

**DRAFT  
MEMORANDUM**

**TO:** File  
**FROM:** Karen M. Dubas  
**DATE:** February 3, 2010; 10:40am –12:00pm  
**RE:** Notes of interview with Fred Bolstad

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

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Biography from Paul Weiss

*Mr. Bolstad has been the head of the wholesale and retail lending channels at CitiMortgage since October 2008. Mr. Bolstad began working for Citi in 1989 as a management associate in retail originations and subsequently held positions as a loan officer and branch manager until 1996. From 1996 to 2001, Mr. Bolstad was the Southern California regional manager for retail banking at Wells Fargo. In 2001, Mr. Bolstad rejoined Citi as a national sales director at Smith Barney where he later became a director in 2004. In 2005, Mr. Bolstad became managing director of wholesale lending at CitiMortgage.*

Paul Weiss

Susanna Buerger, Joyce Huang

Citigroup

Fred Bolstad, Citi counsel (missed his name)

FCIC

Brad Bondi, Tom Krebs, Dixie Noonan, Karen Dubas

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**HUANG:** CitiMortgage is a mortgage entity. Citi Financial Mortgage Corporation (CFMC) was another entity. In 2006, the two mortgage entities were merged together and had one origination business. At that point, Mr. Bolstad had responsibility for CitiMortgage and CFMC retain and wholesale. He can speak from experience about CitiMortgage, and he can speak from his understanding about CFMC.

**BONDI:** [Explanation of FCIC mission, goals, and requirement to be truthful to government agents]

First, tell me what is your title and what do you do?

**BOLSTAD:** I've been at CitiMortgage since 2001. I'm a Managing Director of consumer lending. CitiMortgage has a wholesale business, which has been completely restructured, and a retail business (Primerica Financial, CitiBank). We have a private label mortgage platform that supports PFS.

**BONDI:** What do you do on a daily basis?

**BOLSTAD:** I manage sales on a daily basis and track the P&L.

From late 2005 until October 2008, I was the Managing Director for wholesale. Prior to that, I was the National Director for wholesale. I rejoined Citi in May 2001 when I ran Smith Barney nationally. I was promoted to more and more senior roles and eventually, national director.

The retail business is business directly with customers. Employees accept loan applications and we underwrite and fund them. The institutional business is loans taken on our behalf.

**BONDI:** What was CFMC?

**BOLSTAD:** It was the mortgage arm that supported the business that Associates Financial did. It supported financing for Associates or PFS. Essentially it was our nonprime entity. Associates Financial was a finance company. Citicorp Trust Bank (CTB) was a legal vehicle that provided financing for Associates.

**BONDI:** Since 2000, where were mortgages originated within Citigroup?

**BOLSTAD:** CitiMortgage originated prime mortgages and CFMC originated loans for Primerica and a small amount of subprime lending for lenders and correspondents. There was very little interaction between the two. They were essentially competitors. CitiMortgage never engaged in subprime until we acquired CFMC in late 2006.

**BONDI:** Prior to 2006, was CitiMortgage engaged in Alt-A?

**BOLSTAD:** No.

**BONDI:** Pre-2006, was CitiMortgage engaged in purchasing subprime or Alt-A whole loans?

**BOLSTAD:** Not to my knowledge. I was not involved in purchasing, just retail and origination.

**BONDI:** But CFMC had a small amount of subprime loans?

**BOLSTAD:** CFMC had a sales force like CitiMortgage. The intent of the sales force was to sell nonprime mortgages through a broker base. They were not a big player in that entity. They sold more Alt-A than subprime.

**BONDI:** Do you have definitions for subprime & Alt-A?

**BOLSTAD:** Alt-A is a prime borrower who has one or two credit characteristics that wouldn't meet a Fannie or Freddie standard. They may be missing a document or two. Subprime would be a book of business that priced in an expectation of a higher default rate.

**BONDI:** Is there a particular FICO score associated with subprime?

**BOLSTAD:** There wasn't one score. It varied by customer. We never went nearly as deep as the rest of the industry into the lower end of the scores.

