

**DRAFT
MEMORANDUM**

TO: File
FROM: Karen M. Dubas
DATE: February 3, 2010; 2:20pm
RE: Meeting with Tony Tenore & Ed Abufaris

This is not a transcript of the proceeding and should not be quoted as such.

Biographies from Paul Weiss

Mr. Abufaris has been the head of the correspondent channel at CitiMortgage since October 2009. Mr. Abufaris joined CitiMortgage in 1993 as a regional sales manager for correspondent lending, and subsequently became divisional sales manager for correspondent lending in 2003, and national sales director for correspondent lending in 2006.

Mr. Tenore has served as the national sales director of retail mortgage lending at CitiMortgage since October 2008. Previously, from 2000 to 2002, Mr. Tenore was an assistant vice president of finance at CitiFinancial Mortgage Corporation ("CFMC"). Mr. Tenore served in the Acquisitions Group at CFMC as regional vice president for the Southeastern Division from 2002 to 2005 and as national sales director from 2005 to 2008 (during which period the correspondent channels of CFMC and CitiMortgage were merged). From February to October 2008, Mr. Tenore was division manager for national retail accounts at CitiMortgage.

Paul Weiss

Susanna Buerger, Joyce Huang

Citigroup

Tony Tenore, Ed Abufaris, Citi counsel (missed his name)

FCIC

Brad Bondi, Tom Krebs, Dixie Noonan, Karen Dubas

BONDI: [Explains FCIC mission and goals and requirement of truthfulness.]

TENORE: I run a telesales unit that is based in Dallas, TX; Ann Arbor, MI; and St. Louis, MO. I'm sitting here because previously I was at CitiFinancial Mortgage Corporation (CFMC) and had responsibilities for purchasing bulk packs of loans. I was there from 2000 to 2007, until it was integrated with CitiMortgage. I am currently in CitiMortgage. In CFMC, I was in the pricing group and the regional and other sales groups.

BONDI: What was your role at CFMC?

TENORE: In the sales roles, I would meet with different mortgage bankers around the country, present to them the type of product that we were willing to purchase, and convince them that we were the right buyers for their product. The product was mortgage loans that were mostly fixed rate, and sometimes adjustable rate. The mortgage bankers originate the loans and fund them in their name.

BONDI: Was this an originate-to-distribute market?

TENORE: For the most part they did not hold loans in portfolio.

BONDI: Was there any other role that you played during this time period?

TENORE: I started in the pricing group. We would receive tapes of bulk packs of mortgages, put a value on them, and bid on them.

BONDI: It was a sales role, but you were purchasing and not selling?

TENORE: It was sales in that you were selling the reason as to why the originators should sell a loan to Citi. It involved purchasing the loans from sellers.

ABUFARIS: I am currently the Managing Director for correspondent lenders at CitiMortgage. The correspondent lending channel at CitiMortgage has had different names, but I have always been there. I started as the Regional Manager, then I was a Divisional Manager, then I was the National Sales Director, and now I'm the Managing Director of the channel. It's always been in CitiMortgage—it was never in CFMC. I started at Citi in 1993.

BONDI: What is a correspondent?

ABUFARIS: The lenders that we purchase loans from can be bankers, savings and loans, credit unions, or anyone who is licensed to sell a loan to us.

BONDI: IS Countrywide a correspondent?

ABUFARIS: In the traditional sense of the word, no. But did it originate loans and sell to

us? Yes. Countrywide was an approved correspondent. They were approved to sell to us, but I don't know whether they actually did.

BONDI: In 2006, CFMC and CitiMortgage combined. In terms of the purchases through correspondence, was it done in a similar fashion as what Mr. Tenore described?

ABUFARIS: Correct. But Tony also alluded to bulk purchases, and that's not the way that we got things. Let me clarify some terminology:

In a whole loan purchase, a lender buys 100% of the principal value of a loan. Years ago, you could also buy participation in a loan, which was only a part of the principal value. Today, all purchases are done on a whole loan basis.

A bulk purchase or a pool purchase is a purchase of more than one whole loan.

Primarily, my business was flow whole loan purchasing.

BONDI: So generally in correspondent lending channel, you would buy one loan at a time—a flow. You wouldn't buy pools?

ABUFARIS: In a mandatory assignment of trade, you're buying pools of loans. In the bulk area, it's a defined group of loans that the capital markets group has already bid upon and chosen. In an assignment of trade, you buy a certain amount and fill it with loans later.

