

**D R A F T  
M E M O R A N D U M**

**TO:** File  
**DATE:** February 3, 2010; 12:10pm--  
**RE:** Memo re Interview with Dan Hoffman  
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*Biography from Paul Weiss*

*Mr. Hoffman has served as vice president of non-agency hedging, sales, and securitizations for CitiMortgage since 2005. Mr. Hoffman joined CitiMortgage in 1999 as a director for private label securitizations and warehouse management and risk reporting. He held this position until 2003, when he became vice president and director of portfolio management in Citigroup's Treasury Group.*

*Paul Weiss*

Susanna Buergel, Joyce Huang, Justin Weiss

*Citi*

Dan Hoffman

*FCIC*

Brad Bondi, Tom Krebs, Dixie Noonan, Karen Dubas

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**KREBS:** [Summarizes of FCIC's mission, meaning of federal officers]

**HOFFMAN:** Within CitiMortgage, I was responsible for the disposition of the assets held in the portfolio as well as private label securitization. It encompassed hedging. These were assets of securities that we would issue based on our shelf filings. They were ineligible for purchase by Fannie and Freddie, primarily due to their loan size.

**KREBS:** They were jumbo loans?

**HOFFMAN:** Yes. We primarily securitize via our shelf in publically registered transactions.

**KREBS:** Where do you obtain assets?

**HOFFMAN:** We obtain them through retail channels, correspondent channels, and broker networks. Retail indicates that a borrower is face-to-face with a loan officer and the loan closes in Citi's name. Broker networks do wholesale originations, where the broker takes the application and refers it to Citi. The loan closes in Citi's name. Correspondent channels provide closed loans that would be sold to CitiMortgage by small-to-medium size correspondent lenders. They would close the loans in their name.

**KREBS:** Do you have criteria for doing some loans and not others?

**HOFFMAN:** Yes.

**KREBS:** How do you ensure that the criteria are internally and externally communicated?

**HOFFMAN:** The risk organization would define that criteria and communicate it internally and externally.

**KREBS:** Who polices to make sure the criteria is followed?

**HOFFMAN:** Our risk organization will re-underwrite the loans to make sure that they are correct. Mark Hillis runs credit risk for CitiMortgage

**KREBS:** How are the loans acquired?

**HOFFMAN:** They're acquired individually and in pools.

**KREBS:** In pools of loans, how do you ensure that they adhere to the underwriting guidelines? Are you responsible to the disclosures for securitization?

**HOFFMAN:** You state which type of assets will be securitized and general underwriting standards.

**KREBS:** What is the construct of the shelf that you referred to?

**HOFFMAN:** We have several active shelves. We try to provide a homogeneous product under each shelf so investors have confidence in our quality.

- CMSI (CitiMortgage Securities Inc.) does prime offerings. It registers the type of assets and how they will be serviced. That is the majority of our securitization efforts.
- CMALT (CitiMortgage Alternative) does offerings with alternative documentation of prime loans (Alt-A).
- CRMSI (Citi Residential Mortgage Securities Inc.) does retail origination and

unique products that are viewed as nonprime collateral. All retail originations by CRMSI were originated by PFS (Primerica Financial Services). There are no purchase products or broker products. This is a Citicorp Trust Bank (CTB) offering, not a CitiMortgage offering.

- CFMSI (CitiFinancial Mortgage Securities Inc.) was filed in 2002. It's a stale shelf offering—we're no longer actively securitizing securities off that shelf. The last securitization was in 2004.

**BONDI:** What is your definition of nonprime collateral?

**HOFFMAN:** Traditionally subprime is viewed as having very specific loan characteristics. CRMSI has a higher FICO score (higher than 660) and higher LTV ratios.

**BONDI:** Was there a minimum FICO for that shelf?

**HOFFMAN:** It was probably above 620, but there would be offsetting factors. The risk guys could speak to that better.

**KREBS:** Each shelf has a disclosure describing the unique assets within the shelf?

**HOFFMAN:** It describes the type of collateral under that shelf and a description of servicing.

Loan loss on the chart refers to the loss as a percent of the security. After default, you go through loss mediation activity, then foreclose and sell the real estate owned after foreclosure.