**BONDI:** You mentioned Smith Barney. Did Smith Barney engage in mortgage origination?

**BOLSTAD:** CitiMortgage did that on their behalf. We originated for them.

**BONDI:** Were these prime loans?

**BOLSTAD:** Absolutely. That book performed really well throughout the crisis. There were Alt-A loans, but they were essentially prime loans with alternative documentation. Some borrowers didn't want to go to the trouble of income documentation.

**NOONAN:** Why wouldn't someone provide income documentation?

**BOLSTAD:** Because they don't have to. Smith Barney wanted to make their clients happy. If he has enough assets and cash to buy the house outright, Smith Barney would not require income documentation. It's almost more of a private banking kind of product.

We had a CitiMortgage affiliate based business. We have a sales force that supports Citibank nationally. CitiMortgage loan officers would sit in a Citibank office, and we'd do the same for Smith Barney or Primerica. We have a national business supporting Citi employees. The retail book has always been a prime book. Even after 2006, we never really dipped into the subprime or Alt-A.

**BONDI:** Prior to 2006, CFMC originated subprime. After the merger, there was still some subprime, but it was negligible?

**BOLSTAD:** Correct. The merger was primarily in wholesale and the work that we did

for PFS. We continued to originate the same loans, but we didn't do the subprime, the low FICO, or the no-doc programs.

In 2006 CFMC was assumed by CitiMortgage, and now Citi Mortgage Inc. is the combined structure of the two.

**BONDI:** From 2000 to 2006 in CFMC, what were the subprime origination avenues?

**BOLSTAD:** The first was the broker business that had always been done, and the second was the PFS channel (private label mortgage business).

**BONDI:** What about Associates?

**BOLSTADL:** Associates became CitiFinancial.

**HUANG:** The branch network of Associates became CitiFinancial. The mortgage business of Associates was incorporated into CitiMortgage. Citicorp Trust Bank (CTB) supported mortgage origination for Primerica and fulfills mortgage business for Smith Barney and Primerica. Smith Barney and Primerica are sister companies, but are separate from us.

**BONDI:** Who are the brokers?

**BOLSTAD:** It varies, but you generally have a mortgage brokerage company that originates mortgages through investors.

**BONDI:** What were the larger brokerage companies who worked with CFMC? Who were the top ten in terms of size for subprime? Was New Century one?

**BOLSTAD:** No, New Century was a lender. Brokers do not fund.

I'd have to go back to look. I couldn't answer for CFMC.

For CitiMortgage, Manhattan Mortgage and others are some of our biggest clients. In terms of total originations, it would be about half a billion dollars per year. The intent was never to be a major player in that subprime space, because we had very stringent credit guidelines.

**BONDI:** Post-2006, after the functional merger, did CitiMortgage continue with this broker network?

**BOLSTAD:** Yes. We merged the sales force. There was a fair amount of overlap in terms of the brokers that the CitiMortgage and CFMC worked with. We applied CitiMortgage's standards to that marketplace and terminated some of the brokers that did

not meet our credit requirements.

**BONDI:** Would there be a list that could show us the amount of business generated by subprime and Alt-A in this broker network from 2000 to the present? I'd also like to see a list of the mortgage brokers that you dealt with. You don't have to include shops smaller than ten people.

Were Taylor, Bean, and Whitaker and First Franklin on this list?

**BOLSTAD:** They are both lenders, not brokers.

**BONDI:** Was there an approval process where someone would apply to be a broker for a mortgage origination?

**BOLSTAD:** There were lots of requirements that reviewed many parameters including net worth, state licensing records, credit reports on the principals (they had to give credit personally). Third Party Risk made the call whether we could work with a broker. After the merger, we adopted CitiMortgage's guidelines for reviewing a broker's status.

Third Party Risk reported in through the risk management line. We have a risk officer that reports to our chairman.

**BONDI:** Who is at the top of this risk management chain? What underwriting standards did brokers apply?

**BOLSTAD:** They applied the underwriting standards that Citi put into place. We underwrote the loan, and they found the customer and took the application.

**BONDI:** Who set those underwriting guidelines?

**BOLSTAD:** That was Independent Risk—the risk organization. Third Party Risk evaluated brokers. Independent Risk looked at underwriting standards. Third Party means that they're looking at risks that a third party would present.

