United States of America

Financial Crisis Inquiry Commission

INTERVIEW OF

MARY McDOWELL

Tuesday, March 23, 2010

12:00 noon EST

***** Confidential *****

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

Today's date is March 23rd, 2010. The time is approximately noon.

I'm accompanied by Tom Borgers of the FCIC and Ms. Mary McDowell. We are at the offices of Paul Weiss for the interview of Ms. McDowell.

This interview will be recorded with the consent of Ms. McDowell.

And if I could ask you to, on the record, just state that you give me your consent.

MS. McDOWELL: Yes, I give my consent.

MR. CUNICELLI: Okay. Will everyone please state your full name and affiliation for the record?

MR. FINUCANE: Mark Finucane, Paul Weiss.

MR. GARNER: Jim Garner, Citi Legal.

MS. PARK: April Park, CitiFinancial Legal.

MS. HUANG: Joyce Huang, Paul Weiss.

MS. McDOWELL: Mary McDowell, CitiFinancial, CEO and President. And that's M-A-R-Y, M-C-D-O-W-E-L-L.

MR. CUNICELLI: Okay, and I think I neglected you last time, Mr. Borgers.

MR. BORGERS: Tom Borgers.

MR. CUNICELLI: Okay. In the way of background, the FCIC was established by statute and signed into law by the President. It's bipartisan, and consists of ten commissioners. It is charged with examining the causes of the 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. I've brought one today. We could copy it, if you're interested.

Please 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. False statements can be problematic.

Okay, with that said -- and you know what? Mr. Borgers reminded me last time before I closed out, that anything comes before the Commission, we ask for confidentiality on that, that you not express opinions in blogs or, you know, give interviews about what we --

MS. MCDOWELL: Absolutely.

MR. CUNICELLI: Okay.

MS. McDOWELL: Sure.

MR. CUNICELLI: Okay, great. I'll tell you what, if you could, what I'd like you to start with is just a bio. If you want to start with educational experience --

MS. McDOWELL: Okay.

MR. CUNICELLI: -- and then when you come in to Citi and your progression through Citi.

MS. McDOWELL: Okay. I graduated from Texas A & M University in College Station, Texas, 1979, with a bachelor of business administration. Sum cum laude.

I went on for about ten and a half years with Ernst and Young -- Ernst and Whinney then Ernst and Young.

After that, I went to what's now Citi Assurance. At the time, it was American Health and Life, Voyager, and one of the property companies that's now called Triton. So that's when I actually first left public accounting. And since that's a Citi company, I'd say that's when I first came into the Citi family.

So I was there for about five years, primarily as chief financial officer of that company. I left very briefly for about a year to a company called Princor Financial. It was based in Raleigh, North Carolina, and decided I missed the business, and I moved, actually, up to Baltimore, Maryland, at that time. I was the head of financial planning for CitiFinancial. And that was '96 -- excuse me, '97, mid '97, until about 2000.

In the latter part of 2000, we bought The Associates. And at that time, there was a need for someone to move down to Dallas and help integrate and help some of the various businesses really get the strategy and plans together. So I moved down to Dallas. And I spent about -- it was from January 2001 until about December 2003 as chief financial officer of CitiFinancial Mortgage.

Then starting the end of 2003, the first part of 2004, I became the president and CEO of CitiFinancial Auto, auto finance company within Citi. And so I spent from 2004 until mid '06 there, also based in Dallas or Irvine.

And about mid '06, then I was asked to return to CitiFinancial in Baltimore. And I spent approximately a year as chief operating officer at CitiFinancial in Baltimore. And the president and CEO retired. And in April of '07, I became the CEO. He stayed on as chairman until the end of '07, first part of '08.

So since that time, '07 until the present time, I've been the CEO and president of CitiFinancial.

MR. CUNICELLI: Okay. Okay, super.

What I'd like to do is kind of like with the bio, I'd like to open it up to you and just kind of give you a direction.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: And the direction I'm looking for is for you to just kind of give me the corporate architecture, what the business plan of CitiFinancial is, how it's arranged and how it's run.

MS. McDOWELL: Okay. CitiFinancial itself is a branch-based network. It's community-based branches that are part, again, of the CitiFinancial credit company.

When you talk about the corporate architecture, I just want to make sure, I understand.

So you're saying from a legal-entity basis, or just who do I report in to or --

MR. CUNICELLI: Both, actually, yes. Like, how the branch network is arranged and also how you plug into Citigroup. That's great.

MS. McDOWELL: Okay. So the branch network itself is about 2,200 branches currently. About eighteen, nineteen hundred of those are in the United States.

