction of the industry and the increased risk and the bubble, obviously, when the book, "Irrational Exuberance" came out, that helped quantify some of the -- at least bore additional evidence to what we were actually seeing in the industry, as to the bubble and ultimately the burst.

MR. BORGERS: Along those lines, do you have any names of people like yourself who are very concerned, that you might remember?

MR. BOWEN: Oh, a lot of this was at mortgage banking conferences and so forth.

I would have to think, obviously, this was -- these were general conversations expressing concern with regard to the industry.

MR. BORGERS: Okay.

MR. CUNICELLI: With regard to your time at First National Bank of Oklahoma City --

MR. BOWEN: Yes.

MR. CUNICELLI: -- you stated a bit earlier that you had some underwriting in your background there?

MR. BOWEN: Well, I went through the commercial credit training program at Republic Bank. I went to First National Bank of Oklahoma City as director of credit administration. And there, I had underwriting reporting to me as well as the other credit and loan administration functions.

And I -- because of my accounting background, I was ultimately promoted to chief financial officer of the bank and holding company, and also head operations now. At that point in time, I -- towards the end of my tenure I no longer had credit reporting to me, but I was still very active in credit committee and expressing concerns with regard to what was going on in the Oklahoma banking environment.

MR. BORGERS: Okay.

MR. BOWEN: I knew people that were hired into Penn Square Bank there in Oklahoma City. And, in fact, one of the individuals -- I've worked with two of the individuals -- the person that was hired as president of Penn Square Bank, as well as the individual that was hired as the head of loan administration, in essence, the head of risk for Penn Square Bank.

MR. CUNICELLI: Do you have training and experience in risk management, risk mitigation?

MR. BOWEN: Yes.

MR. CUNICELLI: So you have expertise in both underwriting and risk?

MR. BOWEN: Underwriting is an application of risk.

MR. CUNICELLI: Right.

MR. BOWEN: So -- and I'm not trying to split hairs here; but, yes, the entire risk as well as underwriting arena, I am, yes, very conversant with.

MR. CUNICELLI: So with that background -- well, first of all, if you could, observations, the underwriting risk mitigation at Citibank that you observed maybe juxtaposed to the underwriting risk mitigation at First Oklahoma?

MR. BOWEN: Absolutely. This is déjà vu.

MR. CUNICELLI: Okay.

MR. BOWEN: I saw this same pattern in Oklahoma.

MR. CUNICELLI: Before the bust?

MR. BOWEN: Yes, I did.

The high volumes, the quest for volumes. When difficulties started appearing, and people as myself started raising issues, "We need to slow this train down," there was a significant resistance to implementing any controls that would impact the profit model, the revenue model.

I saw exactly the same type of behavior at Citi.

MR. BORGERS: Mr. Bowen, that brings up very interesting follow-up questions on this.

Besides your staff, which I believe that they all supported your views for the most part and were very concerned about the underwriting and as such, were there other people that shared your same concerns at your level or above that you haven't discussed? Because I don't recall any -- other than Owen Davis, who was your boss.

MR. BOWEN: Within the Consumer Lending Group -- and, of course, that's the only one that I was involved with, their response to all discussions was an obvious display of concern, but there was never truly any management action to address the underlying issues, if you will.

MR. BORGERS: Well, maybe we should focus a little bit more on Owen Davis, though.

He was as concerned as you were?

MR. BOWEN: Absolutely.

MR. BORGERS: And did he ever share with you those -- what he was doing to bring you to the next level?

MR. BOWEN: He included my concerns in his weekly reports. He was also involved in some e-mails that I was copied on. He also was very concerned with regard to what I was finding. And he supported me 100 percent in trying to get management action.

MR. BORGERS: But as far as you know, besides you and your staff and Owen Davis -- Mr. Davis -- there was no other deeply concerned people within the consumer side?

MR. BOWEN: Understand, Mr. Borgers, everyone expressed concern. You could not hear this and understand this and not express concern.

This never translated into any action; and, in fact, from my perspective, there was actual containment of the issues with regard to internal audit and others from outside of the Consumer Lending Group.

MR. BORGERS: So everyone -- just to summarize, everyone had concern, but no one ever took action, except for yourself and your staff?