**BONDI:** What would be the process for deciding that there is a broker that you may decide not to do business with?

**BOLSTAD:** There is a monthly meeting of the Third Party Originations committee. We'd have a real-time broker performance scorecard (looking at delinquency and other performance metrics). You'd have a warning to the broker, and there would be a fairly quick trigger if there wasn't improvement. If there was ever any hint of fraud, it meant immediate termination. I sat on the TPO committee and had a voice, but the power was with the Risk Committee.

**BONDI:** At what point was the customer handed off from the broker to a Citi employee?

**BOLSTAD:** The broker owned the customer. They would take the loan application and interact with the borrower. They would send us the application, we would underwrite it, and we would approve, decline, or ask for more information. If we needed more information, the broker would request it from the applicant.

**BONDI:** Say that Tom Krebs is interacting with a broker between 2000 and 2006. The broker would collect documentation from Tom and would verify his income. Would Tom ever speak to someone at Citi?

**BOLSTAD:** No. His only interaction would be with the mortgage broker.

**BONDI:** What forms did the brokers use?

**BOLSTAD:** They used forms that Citi provides and may have included state forms.

**BONDI:** Were these Fannie Mae forms or forms that Citi originated?

**BOLSTAD:** I'm not sure. The forms that we used met guidelines. That would be a better question for the compliance group.

**BONDI:** What happened with appraisals?

**BOLSTAD:** The mortgage broker ordered an appraisal from an approved list of appraisers. That was a tightly managed list of appraisers. We did not have one instance of appraiser fraud. We managed that list much more aggressively than our competitors.

**BONDI:** Did mortgage brokers originate subprime or Alt-A loans?

**BOLSTAD:** CFMC had brokers originate subprime, Alt-A, and prime loans (this is pre-2006). CitiMortgage did not do subprime or Alt-A pre-2006. For CFMC, the origination depended on the broker shop.

**BONDI:** Were the mortgages held on portfolio?

**BOLSTAD:** Pre-2006, the vast majority of loans were originated by brokers to be held on portfolio at CitiMortgage.

**BONDI:** Are there performance reports or default reports? I'd like to see a high-level report for the pre-2006 performance of subprime and Alt-A.

**BOLSTAD:** Yes, that data would exist.

**BONDI:** Can we get a high level report?

**HUANG:** So that's CFMC pre-2006 performance of loan by type and by year for the broker network.

**BONDI:** Were there spikes over that time period of problems with brokers?

**BOLSTAD:** Pre-2006, no. It was a fairly constant and steady process.

**CITI COUNSEL:** There was a spike in 2000 when Associates was acquired.

**BONDI:** Can we get a sense through documentation of what happened with the broker network and Associates after 2000?

What happened in 2006 to the broker network?

**BOLSTAD:** After integration, there was some overlap in broker lists, but there was an overall net increase. It wasn't a huge jump in the network—maybe a 20% increase. We do business today with about 800 brokers.

**BONDI:** After 2006, did the risk management of these brokers change? Did Third Party Risk continue to have a role?

**BOLSTAD:** Absolutely. Their role didn't change.

**BONDI:** After 2006, were any of the mortgages that were originated by the network securitized?

**BOLSTAD:** Sure. We sold mortgages to Fannie and Freddie. The majority were securitized. But the majority of subprime and Alt-A were held on our book.

**BONDI:** Can I see documents post-2006 to help me understand the amount of subprime and Alt-A that was held on the book?

What about Citicorp Trust Bank?

**BOLSTAD:** CTB was marketed as a proprietary in-house mortgage program. For PFS, it wasn't marketed as a Citi program within their branches. It would be a Primerica mortgage done by Citi. Under CTB you had a private label through Primerica. Under CitiMortgage you had a private label through Smith Barney. With CTB, the main retail channel was Primerica.

Retail channels are business that is done directly with the consumer. For example, an employee of Citibank would interact with customer.

**BONDI:** Under the CTB source channel from 2000 to 2006, did Primerica originate subprime mortgages?

**BOLSTAD:** By definition, yes. If you look at the loans done through Primerica, they were subprime. However, that book performs like a prime book. It was a unique product.

**BONDI:** Why do you think that was the case?

**BOLSTAD:** My opinion is that the business was very much face-to-face and consumer-based. Many of the borrowers that PFS would do loans for were relatives or employees of PFS. It was intense face-to-face.