**KREBS:** Tell me about CMSI.

**HOFFMAN:** That shelf offering goes back to 1985. It wasn't originally called the same shelf name, but the collateral is all the same. You won't find a CMSI in 1985, but you would find a Citibank N.A. CMSI is broken out pre- and post-1994 on the table. In 1994 the shelf was essentially restarted, and it stopped originating jumbo product and adopted more stringent guidelines.

**KREBS:** Does it have a different market?

**HOFFMAN:** There are different investors in prime, Alt-A, and nonprime. There are different investors not only among shelves, but also within different credit tranches in each shelf.

**KREBS:** Was there a targeted investor for a CMSI loan?

**HOFFMAN:** It depends on the credit class that you're marketing. We depend on Wall

Street to distribute our deals.

**KREBS:** How far in advance of closing do you have the offering price?

**HOFFMAN:** It's usually 30-45 days prior to closing.

For CMSI, there's generally one underwriter per deal. It's very clean collateral with good underwriting. It has a good following, so it doesn't need lots of marketing. Investors might be insurance companies, pension funds, or some banks who want pristine capital. It depends on the credit tranche. It had a six-pack structure with six credit tranches: Aaa to an unrated class.

The unrated class was an equity or credit enhancement residual (mostly on subprime deals for CRMSI)

**KREBS:** Is the credit enhancement residual overcollateralized?

**HOFFMAN:** Correct. There are efficiencies in how you provide credit enhancement to the deal. Rather than retain the cash flow, you can use it to buy credit enhancement.

**KREBS:** Was there a readily available market for the residual tranche?

**HOFFMAN:** There's always a market at some price. Citi might feel that the market was not providing adequate value for the residual tranche, so we retained that for CRMSI.

**KREBS:** What about a super-senior?

**HOFFMAN:** For the most part, no. Sometimes, one Aaa bond might provide credit support to another Aaa bond. Citi did not typically retain these super-senior positions.

**KREBS:** Was there a discussion within the securitization sector at CitiMortgage when you became aware that there were certain volatilities in the mortgage-backed securities market? Did there come a point in time when your department was concerned about the viability of the market going forward for any of the tranches in these shelves?

**HOFFMAN:** As spreads widened out, we priced the sale differently, and the deal became less attractive. That was in mid-to-late 2007.

**KREBS:** What impact did that awareness have on the marketing of these securitized assets?

**HOFFMAN:** It drove production down. There's a minimum aggregate amount you have to have to do a deal. The production slowed down and we were unable to aggregate sufficient product for a transaction.

**KREBS:** Were different types of securitization done on these shelves?

**HOFFMAN:** The registration statements talk about a number of different ways of doing credit enhancement. We opted for the senior sub structure. That was the most efficient way. You would subordinate cash flows from underlying mortgages to provide credit enhancement.

The pool policy is another that was used more about ten years ago. An insurance company would insure against a certain level of loss and charge you a premium. That hasn't been used in the past five years, and it was used rarely five to ten years ago. Senior subs came into vogue because you weren't subject to third-party downgrades. They are basic, vanilla structures.

**KREBS:** What was the size of a shelf?

**HOFFMAN:** A shelf filing could range from \$5-10 billion. You would do deals under that shelf until you got your maximum amount. A filing indicates that over the life of this shelf, I will issue \$5 billion worth of transactions. You could do one \$5 billion deal or do one hundred deals over the course of ten years. A typical size was \$300-500 million. In the table, the size of the shelf is called the "original security balance."

**KREBS:** Is CMALT essentially the same as CMSI?

**HOFFMAN:** Yes.

**KREBS:** Did the tranches on CRMSI have ratings?

**HOFFMAN:** Yes, we did issue Aaa securities off of individual transactions. Credit enhancing residuals were part of the enhancement process to get to Aaa.

**KREBS:** What interplay did investors demand have with respect to these particular offerings?

**HOFFMAN:** Our direct interaction with investors was as our deal was issued and priced. If they had questions about the remittance statement and certain servicing agreements of the loans, that would be handled by the broker-dealers. The broker-dealers would get inquiries, answer questions, etc.