MR. BOWEN: There was no substantive action taken anywhere within the organization to address the concerns that I had raised.

MR. CUNICELLI: I'm going to use the word "substantive." So although they increased staffing and although new policy came out -- I think the new policy was drafted in August of '06 and it was implemented in November of '06, it didn't have any effect on the underlying condition that you were pointing out?

MR. BOWEN: That is correct.

MR. CUNICELLI: Okay.

MR. BORGERS: Getting back to Oklahoma and its juxtaposition, you were very clear and concise that 20 years ago in Oklahoma there was an energy bubble, and that the First Bank of Oklahoma there, you saw the cycle, you saw basically an overlay of what you saw 20, 30 years later -- almost 30 years later at Citi.

So that's your -- the two banks' experience.

As the chief of business underwriting at Citi, were you a part of any professional --

MR. BOWEN: The title was "business chief underwriter."

MR. BORGERS: "Business chief underwriter"? Thank you.

Were you a part of any professional groups, underwriter's groups, industry, trade groups?

MR. BOWEN: No.

MR. BORGERS: Okay, okay.

With your banking experience, certain -- the things that rose flags to you, that raised a red flag --

the deteriorating credit quality, the ability of the risk group to overrule underwriting decisions and whatnot, how did the rest of the industry, to your knowledge, handle such things?

MR. BOWEN: I was not involved with the -- again, every company operated within their own perspective -- within their own framework, if you will. So I can't address specifically how the rest of the industry operated internally with regard to the decision-making.

MR. BORGERS: Okay. Can we go off -- take a break for just 30 seconds?

MR. CUNICELLI: It's 11:57.

(Recess from 11:57 a.m. to 11:58 p.m.)

MR. BORGERS: This is Tom Borgers. We are now restarting again at 11:58.

MR. CUNICELLI: Okay, I was just hitting you with -- I only have a couple more follow-up questions.

I observed the document in our SEC review, where I think you attributed to Mr. Bader a statement that -- I guess you were telling him about the merits or lack of merit of line of loans. And he made a statement to the effect that, "but they're prime loans so I'm not worried."

Could you give me the reference for that?

Could you put that in perspective?

MR. BOWEN: Well -- and it wasn't unique to Bader -- but the concerns I expressed were obviously with regard to the lack of documentation -- required documentation predominantly within in a line of business. And to the extent that there are defaults, then the company is liable if the file is audited by the investor; and if the investor finds that the documentation is missing or it otherwise doesn't comport with the policy that was represented to be consistent within the sale of the mortgage, then we would be required to repurchase it.

In my conversations -- and there were multiple conversations with Mr. Bader -- I think he acknowledged the potential risk but with regard to the real risk -- these are prime loans; these just don't default.

MR. CUNICELLI: One other thing. I think you've touched on it but I'm not 100 percent sure so I wanted to come back to it.

At some point, as you're bringing up your concerns, did some group -- I don't know if it was Business Risk -- do an analysis of "agree-contingent" loan performance versus "straight-agree" loan performance?

MR. BOWEN: Would you repeat the question?

MR. CUNICELLI: Yes. I believe at some point, on your urging, that some group within Citi did an analysis of the loan performance --

MR. BOWEN: Yes.

MR. CUNICELLI: -- of "agree-contingent" versus "straight-agree."

MR. BOWEN: That's correct.

MR. CUNICELLI: In other words, missing documents versus no missing documentation?

MR. BOWEN: When we finally got MIS, which was later '07, they actually performed -- Risk performed an analysis, looking back. Because we have the data. It was a matter of taking the underwriting data out of QA and marrying that with the servicing data to determine performance of the underlying loans. It was determined that there was -- and let me digress.

Some of the objections, if you will, to my issues with regard to the agree contingent and the lack of required documentation was, "Well, that's just a technical exception. That doesn't relate to how the loan is going to perform."

The analysis that was finally performed based upon the new MIS that I screamed about and finally got showed, yes, there was a significant difference in the performance of the agree contingent. It was much, much worse than the straight agree decision.

MR. CUNICELLI: When you say it was much worse, as reflected in the default rate, as reflected --

MR. BOWEN: As reflected in delinquencies, for example.