The mission of Primerica is to eliminate debt. They had a rapid principal reduction product. Their mission helped people financially more than it hurt them

**BONDI:** From 2000 to 2006, did the Primerica book perform better than the broker book?

**BOLSTAD:** You'd have to look at the data, but the answer is probably yes.

**BONDI:** What products were offered by Primerica?

**BOLSTAD:** The only product that was sold was the Smart Loan, which allows borrowers to more rapidly pay off the principal.

**BONDI:** Whose underwriting guidelines were used?

**BOLSTAD:** That used CTB underwriting guidelines, which were set by Independent Risk.

**BONDI:** What products were used by brokers from 2000 to 2006?

**BOLSTAD:** Standard thirty-year fixed mortgages with lower FICO scores.

**BONDI:** Did you offer ARMs through the broker net?

**BOLSTAD:** Yes.

**BONDI:** Did Primerica?

**BOLSTAD:** No, Primerica offered fixed rate loans. CTB did offer ARMs. The pay option ARM is a negative amortization product that we never offered. It built negative equity.



We didn't offer what you would traditionally think of as teaser rates. They weren't pay-option ARMs where you would start at 1-2%. But by definition, we did offer ARMs, which is where you start out at lower rate than you end at.

We offered interest-only loans through CTB, which eventually merged. There were stringent guidelines for borrowers who were acceptable.

**BONDI:** Can we see default rates for interest-only loans offered to subprime borrowers?

What about high LTV loans?

**BOLSTAD:** Prior to 2006, high LTV loans were offered through CTB and Primerica. CitiMortgage inherited these after 2006.

**BONDI:** Let's see statistics for those as well.

**BOLSTAD:** Under certain circumstances we would offer zero down-payments, but it was based on FICO score. The great majority of our competitors went significantly lower with the low-FICO, high-LTV that they would accept. Our cutoff was much higher, but I don't recall what it was. Other lenders were doing 580 FICO, 100% LTV, no documentation. We were never in that space. Our subprime business was exceedingly small compared to competitors.

**BONDI:** From 2000 to 2006, what was CTB volume of subprime and Alt-A?

**BOLSTAD:** I took over retail in late 2005, and it never exceeded half a billion on an annual basis. The overall business was about \$100 billion. Half a billion would just be the broker piece. Primerica was about \$4 billion, and all would be subprime (provided to the clients of PFS agents).

**BONDI:** What other products are there?

**BOLSTAD:** We've talked about them all.

**BONDI:** Post-2006, how did the mortgage origination business change?

**BOLSTAD:** There were no dramatic changes. We integrated the two sales forces, and one person could now sell both suites of products. There were no significant structural or functional changes.

**BONDI:** Post-2006, were any new products offered?

**BOLSTAD:** Post-2006, CitiMortgage moved into the Alt-A arena. The great majority

were no-doc loans for high FICO scores with lots of assets. They were loans with verified assets but no income documentation. At the same time, Fannie and Freddie moved into the same space.

**BONDI:** From 2000 to the present, can you get me documentation on what volume of mortgages went to Fannie and Freddie?

**BOLSTAD:** Absolutely.

**HUANG:** Do you want all of the loans? Presumably most were prime.

**BOLSTAD:** Fannie and Freddie were never subprime players. They did some Alt-A products.

**BONDI:** We'd like it broken down by category. Prime, Alt-A, and subprime products sold to Fannie and Freddie.

**HUANG:** There will be definitional issues, but we'll talk about that later and get back to you.

**BONDI:** Did the underwriting process change post-2006?

**BOLSTAD:** Underwriting guidelines changed on a monthly basis based on what was going on in the macroeconomy. There were products that were added. We added a few new products in the Alt-A arena, and credit parameters reflected the new products.

**BONDI:** From 2000 to the present, did you offer home equity lines of credit?

**BOLSTAD:** Yes, but that was a separate business. They were offered by CitiHomeEquity. It was separately managed.

**BONDI:** Would there be a second mortgage offered? A home equity mortgage?

**BOLSTAD:** Are you talking about a purchase money second? That would be offered through the CitiHomeEquity business. CitiMortgage only offered home equity through a combo, where you offered a first and a second mortgage at the same time.