And as you may be aware, we generally, on average, have about three or four employees in each of those branches. It's a great business model. We operate in the community. We lend within that community. And, of course, all of the people within those branches have really a standard box that they operate in. They can't really approve things on their own. So it's a great model to get out to people in the community.

So when you look at CitiFinancial and how it relates to Citi, we are owned through, I think, a couple, three different companies, and report up into Citigroup. But my current boss is Mike Corbat, who runs Citi Holdings. And so I report into the Holdings structure.

During 2004 to 2008, we were part of -- there was a Global Consumer Group that we reported into. And, again, that rolls up into Citi. So we're a subsidiary of Citi and, again, provide lending and other products to, really, mid-America.

MR. CUNICELLI: Okay. Your main products, if you could just run down your product line.

MS. McDOWELL: Okay. We have, really, two, three main products. And I would describe those as a personal installment loan, and also we've got mortgage lending, both first and second mortgages, all refinance. We don't do any purchase money. We don't do loans through brokers. Basically, the people come into the branches to make an application or over the phone. So it's very much, again, community-based. And our third product, I'd say, is insurance on those two lending products.

MR. CUNICELLI: Okay. And I think -- well, percentages of business from those lines?

MS. McDOWELL: On an ending net-receivable type basis, we're slightly more personal loans than mortgage loans on a unit basis. There are many, many more personal loans than mortgage loans. So it's, again, almost 50-50, 55-45, approximately, on an ending net receivable. But the average personal installment loan is closer to 6,000, whereas the average mortgage loan is a little over 50.

MR. CUNICELLI: Okay. Could you discuss your underwriting philosophy at CitiFinancial?

MS. McDOWELL: On both products or --

MR. CUNICELLI: Real estate.

MS. McDOWELL: Real estate?

MR. CUNICELLI: Yes.

MS. McDOWELL: Okay, so if we look at the real-estate philosophy on our mortgage loans, we really want to make sure that we're giving customers a loan that makes sense for them; that they have the ability to pay. And so as we look at the underwriting criteria, we look primarily at FICO and LTV, loan to value, of the property to the loan. And, again, the ability to pay, for someone to handle those payments of that financial instrument, or the loan itself, it's primarily what we look at. But, again, if there's people in the branches, our branch staff will take applications, they'll make sure that they verify income. We don't do any -- any no-doc, no income verification. We don't do any interest-only. They're very -- I'll call it very vanilla-type loans, up to 30 years, and primarily fixed rate, although for a time we did do some variable rates, but they weren't the teaser type of loans.

So, again, our philosophy is, I'd say, pretty simple: Make sure people have an ability to pay, FICO/LTV, and a good standard product.

MR. CUNICELLI: And you're not contracting out underwriting and you're not contracting out a lot of the stuff? This is tenured employees who are meeting face-to-face with --

MS. McDOWELL: Tenured employees in the branches who gather the data, pull the data in. But they are supported by a home office, primarily that's based in Baltimore, Maryland. And any exceptions, although they're very rare, would have to go through the group in Baltimore.

Our risk department really monitors over time what's happening with the loans themselves, what the -- just activity on it is. And they'll make suggestions over time to try and ensure that, again, we've got a good product.

MR. CUNICELLI: You say that risk monitors loans. Do you mean individually monitors those loans over time?

MS. McDOWELL: Well, generally, it's either by vintage or in total portfolio that -- so they'll look at a vintage -- for example, something that was written in January of '08. They'll follow through time, what's happened to that. And they'll look at, really, changes in the portfolio or trends in the portfolio or trends -- you know, external to the portfolio, like unemployment rates or things that are happening external. So it's more of a -- not necessarily individual loans, but more of a broad base.

MR. CUNICELLI: Okay. Ms. Manning was in

here, I guess, previous to yourself.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: And we talked about the relevant period, '04 to '08.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: What have you seen -- what changes in underwriting over that time or in performance over that time have you seen with respect to CitiFinancial?

MS. HUANG: And I'll just say here, as I did before, obviously to make clear, as Ms. McDowell is here, speaking from her own recollection of these things, she don't have any documents before her. We've provided you with documentation with various facts and figures. And Ms. McDowell did the best she can with the information she's got in her head.

MR. CUNICELLI: Fantastic.

MS. McDOWELL: Okay. Can you repeat the question?

MR. CUNICELLI: Sure. I was looking for trends between '04 --

MS. McDOWELL: Okay.

MR. CUNICELLI: -- and '08 of underwriting standards, loan performance.