BONDI: Is a flow a prearranged relationship that you had?

ABUFARIS: We would put out a rate sheet every day. It was a lenders choice whether to sell us a loan that day.

HUANG: All of the purchases are whole loan purchases.

BONDI: So it's pool versus flow, and you generally did flows. Did you do any work with the securitization desk?

ABUFARIS: That's the CitiMortgage Capital Markets desk. You'd want to talk to Dan Hoffman.

BONDI: Was there an approval process by which someone would become a mortgage banker with whom CFMC would do business?

TENORE: Yes. To clarify, although mortgage bankers were the primary entities from whom we purchased, we did do some business with the other entities you listed.

BONDI: Who came up with the approved list?

TENORE: A correspondent would have to fill out information about themselves, and we had a counterparty group that would review each correspondent.

BONDI: How many correspondents were there?

TENORE: For the large bulk group that I ran, there were a couple of dozen. Another group bought smaller packages of loans, and they would have had a larger list of correspondents. There was also a correspondent flow group that would have used same correspondents as the bulk groups.

BONDI: Were there different lists for the bulk and flow groups?

TENORE: Not really. There were different requirements within bulk for large pools (more than \$10 million) and small pools (less than \$10 million).

BONDI: What was the largest transaction that you did?

TENORE: It was a \$1.3 billion pool sold by Wachovia. It happened sometime in 2000-2006, but was closer to 2006.

BONDI: When you purchased pools, would they be identified as prime, subprime, or Alt-A?

TENORE: They may have had names, or a seller may have represented a pool as prime or subprime, but we would have been looking at FICO scores, LTV, etc..

BONDI: Was the norm to have pools classified by FICO scores, or would pools include a mix of loans?

TENORE: Pools were usually arranged based on a particular mortgage banker's book of business for that month. A regular mortgage banker would give you a pocket of their production from the previous month. These pockets would be targeted to a group of investors.

BONDI: How would you know which pools to purchase?

TENORE: We would get a tape from the sellers, give it to the pricing team, and decide whether or not to buy it.

BONDI: Did anyone tell you to buy specific pools of loans?

TENORE: We had a credit parameters box within which we were allowed to purchase.

We would solicit business within this box, and when offers would come in, we would analyze them and decide what bid to make.

BONDI: Did you engage due diligence firms?

TENORE: No, for the most part we used our own underwriting.

BONDI: What happened to the loans that you purchased?

TENORE: I was not familiar with that business. The majority of the loans that we purchased would go into portfolio. We would own the loans and the risk and earn money off of those loans. We bought loans to hold.

BONDI: Tell me your definition of subprime.

TENORE: We focused on FICO scores more than any definition of subprime because there were so many definitions floating around.

BONDI: Can you give me a number? Would it be under 660, under 620, etc.?

TENORE: I'm not sure.

BONDI: Let's assume subprime is a FICO score under 620. Did you purchase pools of mortgages with loans that had FICOs under 620?

TENORE: Yes, our minimum FICO was under 620. There was always a basement number though. At one point in time, we didn't purchase under 530.

BONDI: Who were the largest sellers of pools of subprime to CFMC from 2000 to 2006?

TENORE: I can give you the names of some of our top clients.

Going back, for pools that contained subprime loans, our average FICO score was above 620. There was not a set minimum average because that would vary based on how large the pool was.

HUANG: When you bid on a pool, you only bid on those loans in the pool that you want to buy.

BONDI: Did you purchase most of the loans in the pool?

TENORE: There was no general percentage. It depended on who was the seller of the pool. Some sellers put out very generic pools for the masses, and other sellers put together pools that they knew that we would purchase.

The top sellers of subprime to us, in no order, probably included Wilmington Finance, Decision One Mortgage, Ameriquest, and EquiFirst.

BONDI: Did you purchase any subprime mortgages from Countrywide or American Home Mortgage?

TENORE: Not that I'm aware of.

BONDI: During the time that you were with CFMC and purchasing pools, was there ever a lender who you blacklisted from doing business with?

TENORE: Yes.

BONDI: How big would this blacklist be?

TENORE: I don't know. Most of the blacklisting would be related to smaller mortgage bankers who were more susceptible to financial problems.

BONDI: Who was the largest correspondent who was ever blacklisted?

TENORE: I don't know.

BONDI: Did you blacklist Morgan Bean or First Franklin?

TENORE: No to the first. First Franklin was a correspondent, but we didn't work with them while I was in the group.

