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# CITI MONITORSHIP SECOND REPORT

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## I. INTRODUCTION

This is the second report of the Monitor pursuant to the July 11, 2014 agreement (Settlement Agreement) among Citigroup, Inc. (Citi), the U.S. Department of Justice (DOJ), and the states of California, New York, Illinois, Delaware, and the Commonwealth of Massachusetts (collectively, the States).<sup>1</sup> As part of this Settlement Agreement, Citi agreed to pay \$4.5 billion to the settling governmental entities, acknowledged a statement of facts attached to the Settlement Agreement as Annex 1, and agreed to provide consumer relief that would be valued at \$2.5 billion under the valuation principles set forth in Annex 2.<sup>2</sup> The Settlement Agreement appointed Thomas J. Perrelli to serve as an independent monitor (Monitor) to determine Citi's compliance with the consumer relief and corresponding requirements of the Settlement Agreement.

The Monitor issued his first report in January 2015, which provided an overview of the Settlement Agreement, described the various consumer relief provisions, identified the Monitor's role and responsibilities, detailed the initial testing procedures, and assessed an initial population of loans for which Citi sought consumer relief credit.<sup>3</sup>

The Settlement Agreement requires the Monitor to issue quarterly reports on Citi's progress in completing its consumer relief obligations. This is the Monitor's second quarterly report. It includes:

- A status update on the consumer relief credit earned and submitted for the Monitor's assessment;
- A description of the outreach events that Citi has conducted thus far; and
- An overview of next steps.

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## II. CONSUMER RELIEF CREDIT EARNED AND SUBMITTED

As described in the Monitor's first report, the Monitor determined that Citi earned \$13,971,004 of consumer relief credit for the time period of April 30, 2014 through November 21, 2014.<sup>4</sup> This consumer relief was based upon an initial testing population of 100 loans, under Menu Item 4A of Annex 2, which addresses forgiveness of principal associated with a property where foreclosure is not pursued and liens are released.<sup>5</sup>

For the current quarter, Citi's Independent Review Group (IRG) has completed its Satisfaction Review, the results of which were submitted to the Monitor on May 14, 2015. The Monitor will review and report on these results in the next quarterly report.

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<sup>1</sup> The text of the Settlement Agreement can be found at the Monitor's website, <http://citigroupmonitorship.com/>.

<sup>2</sup> See Settlement Agreement at 2, 4.

<sup>3</sup> Citi Monitorship First Report, January 2015, available at [http://citigroupmonitorship.com/uploads/3/5/1/9/3519321/citi\\_monitorship\\_initial\\_report\\_2015-01-21.pdf](http://citigroupmonitorship.com/uploads/3/5/1/9/3519321/citi_monitorship_initial_report_2015-01-21.pdf) (First Report).

<sup>4</sup> First Report at 16.

<sup>5</sup> *Id.* at 14.

### III. PROGRESS TO DATE

#### A. Consumer Relief Efforts During This Period

The Monitor and his team are in ongoing and regular discussions with Citi regarding the testing definitions, procedures, and methodologies required to validate credit for consumer relief provided under the Settlement Agreement. The parties, together with the Monitor's consultants and experts, hold weekly meetings and/or calls, and frequently exchange correspondence discussing the relevant issues.

As noted above, Citi submitted loans for consumer relief credit to the Monitor on May 14, 2015. These loans focus on Menu Items 1A, 2A, and 4A of the Settlement Agreement.<sup>6</sup> A detailed description of those Menu Items is set forth in the Monitor's initial report and is not reproduced herein.<sup>7</sup> In general, however, these Menu Items respectively provide consumer relief for forgiveness and forbearance of mortgages; rate reductions and refinancing; and community investment and neighborhood stabilization. The Monitor will review and assess Citi's submission, and will report on results in the next quarterly report.

#### B. Road to Recovery Events

In addition to its consumer relief obligations under the Menu Items, Citi must host at least four "Road to Recovery" events each year for the term of the Settlement Agreement (from 2014 through 2018).<sup>8</sup> These events provide outreach to Citi borrowers who may be eligible for programs that Citi offers, some of which may qualify as creditable consumer relief under the terms of Settlement Agreement.<sup>9</sup> The events are intended to ensure that borrowers are informed about their eligibility for relief and have the assistance necessary to apply for such relief.

As explained further below, the Monitor is in the process of reviewing Citi's most recently held Road to Recovery events and an analysis of those events will be provided in the next report.

##### – Settlement Agreement Requirements

Under the terms of the Settlement Agreement, Road to Recovery events must be held on a rotational basis in different parts of the country to allow borrowers from various regions to attend, with priority given to Hardest Hit Areas and the States under the Settlement Agreement.<sup>10</sup> Citi is obligated to notify state government agencies, including State Attorneys General and Housing Finance Authorities, as well as local non-profit organizations, about the Road to Recovery events to build awareness and encourage participation in the events.<sup>11</sup> Citi is also required to engage in targeted outreach to eligible borrowers, by letter, email, and phone calls,

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<sup>6</sup> The Monitor expects that Citi will soon submit loans pursuant to Menu Item 5 for creditable relief.