MS. McDOWELL: Okay, so if we look, in

general, at '04, '05, '06, we were in a period -- we had some growth -- I would say, it wasn't a huge amount of growth, but we were growing in terms of our real-estate product. We started probably sometime towards the end of '07, early '08, getting a little bit concerned with the market itself.

When you kind of look back, I'd say we started seeing some of the lenders who had offered the interest-only, no-doc type loans faltering. And we felt that that was something that we needed to monitor. But then we started seeing some of the lenders that had offered 2/28’s or 3/27's.

So we started looking at our portfolio, we started tightening FICO/LTV standards. Probably a little bit first on the seconds because those have -- since they are behind a first in terms of just the collateral itself, so we started tightening first there, and then we started tightening a little bit more on the first mortgages during '08.

Primarily, we used to have almost a total country grid that we looked at FICO/LTV, and of course began more state-by-state monitoring that.

So we did start seeing changes from, I'd say, probably in the data itself, it wasn’t until some time in '07, and then more aggressively in '08 in our data.

MR. CUNICELLI: Okay. And I guess at the beginning of that period -- say, in '04 -- what would your 90-plus default rate, roughly, have been?

MS. McDOWELL: Our 90-plus default rate on '04? I’d have to -- I'd have to say I’d have to look at the data to see.

MR. CUNICELLI: Yes, if you want to glance at something, sure.

MS. McDOWELL: In -- say the time period again?

MR. CUNICELLI: In '04.

MS. McDOWELL: Is '04 on here?

It starts with '05.

MR. CUNICELLI: '05 is fine.

MS. McDOWELL: Okay, it starts with '05.

If I look at the 30-pluses, I've got it split in terms of FICO greater than 660, and then FICO 620 to 660.

MR. CUNICELLI: Okay.

MS. McDOWELL: So greater than 660, 30-plus with foreclosures in process or FIP was 228. FICO 620 to 659 was 331.

MR. CUNICELLI: Internally, would you make a distinction between -- I mean, would they both be subprime products? I mean, you're largely a subprime lender?

MS. McDOWELL: Well, it depends again on what your definition of “subprime” is.

I didn’t mention, by the way, the less than 620 is 665. So depending on how you define subprime. I mean, various people define it in different ways.

You know, our business, because it is primarily below 660, which is one of the ways some people define it, I think you could safely say we are primarily a subprime lender in terms of the customer itself.

And, again, I think there's some confusion sometimes on subprime because people confused that sometimes with different types of loans -- again, like the interest-only and call those subprimes. So I'm speaking specifically on our type of customer because our products were very, as I said, vanilla in nature.

MR. CUNICELLI: Okay, to be more specific, I guess what I'm thinking is, you have two buckets there.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: How would you internally refer to those two buckets of FICO scores?

MS. McDOWELL: We generally refer to them by the "FICO buckets," when we look at the customers. We do. I mean, we'll look at the various customers there.

Because you do expect differences in terms of their performance over time.

MR. CUNICELLI: Okay, right. With good reason, I'm sure.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: Yes. So that's performance in '04.

MS. HUANG: I think that's '05.

MR. CUNICELLI: I'm sorry, you're right.

MS. McDOWELL: '05. Because that starts January of '05.

MR. CUNICELLI: I asked for ‘04.

MS. McDOWELL: Yes.

MR. GARNER: And I think you gave him 30-plus and the question was 90-plus.

MS. McDOWELL: It was 90-plus. Okay, 90-plus is 144, 209, and 399.

MR. CUNICELLI: Okay.

MS. McDOWELL: The difference being, of course, just up the 30 to 59 days past due.

MR. CUNICELLI: And off the top of your head, without having to reference anything.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: During that period -- say, that's '05, '06, '07, '08 -- did you see a degradation of performance? Did you see increasing delinquency rates?

MS. McDOWELL: '05 -- I'd say '04, '05, '06 was pretty similar over time. And it may be -- I think it had gone up some in that time frame, but nothing that you would count as really significant.

And we started probably towards the end of '07, and it's really in '08, seeing the degradation. And I'd have to say it was more -- when you looked at what was happening in the economy, the unemployment rate started going up in '08. And that, you know, our customers, since we look at their ability to pay -- again, if they start losing their job, it's an issue. But, yes, you did start seeing an increase in '07, '08.

MR. CUNICELLI: Okay. I guess some of the internal documents that I'm looking at, it looked like it went from kind of an historical performance of about 1 percent, to about 3 percent now, maybe, or approaching 3 percent. 90-plus default.

MS. McDOWELL: Can I refer?