**KREBS:** Did you interface with the rating agencies?

**HOFFMAN:** We would send a collateral tape (loan-level information like FICO and LTV that provides certain financial data that rating agencies require for their analysis) to the rating agencies. The tape included each individual loan that was a part of that pool.

**KREBS:** So an analyst at S&P could find data on a specific loan?

**HOFFMAN:** They don't have the names of borrowers, but they would have the data about the loans to determine the required credit enhancement. That same information was used by due diligence firms to review the loan file.

**NOONAN:** Did your group have a model that you used in-house to predict the rating that you might get from Moody's?

**HOFFMAN:** We licensed the S&P model, but we never knew what the rating would be. The agencies would have a committee that they would use to evaluate the deal. S&P licensed this model for use by issuers, bankers, broker dealers, etc.

**NOONAN:** How different were the ratings from what you expected?

**HOFFMAN:** It was never exact. I don't recall that happening.

**KREBS:** Did you have dealings with the due diligence firms?

**HOFFMAN:** My team had interactions with them. We would send them the files and respond to any question that they might have.

**KREBS:** Did you work with Clayton Holdings?

**HOFFMAN:** I'm familiar with them, but I never had any interaction with them. They were hired by our underwriters.

**KREBS:** What was the size of the sample that was sent to due diligence?

**HOFFMAN:** The broker-dealer underwriter would make that decision. It was driven by the originator and perceived risk. We would send S&P and Moody's the entire tape, even if we had only done due diligence on 10% of the loans. To the extent that there was any incorrect information, we would send update information to the rating agencies.

**KREBS:** Did the rating agencies review the data on the tape?

**HOFFMAN:** They looked at the tape, but they did not review it from a due diligence perspective.

The tape we have to provide because we're the issuer. We're responsible for the reps and warranties on the tape. We'll correct data on the tape to the extent that it's highlighted by due diligence or through our own examinations. If we're corrected, we would provide the updated information to the rating agencies.

**KREBS:** Do the rating agencies get the data from the due diligence folks?

**HOFFMAN:** I'm unaware of that. That data is owned by the broker-dealers who employ the due diligence firms.

**NOONAN:** Did Citi underwrite any of the securities that were issued by you?

**HOFFMAN:** Other Citi entities were treated at an arm's length. They had to participate in the bidding process like any other broker-dealer.

**KREBS:** Was there interaction between consumer banking and the CDO group?

**HOFFMAN:** We would interact with the Citi RMBS group like we would with any RMBS group at a broker-dealer. It was very arm's length. We had little, if any, interaction with the CDO desk.

**BONDI:** What is the loss as a percent of the security [in the document]?

**HOFFMAN:** It's the percentage of loss of the original security balance of the loan.

**BONDI:** Can you compare this percentage from year to year, or is that apples to oranges?

**HOFFMAN:** You can look at it, but you have to be careful. You have to compare it while keeping in mind macroeconomic factors, etc. It's better to compare 2006 CMSI to 2006 CRMSI than comparing 2006 CMSI to 2007 CMSI.

**BONDI:** Look at the losses as a percent of the security from 2004 to 2005 for CMSI. Did that fourfold increase cause you concern?

**HOFFMAN:** No. You've got to look at it compared to how other people are performing and where the housing cycle is. For credit curves, losses peak two years out. An appropriate comparison is to other people who issued prime in the same time frame.

**BONDI:** Instead of comparing to other firms, what other observations can you draw about the housing market in general with that increase? Is that indicative of anything in the larger market?

**HOFFMAN:** I don't draw any conclusions about the housing market from that perspective. No.

**BONDI:** What about the increase from 2005 to 2006?

**HOFFMAN:** No, none of these increases cause me concern. CMSI stands out against

market.

**BONDI:** So the primary purpose of looking at losses as a percentage of securities is for comparison to competitors issuing prime?

**HOFFMAN:** Investors have the ability to invest in a CMSI, JPMorgan, or Bank of America deal. We are concerned about the brand of these shelves and how they perform, especially when you talk about Aaa investors. CMSI, CMALT, and CRMSI shelves are all thought of highly. They are not re-traded. They are buy-and-hold deals. We provide lots of disclosures to investors.