BONDI: Would you have used a term other than "blacklist"?

HUANG: They weren't blacklisted, just removed from approved list.

BONDI: What were the reasons for a correspondent being blacklisted?

TENORE: We might have had difficulty with them honoring their reps and warranties with respect to the repurchase of loans.

BONDI: Who was head of the group that would have known more about that?

TENORE: Scott McElhanney (sp?) was the head of the Counterparty team. He's still with CitiMortgage.

BONDI: Was there any particular correspondent that you deemed to be a Problem Child that you felt was not giving you good loans?

TENORE: There was nobody that we purchased loans from knowing that we were not happy with their loans.

BONDI: Did you ever discover fraudulent practices by the correspondents?

TENORE: Not that I'm aware of.

BONDI: Are there reports or documents from 2000 to 2006 that would breakdown the prime, subprime, and Alt-A loans purchased by CFMC?

TENORE: No, not that I'm aware of.

BONDI: Is there some document that breaks out loans by FICO score?

TENORE: I don't have a document like that, and I haven't seen one that breaks it out like that. I would assume that someone might have a document like that. You might want to ask the credit risk folks.

BONDI: Can we have a list of all of the CFMC purchases from 2000 to 2006 broken down by FICO and dollar value, and a list of approved correspondents from 2000 through present?

CITI COUNSEL: We might have a document showing entire pool broken into ten point FICO bands.

BONDI: What was the total dollar value of mortgages that you purchased in 2006?

TENORE: I don't know. A ballpark guess would be somewhere between \$5 and \$11 billion total loans purchased in 2006.

BONDI: Whose underwriting guidelines did you use for the mortgages that you were bidding on?

TENORE: They were underwritten for origination to the entities' guidelines, and they were underwritten to our guidelines before we purchased them.

BONDI: If you were bidding on a pool of loans, what percentage of pool would you underwrite to your guidelines?

TENORE: For the majority of cases, in those years, we underwrote all of the loans. For the really large transactions, like the \$1.3 billion purchase, we would underwrite a sample.

BONDI: Can you tell me the name of the team at CFMC that would underwrite the loans that you would go out to purchase?

TENORE: They were called Underwriting. I believe they would be a part of Third Party Risk.

BONDI: Ed, can you tell me how the correspondent arrangement flow worked.

ABUFARIS: Once a lender is approved, they have the ability to register loans that they intend on delivering. We had underwriting guidelines that were published, and they had to make sure the loans met our underwriting guidelines.

BONDI: What happened to the loans after they were purchased?

ABUFARIS: In my group, most were purchased to be sold to Fannie, Freddie, and Ginnie.

BONDI: What percent were sold to Fannie and Freddie?

ABUFARIS: I'm not in that department, but it would be the majority of mortgages.

BONDI: What happened to the mortgages that were not sold to the government agencies?

ABUFARIS: There was an ability to put a small amount in portfolio. The loans that we purchased were comingled with other purchased mortgages, and these were given to Dan Hoffman for securitization.

BONDI: What's your definition for subprime?

ABUFARIS: It's a much lower FICO score. It's something sub-580 that doesn't meet the agency box.

I've been at Citi from 2000 to the present. My group was historically a prime and Alt-A group. After the merger, from a flow perspective, there was a short period of time when we purchased those. It was probably from 2006 until the end of 2007 or early 2008.

BONDI: What's your definition of Alt-A?

ABUFARIS: It's an agency eligible loan containing less than full documentation.

BONDI: Did you purchase stated income mortgages through correspondent channels?

ABUFARIS: Yes. They were considered Alt-A.

BONDI: Was there a FICO score associated with the stated income loans?

ABUFARIS: I don't remember, but everything had to be agency sellable. We used the Fannie Mae desktop underwriting system, so it must have made it through the Fannie black box.

BONDI: Who were your biggest group of correspondents?

ABUFARIS: We had 2,300 approved correspondents. It's a large group, so it's hard to think of specific ones. The largest correspondent in history was Provident Funding in last year or two, who sold us \$2 billion of agency-eligible mortgages.

BONDI: Did there come a point in time that you saw warning signs of the housing market and felt like we were heading into a bursting of a bubble?

ABUFARIS: That would have been when property values stopped appreciating and started depreciating—sometime in 2008.

TENORE: I would agree with that. It was when you started to see the appreciation stop. That was late 2007 or early 2008.

BONDI: Ed, did you have any interaction with Clayton Holdings or 406 Partners?