MR. CUNICELLI: Absolutely. Certainly, certainly.

MS. McDOWELL: I’ll just take a quick peek because that's in 2008, which is the end of the time frame, 90-plus. Again, these are spreads of 232 on the greater than 660, 362 on the 620 to 659, and 415 on the less than 620.

So, again, as I said, you did see degradation.

MS. HUANG: The numbers you are giving here are just the any first mortgages. And obviously you'd have to --

MS. McDOWELL: Correct, correct. Right, so you'd have to add in the seconds.

MR. CUNICELLI: Okay. Which, all told, it seems that CitiFinancial is weathering the crisis fairly well.

Are you happy with your performance in the period?

MS. McDOWELL: We do think we're weathering the crisis well, and we think it goes back to our model, again, which is we're community-based. We've got people that are making the loans that are sitting right across -- or on the phone with that particular customer. They're verifying income. You know, they've got the support of the home office there.

And so that, again, the types of loans, we do feel we've really weathered it pretty well.

And while I do wish that we didn't see that increase in delinquencies, I think that, you know, given the economy and the economic situation, that it is a good result.

MR. CUNICELLI: You ticked off a couple of reasons why. Sitting directly across from your customer.

MS. McDOWELL: Uh-huh, uh-huh.

MR. CUNICELLI: So the face-to-face relationship.

MS. McDOWELL: Right.

MR. CUNICELLI: The -- I guess the FICOs.

Do you have an emphasis on creditworthiness and whatnot?

MS. McDOWELL: Well, again, we've got the benefit of a lot of risk data over time that says that different FICO scores react in different ways. But you also, again, want to make sure the value of the property is there, and you also, again, want to make sure that people have an ability to pay that mortgage.

And so all three of those -- and while there's many other factors, I mean, I think those three, you know, help in, you know, that effort.

MR. CUNICELLI: What percentage of your loans, in rough terms, are given to existing customers or clients?

MS. McDOWELL: Well, again, when you look at our model, we've got the personal loan, installment loan. And some of those customers then become --

MR. CUNICELLI: Refinance customers?

MS. McDOWELL: Yes, refinance, they become mortgage -- mortgage lendees. And, you know, off the top of my head, it's probably 80, 85 percent had mortgages prior -- mortgages or loans prior with us.

MR. CUNICELLI: So it's not a bunch of cold-calling customers that you have no relationship with? The vast majority of your real-estate loans are to an existing customer base?

MS. McDOWELL: In general, the way we market to new and present borrowers, is we send out a mail. And, generally, when that mail comes back in -- I mean, we generally have an offer for a personal installment loan. And then as you take an application, you sometimes determine that there is a need for a refinance loan or they may want that rather than the personal installment loans.

So, again, what we try and do is gauge what it is that the borrower needs and wants. So they may come through as initially a personal installment loan, but then, again, they've got a need to either reduce their payment or something to get to the mortgage loan, or they may come in initially.

MR. CUNICELLI: Okay. And I brought something up in the previous interview, and I think it was -- I think it was a mistake on my part. I think I was most likely looking at something that referred to CitiFinancial Mortgage, but I just wanted to throw it past you.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: I thought I saw something that said that CitiFinancial for a short period of time offered 2/28's.

Was that ever a product offering?

MS. McDOWELL: Never, to my knowledge.

MR. CUNICELLI: Okay. It's probably -- you know, I tried with CitiFinancial Mortgage Corporation and CitiFinancial, being separate entities, to always be aware, in my mind, of which one I was dealing with. So I must have mistaken --

MS. McDOWELL: CitiFinancial branch network from '04 to '08, again, no, very fixed-rate standard loans, fixed and variable.

MR. CUNICELLI: Right. It seemed inconsistent with your business model.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: And I just wanted to be 100 percent sure.

All right, thank you.

Tom, do you have anything?

MR. BORGERS: And I have to say also to you, being the head of your organization, that I'm very impressed with your record. And that's my personal view. I guess I can't say it on behalf of the Commission -- but you have you such a terrific -- in this crisis, you know, that 3 percent less on your book, it's -- you have a business model that really works, and your figures, and knowing your customer, it's really a pleasure to have you here today and reach out to you.

I just wanted to ask you, how often do you meet with your counterparts at CitiMortgage or at Citigroup to discuss, you know -- especially -- not last year, but during --

MS. McDOWELL: In '04 to '08?

MR. BORGERS: Yes, how often do you speak to your counterparts?

MS. McDOWELL: You know, generally, it's just if you had some sort of a monthly or quarterly meeting with my bosses at the time, where they might have someone from CitiMortgage there or they might have, you know, us there.