<sup>7</sup> First Report at 5-7.

<sup>8</sup> Annex 2 at 14, available at <http://www.justice.gov/iso/opa/resources/649201471413721380969.pdf>.

<sup>9</sup> See *id.*

<sup>10</sup> See *id.* The Hardest Hit Areas, as defined by the U.S. Department of the Treasury, include portions of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington, D.C.

<sup>11</sup> See *id.*

in English, Spanish, and, on a best efforts basis, in other languages.<sup>12</sup> Citi must ensure that specialists in both loss mitigation and refinancing are on site for each event to guide borrowers through various relief alternatives.<sup>13</sup> In addition, specialists in new mortgage origination must be available for eligible borrowers.<sup>14</sup> Finally, translation and interpretation services must be available to customers requesting such support.<sup>15</sup>

– **Citi's Efforts to Date**

As explained in the Monitor's initial report, Citi has two different mortgage operations that are providing consumer relief under the Settlement: CitiMortgage, Inc. (CMI) and CitiFinancial Servicing (CFS). CMI is the sixth largest mortgage servicer in the United States, servicing approximately \$336 billion in loans. CFS is an arm of Citi whose portfolio consists of relatively small loans. CMI began hosting borrower outreach events in 2011, and hosted about 100 such events before January 1, 2015. According to Citi, approximately 1,750 borrowers were invited to each event, and approximately 5% of invitees would attend. During the peak years of 2011 to 2013, CMI hosted up to 35 events per year. CFS, which operates through local branches and had not participated in those events prior to the Settlement Agreement.

Citi's approach to the Road to Recovery events required under the Settlement Agreement was developed based on its experience with its earlier borrower outreach events. While CFS did not previously plan or host such events, CFS now participates in the Road to Recovery events with CMI under the Settlement Agreement, and is following CMI's approach. The experience of Citi, its customers (as manifested through surveys answered by attendees at borrower relief events), and many of the consumer advocates who have met with the Monitor is that the opportunity to have a face-to-face interaction with a specialist is significant and may increase the likelihood that the borrower will submit a completed application for relief.

Citi has informed the Monitor of a schedule of 10 Road to Recovery events for 2015. This schedule, while subject to change, includes events in Los Angeles, Miami, Dallas, Detroit, Washington DC, Chicago, Atlanta, Philadelphia, New York, and Houston.

**a. Selection of Location**

To determine locations for the Road to Recovery events, Citi identified the areas with the highest concentration of borrowers eligible for relief. These borrowers include both CMI and CFS borrowers. Pursuant to Citi's internal guidelines, eligible CMI borrowers include borrowers who are delinquent on their loan payments; borrowers who are current with their payments but who are at high risk of nonpayment; borrowers who are in the process of obtaining a loan modification; and home equity line of credit borrowers facing resets. Eligible CFS borrowers include borrowers who are delinquent on their loan payments, but have never before received a loan modification; borrowers who

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<sup>12</sup> See *id.*

<sup>13</sup> See *id.*

<sup>14</sup> See *id.*

<sup>15</sup> See *id.*

are eligible for refinancing (borrowers who are high risk but current and borrowers who are eligible for third-party refinancing); and borrowers for whom loss mitigation is pending.

For each event, Citi determines a centralized zip code within the identified area, and invites all eligible borrowers within a 30-mile radius of that zip code.<sup>16</sup> Representatives from Citi assert that, based upon previous experience, this radius balances the objective of reaching a large number of borrowers against the distance that borrowers are generally willing to travel. The Monitor and Citi continue to discuss locations that have significant CFS borrower populations, but may not have many CMI borrowers.

**b. Invitation to Events**

Citi sends Road to Recovery invitations to borrowers, and notifications to state government agencies (Attorneys General and Housing Finance Authorities) and non-profit organizations, by FedEx, two weeks in advance.

For the two events that Citi has already hosted in 2015 (Los Angeles and Miami), Citi sent invitations to borrowers in English and Spanish. Invitees were encouraged, but not required, to request specific appointment times. Further, on each invitation Citi provided a checklist of the information and documentation necessary to apply for relief. Invitations also explicitly stated that borrowers who do not have all of the necessary documents should still attend the event to “get the process started.”<sup>17</sup>

Citi followed hard-copy invitations with phone calls. All CFS invitees received a follow-up phone call, and all CMI invitees with a home phone number received an automated follow-up call, but only a portion of CMI borrowers without a home phone number (i.e., CMI borrowers with mobile numbers) received a manual follow-up call. Citi has informed the Monitor that this process will be consistent for all events. Further, Citi’s mail, email, and call schedules will be made available to the Monitor for review—as will copies of the invitations and notifications, and other information related to the Road to Recovery events. The Monitor will address verification of these materials in the next report.

**c. Logistics of the Events**

Each Road to Recovery event is held on a weekday (Tuesday or Thursday) from 12pm to 7pm. Citi representatives assert that, based on their experience, this window of time is likely to result in the greatest attendance.