MR. BORGERS: Okay.

MR. CUNICELLI: That's, I believe, all I had.

MR. BORGERS: A question about -- did you ever speak -- we all know that there were other sides of Citi where they were also competing against you all, some of the --

MR. CUNICELLI: The global markets group -- is that right? Capital markets group?

MR. BOWEN: Yes.

MR. BORGERS: Did you ever share or have meetings with them, sharing your concerns while --

MR. BOWEN: Sure. Matt Bollo and I've talked about it.

MR. BORGERS: Go ahead.

MR. BOWEN: Matt Bollo was the chief underwriter for the Global Markets Group.

There was a period in time where apparently it was considered. From a business perspective, we were competing against them in the marketplace. They'd be at the same seller, bidding on a pool of loans that we were bidding on by virtue of my group versus their group. So it was discussed -- it made absolutely no sense to bid against ourselves. We need to look at some type of business combinations between the Global Market -- the Global Markets Group -- I always get confused as to what they're called -- and our group.

And so in conjunction with that, there was a meeting that took place in Irving, and this was a meeting that involved Susan Mills, Peter -- that's M-I-L-L-S. Peter --

MR. BORGERS: Steinmetz?

MR. BOWEN: Steinmetz. Yes. I don't recall his role -- and Matt Bollo.

Matt Bollo and I spent some significant time together outside of the meeting because he was concerned with the quality of the underwriting that he was getting primarily from Clayton. And --

MR. CUNICELLI: He was concerned with the quality of the underwriting he was getting from Clayton?

MR. BOWEN: Yes.

MR. CUNICELLI: How so?

MR. BOWEN: The contract underwriters, even though they ostensibly hired very experienced underwriters, they were, nonetheless, contractors. And they were there to do a deal, do a transaction -- and this is not a quote, this is my general feeling of our discussions, but we had these discussions.

And so they may not take the same felt accountability for performance in doing a job as real employees would. As a matter of fact, the reason we were having our discussions, to begin with, is because of his concerns. He was considering hiring our underwriters, which were full-time employees, experienced, to do some of his underwriting, because he felt that he would have a greater degree of confidence in the work product coming out of our underwriters who would be held accountable over a period of time for the quality of their decisions, as contrasted with the contract underwriters that he was using.

MR. BORGERS: So, Mr. Bowen, with his group, from what I gather, they had only a few internal underwriters?

MR. BOWEN: I think Matt Bollo was it. He didn’t have anybody else. He contracted everything out.

MR. BORGERS: Everything out?

MR. BOWEN: That is my understanding.

MR. BORGERS: Right, right.

MR. BOWEN: Again, I was not involved in that business organization. But that’s from discussions with Matt.

MR. CUNICELLI: Had you any awareness of a surveillance group within their organization?

MR. BOWEN: No.

MR. CUNICELLI: Okay.

MR. BORGERS: Did you have any -- along those lines, Mr. Bowen, were you concerned about also mortgage fraud going on at this time, that were impacting --

MR. BOWEN: Well, mortgage fraud was an ongoing problem. That was -- there were monthly discussions in TPO with regard to identified evidence of fraud as it relates to various sellers and the actions that were going to be taken with those individual files, as well as with those individual sellers related to fraud. So fraud was certainly increasing during this time period.

I don't know the thrust of your question.

MR. BORGERS: Well, you had a separate group looking at this for many months.

MR. BOWEN: I didn't. There was a separate fraud unit. It was -- I don't know, I don't know what their title was. Maybe it was "fraud investigation." But there was a separate unit within CitiMortgage, that whenever an underwriter identified something that could be involved with fraud, then it was supposed to be referenced over to the fraud investigations unit.

MR. BORGERS: Mr. Bowen, with Matt Bollo again, did he ever discuss his policies and procedures with you to any great extent?

MR. BOWEN: Not to any great extent. The real focus of the discussions there was his concerns with regard to using contract underwriters. And we had some discussions with some of my staff, some of my senior underwriters, and visiting with him as to our processes, the way that we approach underwriting, and the sense of accountability that my guys had for their work product, which he was finding missing, I think, in using Clayton, particularly. I think they used others also.