**BONDI:** What was your role, specifically, with the rating agencies?

**HOFFMAN:** My team would interact with them on a transaction basis. We would send pools to get rated by the agencies. We would also have them review servicing and obtain a rating on that.

**BONDI:** Which agencies did you work with?

**HOFFMAN:** We dealt with all of them: S&P, Moody's, Fitch, DBRS.

**BONDI:** Did you communicate with rating agencies?

**HOFFMAN:** Yes. The majority of the discussion would have occurred with the people handling the data or providing the tapes.

If a rating agency came in for a servicing review, I would have met with them. Or I would have talked with them if I had seen them at a conference.

**BONDI:** Who picked the rating agency?

**HOFFMAN:** The trader on a deal would review the possible ratings and pick an agency. Some investors required a specific agency on the deal. All of the rating agencies would get the tape and come back with stop-loss levels. We would make a decision about which rating to go with. A minimum of two ratings is required on each deal.

There are written policies on a Citigroup level about how the relationship with rating agencies is handled, but it was not transactionally specific.

On CRMSI, we primarily dealt with S&P and Moody's and maybe Fitch. It was a very unique shelf. On CMSI, more rating agencies would be familiar with the shelf, and we'd get ratings from all four agencies.

**BONDI:** Was there interaction after a downgrade?

**HOFFMAN:** Yes. After a downgrade, we'd pull data on the deal, and if we didn't think a downgrade was justified, we'd call up the analyst (over the phone) and discuss the downgrade.

**NOONAN:** Did you ever think the downgrade was justified?

**HOFFMAN:** No.

**BONDI:** Was there a relationship manager at the agency?

**HOFFMAN:** For each individual deal you called the analyst on that deal. For servicing, you called the service rating group. I don't know that the rating agencies had relationship managers.

**BONDI:** Did any of the shelves have agreements with rating agencies that required ongoing monitoring?

**HOFFMAN:** They all required ongoing monitoring, and rating agencies charged for that. The frequency and cost depended on the shelf. Each deal would have laid out the cost of the rating. I don't know that there's an aggregated number of how much CMSI spent on ratings over the years.

**BUERGEL:** The formula was driven by size and composition.

**BONDI:** Did your group ever hire anyone from the rating agencies?

**HOFFMAN:** No.

**BONDI:** Were there any policies against that? Did anyone ever apply?

**HOFFMAN:** No, not that I'm aware of.

**BONDI:** I'd like to see, for these four shelves, what was paid in total to the rating agencies for rating the initial deal, and what was paid for ongoing monitoring. I'd like to see it for 2005 through 2008.

**HOFFMAN:** Should we separately list any other charges from the agencies for servicing reviews or licensing fees?

**BONDI:** Yes.

**NOONAN:** Were losses suffered by every tranche?

**HOFFMAN:** There would be a waterfall effect.

**NOONAN:** Would the amount of first loss differ from deal to deal?

**HOFFMAN:** Yes.

**NOONAN:** If you had a loss of 1% on an offering, would that go up the waterfall?

**HOFFMAN:** That depends on the collateral. Prime collateral expects fewer losses.

Citimortgagembs.com has a lot of information on it. CRMSI is a standalone shelf. It's not a CitiMortgage, it's from Citicorp Trust Bank.

**NOONAN:** What are your plans? There are no issuances in 2009.

**HOFFMAN:** We're looking for alternate executions for selling whole loans to investors. We're trying to kick-start the private label market. It's driven by investors and appetite. We're waiting to see what happens with the rating agencies. We talk to broker-dealers to see if there's appetite coming back. We might talk to investors directly about what they're looking at and what they're seeing.

**NOONAN:** Does that information trickle over to the origination side?

**HOFFMAN:** The feedback to the origination side is primarily on pricing. The feedback might be that dealers or investors don't like this or that credit enhancement might higher for this type of loan. If there's a buyer who likes California, that might trickle back to originators.

**BONDI:** Have you ever given a deposition or been interviewed or testified?

**HOFFMAN:** No.

**BONDI:** [Requirement for confidentiality.]