ABUFARIS: No.

NOONAN: Tony, what were the economics of the business for CitiMortgage? Was CFMC the servicer, or was it just making money off the interest?

TENORE: We were the servicer.

NOONAN: Was there a limit for balance sheet purposes of what you could take on and portfolio in CitiMortgage?

TENORE: I assume there was, but I don't think that we ever reached it. There was an approval for every individual deal. We were able to purchase loans that would give us a return based on the capital that we had to invest.

NOONAN: What drove the characteristics of loans that you purchased?

TENORE: It was the risk profile of loans. We were in the conservative area of the market. Compared to our competitors, we were considered one of the ones in the higher FICO band.

BONDI: What would you define as a higher FICO band?

TENORE: Scores between 650 and 700 would be a higher FICO band.

NOONAN: What were your incentives in terms of the volume of loans you purchased? Was your performance evaluation tied to the performance of loans?

TENORE: My incentives were based on volume.

NOONAN: Did those incentives change over time?

TENORE: There was no pressure, per se. My goals would go up from year to year, but they depended on what was going on in the marketplace and the economy at the time. I wasn't paid against the goals—I was paid against the purchase.

We were by far the more conservative group out there, and unless you were originating at us, it was very difficult to compete with the market. We would carve pools down to 20-30% of the original offering. Other firms would buy the full pool. It would be hard for us to get a cherry-picked pool that we wanted.

NOONAN: What pitch would you make to sellers?

TENORE: We told them that we wouldn't come and go like the securitization market. We wanted to be their partner. We valued the loans and would pay more for those loans than others would.

NOONAN: Were loans that were sold to Fannie and Freddie securitizations or whole loans?

ABUFARIS: That's not my area, but I'd guess they were securitized.

NOONAN: What was your business model?

ABUFARIS: Our business model was based on the servicing rights. We collected the payments every month and remitted them to Fannie and Freddie. It is a volume driven business, but we've transitioned compensation from volume-based to goal-based.

BONDI: When you were trying to convince folks to sell you mortgages, did you compete with other Citi entities?

TENORE: It's possible because you never knew who your competitors were. I don't remember competing directly with them though.

BONDI: What is credit risk?

TENORE: It's the level of risk associated with different people's ability to repay their mortgage.

BONDI: In terms of credit risk, what was the riskiest type of mortgage that you would purchase?

TENORE: We wouldn't purchase option ARMs. Our risk division did not approve that product. I believe that we didn't buy stated income loans with low FICO scores.

BONDI: What would those guidelines be called?

TENORE: Probably "credit policy" or "underwriting guidelines"

BONDI: Did underwriting change in any specific way?

TENORE: Yes. They are living and breathing guidelines that would have changed a lot over time. An underwriter could make an exception if there were other mitigating circumstances in the lender.

BONDI: If you wanted to purchase a pool that didn't adhere to certain parameters, could you get an exemption?

TENORE: That conversation would happen at the bid time. We'd do a carve-out and credit risk would go through the loans we had rejected to see if we had rejected any loans that we could keep.

BONDI: During the carve-out stage, did you ever seek to carve out loans that didn't meet your parameters for purchasing?

TENORE: I would have gone back and said that I would still like to bid on these loans, and an underwriter would go back and look at the tape and decide whether there are mitigating factors.

BONDI: How often did that happen?

TENORE: Say there was a \$100 million pool. We would go through the tape, and \$80 million might meet our parameters. \$4 million might be close but not quite at our LTV ratio, so we'd go and investigate further. We'd never accept products that we didn't do—for instance, we wouldn't make exceptions for negative option ARMs.

NOONAN: So the process is that whoever has the pool receives the bids, picks the winning bid, and gives the winner the time to do due diligence?

TENORE: Yes.

BONDI: We're not just looking at Citi. Is there any other information on subprime lenders or originators that you think we should know about? Are there any people who you might never do business with?

TENORE: I don't have anyone jumping to mind. We played with such a small market of originators, and we mostly stuck to those who were originating at us.

ABUFARIS: I dealt with prime lenders, so I don't really have experience with this.

BONDI: Of the mortgages that defaulted, do you have a sense of the percentage that were fraud by the borrower, fraud by the originator, or that were just a result of changes in economic situation by the borrower?

ABUFARIS: I don't have a sense. We have a repurchase group that does investigative work that might be more helpful.

TENORE: I don't see default work on my side of the house.

BONDI: [Explains requirement of confidentiality.]