So we generally did not talk about trends or, you know, what we were seeing in terms of our customers.

I mean, really, I know that the risk community may have had that data; but from a business perspective, I mean, we were more focused on our customers and servicing our customers. So, you know, there would have been some discussions, just in the normal monthly meetings or quarterly meetings that were held.

MR. BORGERS: Now, I think you did cover it a great deal, but if you had to pick the top three things of -- the reason for your success, what would they be?

MS. McDOWELL: Well, I think, again, just looking at the way we do business, our branch network, the fact that we were in the communities I think is a big plus, and we sit face-to-face with our customers.

I think, you know, the fact that we have high standards that, you know, we require people to comply with, so we've got a big compliance culture, a big internal control culture. And I think, you know, again the loans fit our customers. So, you know, those three things, I think, contributed a lot to our results.

And I think if you looked at various different types of products, there may be -- there may be variations on that. But, clearly, I think our community-based model and the fact that we've got a strong control culture definitely help.

MR. BORGERS: One question on your community-based model.

MS. McDOWELL: Uh-huh.

MR. BORGERS: Could you tell us about the CRA involvement with your entity?

MS. McDOWELL: First of all, CitiFinancial isn't subject to CRA because we don't have deposits --

MR. BORGERS: Right.

MS. McDOWELL: -- so we don't accept deposits.

But Citibank, who is one of our affiliate companies, does.

MR. BORGERS: Right.

MS. McDOWELL: And I know that our loans count towards their CRA results or the loans that they need to do. But I'm really not involved in which accounts count and which ones don't, or even trying to target those. I mean, it's purely -- I mean, we do our business model, again, to best suit the customer and the strategy of our company.

MR. BORGERS: So there’s not a real push from Citibank to ask you to boost up your --

MS. McDOWELL: No.

MR. BORGERS: -- lending because of the CRA goals or whatever across the country?

MS. McDOWELL: No. I've -- to my recollection, no one ever asked me to do that.

MR. BORGERS: All right.

MR. CUNICELLI: From an internal standpoint, I noticed going through document review of some CitiFinancial, I guess, statistical analysis, sometimes it seems CitiFinancial compares itself to other competitors, outside competitors. Sometimes it seems to compare itself to other, I guess, silos within Citi, like CitiMortgage.

MS. McDOWELL: Uh-huh.

MR. CUNICELLI: How much -- you know, whom do you consider your peers, your peer group of associated lenders that you measure yourself against?

MS. McDOWELL: In that time period, 2004 to 2008, if you're asking me about peer lenders, I would have probably mentioned people like Wells Fargo Financial or American General or Household Finance, HSBC, because they were more of a community-based model.

And so when we compared ourselves to our peers -- because the origination methods were, you know, again, in the community -- again, I can't speak to how similar they were because I am not privy to how they actually originated -- but the model itself was in the community, although, again, variations on that from company to company.

When you look internally, it would be a pure product comparison to say, "How is our product holding up against something else?" And it's just more to gain some knowledge on how -- how to view the results -- good, bad, indifferent, should we change something.

MR. CUNICELLI: Okay. I'm good.

MR. BORGERS: I know, this is too quick.

The -- over the last several years, have you learned anything from the crisis that could help your organization for the future?

MS. McDOWELL: You know, I think as we're looking forward, we've really learned the value of that control and the value of, you know, trying to make sure that you're on top of your products, as I mentioned, to change in '07, as we did in ’07 -- or towards the end of '07 and during '08, the FICO/LTV.

So, you know, I think what we've learned is just, again, to be cautious, and we've also learned that the model works. So, you know, we really -- to us, you know, the fact that we originate and service in the branches, you know, we learned that it works. And so we like the model and we'd like to continue it.

MR. BORGERS: Okay.

MR. CUNICELLI: All right, if I could just remind you that we asked you to keep what happens here and what's asked here confidential.

The time is, what, 12:20.

MR. BORGERS: One other final thing.

MS. McDOWELL: Okay.

MR. BORGERS: Is there anything you would like to say to the Commission that, you know -- we've asked you a lot of questions. What would you like to say, either in your own personal view, your bank’s view -- ornot bank's view, but your company's view?

MS. McDOWELL: I think it's a difficult task that you have. And, you know, I just appreciate being able to talk about my company. So I appreciate the opportunity to talk about CitiFinancial and what a great company I think that it is. And good luck with your future.

MR. BORGERS: Well, thank you so much.

MR. CUNICELLI: And we'll need it. Thank you.

(End of interview with Mary McDowell)

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