**BONDI:** What products since 2006 had the highest default rates?

**BOLSTAD:** Our credit organization would have that data. In a general sense, it probably included higher LTV home equity loans. The subprime and Alt-A books performed worse than prime. Some of the Fannie and Freddie first-time homebuyer programs had higher default rates. There was tremendous pressure from Capitol Hill to put people in homes. These programs had performed well in the past, but with the market crash the

programs did not succeed.

If you look at our retail book in total, it's performed very well. Most of the deterioration is driven by the macroeconomy. The wholesale has also performed relatively well.

**BONDI:** I'd like to see data related to the Fannie and Freddie programs offered by Citi to encourage home ownership.

**BOLSTAD:** There were two different versions of the First Time Homebuyer program for Fannie and Freddie. These loans were not "nice to have"—we had an obligation to meet certain CRA guidelines and we were audited once a year on that.

**BONDI:** How did the CRA programs work, specifically on the mortgage side?

**HUANG:** Mr. Bolstad can speak to that in his business. But we have a person who can discuss how it works generally at Citi.

**BONDI:** In his world on the mortgage side, how did CRA work?

**BOLSTAD:** It didn't work any differently than any other product category. Fannie and Freddie had guidelines that they gave us, and we underwrote to those guidelines. A great majority of the business that was tracked as CRA came out of our prime book. A great majority wasn't in the aggressive first-time buyer category. It was not a big portion of the overall CRA portfolio. The intent of the program was to put people in homes.

**BONDI:** Were there mortgages that you would not have participated in if it were not for the requirements put in place by CRA?

**BOLSTAD:** That's a tough one to answer after the fact. That book of business had always performed very well. The common thought process was that if you helped people achieve homeownership, they would do anything they could to hang onto their home. At the time, the answer is no. It's easy now to look back and say that the portfolio performed miserably, but you couldn't have predicted the market crash. Every loan that we underwrote was expected to pay us back. There were still risk metrics applied to those loans. We were on board with the program.

I would answer that question as no. At the time, that was not the case.

**BONDI:** Did you track the performance of CRA loans separately?

**BOLSTAD:** You'd have to ask someone else that question. Citi follows metrics, and we track everything. We wouldn't have necessarily tracked CRA separately because we weren't anticipating huge problems in that book. It was a product that had historically performed well.

**BONDI:** We spoke to CitiFinancial about their underwriting. Were there universal guidelines for underwriting used at CitiFinancial, CFMC, and CitiMortgage?

**BOLSTAD:** All risk ultimately rolled up to the independent risk organization that had oversight for credit risk Citigroup-wide. I can't speak to that otherwise.

**BONDI:** Did you ever communicate with anyone at CitiFinancial about underwriting guidelines?

**BOLSTAD:** I don't know. That wouldn't have been my area.

**BONDI:** Did you ever speak to anyone at Citigroup considering something that you were seeing in the housing market from a market-wide perspective?

**BOLSTAD:** They didn't have any conversations with me personally. There's constant communication between the mortgage company and consumer credit. An important part of that is looking at macroeconomic issues. There's an extremely strong risk ethic throughout Citigroup, but we just didn't anticipate what was coming. There was transparent communication.

**BONDI:** For CitiMortgage, is there a break-out P&L that shows the losses to CitiMortgage as a result of the subprime or Alt-A origination business?

**BOLSTAD:** Yes, I assume we would have that.

**BONDI:** Do you have an estimate how much CitiMortgage will lose from the subprime origination business?

**BOLSTAD:** The P&L would not just be subprime. A P&L would encompass all of the products that CitiMortgage might have acquired over time.

**BONDI:** At what point in your history did you stop and think that we're headed for major problems in the housing market ahead? This question is more general to the industry and isn't limited to Citi.

**BOLSTAD:** I don't think there was a point in time. What was extraordinary was the sudden nature of the confluence of factors that hit at the same time. When the market started to turn, it turned quickly. We started to see prices drop and job losses in parts of the market. We were real-time engineering our credit parameters. The secondary market ceased to exist in 48 hours. We reacted immediately at the front and back ends of our business.