MR. CUNICELLI: Tom -- Mr. Borgers brought up the "F" word: Fraud.

Was -- in your conversations with management, was that word ever brought up, that, "Hey, if we sell these mortgages all to an investor and we're representing them as having all the documents and being pristine as far as our underwriting and they're not," on an ongoing basis, someone could make a fraud claim on us. Not just bring them back on us, but misrepresenting them.

MR. BOWEN: The "F" word was never used. There was ongoing discussion as it relates to what was required with regard to disclosures. And we were not making some disclosures that perhaps were required.

MR. CUNICELLI: Okay. And just to follow up on that, your e-mail -- it was evident that you had concerns.

MR. BOWEN: I was hoping it would be evident.

MR. CUNICELLI: You specifically broke two of them.

What -- what fears that you had were you trying to address by getting at? That Citi would lose money? That if Citi lost money, it could come back on you as the chief underwriter, that it happened on your watch? What were your fears that you were trying to address with that?

MR. BOWEN: I didn't feel any personal jeopardy at this point in time.

I had widely documented where I disagreed with practices that were going on, if you will, during my watch.

My concern -- I was concerned, quite frankly, for the shareholders of Citi because of the ultimate jeopardy and monetary liability that I felt like they could be opening up to unless this issue was addressed.

MR. BORGERS: Just a couple quick other questions.

The policies and procedures that were

established, finalized in November, we know that handled the Q and A, did it also handle your entire underwriting function, all aspects of it, or just the Q and A side?

MR. BOWEN: The new policy?

MR. BORGERS: Yes.

MR. BOWEN: That was specific to Q and A.

MR. BORGERS: So the other policies that were for the other channels, were those okay, in your view?

MR. BOWEN: If they were adhered to.

MR. BORGERS: Okay. So those were not changed during your time after the merger?

MR. BOWEN: There were changes to policy that took place in response to changes in the industry. I mentioned before that we started accepting more of the products that previously had been deemed to be high risk, because the industry as a whole was accepting those products. And if we wanted to continue to do business and increase the volumes, which was certainly the express desire of all management, then we had to accept some of these additional products.

So in trying to be responsive to your question, policy was changed, as it had to be if we were going to stay in business in the industry.

Recognizing that that change, at least the policy to the extent that it was adhered to was perhaps a little bit more stringent than a lot of what was going on in the industry.

MR. BORGERS: And if we were to ask specifically for those policies and procedures, how were they labeled? Do you recall?

MR. BOWEN: There is -- there's actually an individual that is in charge of all policies. And I don't remember.

MR. BORGERS: But it would be called -- the overall label would be the underwriting policies and procedures?

MR. BOWEN: Well, I think it's the overall --

MR. CUNICELLI: It's a credit policy.

MR. BOWEN: Credit policy as it relates to all products.

MR. CUNICELLI: I've got 12:14.

Are you ready to go off record?

Before we go off record, anything that happens before the Commission -- this interview being something that happened before the Commission -- confidentiality attaches to it. So we just want to admonish you, please keep -- and I'm sure that you will --

MR. BOWEN: Yes.

MR. BORGERS: Okay. And do you have anything else that you would like to give us today that might give us a little further understanding?

You gave us these charts and some other -- anything else that could shed a little bit more light on it in our view?

MR. BOWEN: Are you interested in understanding better as it relates to the documents that were actually submitted to the SEC?

The reason I ask that is, I have a log of all of the documents that was submitted to the SEC that I would be glad to share with you.

MR. ISENBERG: If we can digest what you've got and then holler back at us.

MR. CUNICELLI: Absolutely. We will.

MR. BOWEN: That's fine.

MR. BORGERS: The other thing is, if you could look through your files for your professional bio also, and if you could send that to us.

MR. BOWEN: Okay, that's fine.

MR. BORGERS: So that -- it doesn't have to be very long.

MR. BOWEN: I'll send you a resumé, if that's what you want.

MR. BORGERS: A resumé, or more of a professional write-up, narrative about you, if you have it.

The time is 12:16 and we're going to go off record.

(End of interview with Richard M. Bowen III)

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