While it is possible that borrowers will obtain same-day relief, in practice this rarely happens because borrowers typically do not have all of the materials necessary to submit a complete application. Nonetheless, a borrower who attends an event with incomplete information and documentation is able to obtain face-to-face counseling. Following an event, an attendee who could not submit a complete application will have a single point of contact at CMI or CFS

<sup>16</sup> Citi has asserted its belief that no locations will have over 500 eligible borrowers.

<sup>17</sup> Borrowers who are unable to attend a Road to Recovery event may still be eligible for relief, and Citi’s invitations to the events inform borrowers that they may contact Citi by mail or telephone for assistance.

until his or her application is fully resolved. Citi has stated that a list of CMI, CFS, and other staff will be made available to the Monitor and his team to confirm that loss mitigation and refinancing specialists are available on site, and that new mortgage origination specialists are also available. The Monitor will address verification of these materials in the next report.

**d. Post-Event Follow-Up**

Citi records which attendees, if any, ultimately obtained relief at each event. Citi will provide this information, as well as information regarding how many borrowers were invited and attended each event, to the Monitor on an ongoing basis.

Notably, the estimated number of invitees for the 10 events to be held in 2015 is smaller than past events—ranging from between approximately 1,000 to 3,000, although these numbers may vary. Citi estimates an attendance rate of approximately 3% of invitees in 2015, which is lower than in prior years. This drop may reflect a variety of factors, including the changing housing market and the number of borrower relief events that have been held previously. Citi expects that a higher percentage of CFS borrowers will accept invitations and participate in Road to Recovery events throughout the life cycle of the Settlement Agreement.

**e. Los Angeles and Miami Road to Recovery Events**

Members of the Monitor's team attended the Road to Recovery events in Los Angeles on April 21, 2015, and in Miami on May 7, 2015. At the Los Angeles event, 1,927 eligible CMI borrowers were invited and 31 attended. For CFS, 142 eligible borrowers were invited and 7 attended.

At the Miami event, 1,021 eligible CMI borrowers and 180 eligible CFS borrowers were invited to attend. The Monitor has not yet received attendance rates for the Miami event, but will provide that information in the next report. The Monitor notes that two non-profit organizations, the NID Housing Counseling Agency and REACH (Real Estate, Education and Community Housing), were invited and sent local representatives to the Miami event to assist local borrowers.

The Monitor will provide further compliance reporting on the Los Angeles and Miami Road to Recovery events in subsequent reports, including reporting on the effectiveness of the events in providing borrowers relief under the Settlement Agreement.

**C. Additional Efforts**

– **BDO Consulting**

The Monitor and his team are working closely with BDO Consulting, a division of BDO USA, LLP (BDO), to ensure that BDO will have all the material necessary to perform robust testing and verification of the consumer relief activities for which Citi seeks credit under the Settlement Agreement. As indicated in the first report, the

Monitor retained BDO to assist in determining whether Citi has complied with the specific obligations set forth in Annex 2.<sup>18</sup>

– **Menu Item 5**

Menu Item 5 of the Settlement Agreement provides a new form of consumer relief, different from those in the National Mortgage Settlement and a prior Residential Mortgage-Backed Securities (RMBS) settlement with another financial institution. Under Menu Item 5, Citi can earn credit for specific types of investments made in affordable rental housing.

A large portion of affordable rental housing in the United States is financed through a combination of private funding and government subsidy. Typically, the equity in a project is generated through the sale of low-income housing tax credits (LIHTC), which are awarded to developers for specific projects by state and local LIHTC allocating agencies. Congress authorizes the amount of tax credits available through LIHTC and allocates their availability to each state via a population-based formula. These credits fund only a portion of the average development. Additional financing is provided through senior loans generally provided by financial institutions at market rates and on market terms. Those two sources of funding, however, are usually insufficient to fully finance a project. Historically, state and local governments filled the gap by providing “mezzanine” financing in the form of a subordinate loan, with little expectation of repayment.<sup>19</sup> Stressed state and local budgets following the financial crisis resulted in a decrease in this kind of financing.

The Settlement Agreement provides consumer relief credit to Citi for supplying mezzanine financing to affordable rental housing projects in certain locations. Over the next several months, the Monitor expects Citi to submit for credit certain loan commitments it has made to finance such projects. Menu Item 5 sets forth specific criteria for the types of projects Citi may finance to secure credit and how that credit is measured. Citi and the Monitor have been working together to develop procedures by which the Monitor will evaluate these loan commitments, which are distinctly different from the types of individual consumer relief that make up most of Annex 2 of the Settlement Agreement.

The Monitor and his team have also conducted interviews of Citi personnel related to Menu Item 5. These interviews were conducted with senior management of Citi Community Capital, a division of Citi’s investment bank charged with implementing Menu Item 5. The interviews focused on Citi’s project selection and approval procedures, as well as on Citi’s project financing and valuation methods. These interviews, as well as the Monitor’s assessment of consumer credit claimed under Menu Item 5, will be addressed further after Citi has submitted projects for creditable relief pursuant to the Settlement Agreement.

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<sup>18</sup> First Report at 10.

<sup>19</sup> The U.S. Dept. of Housing and Urban Development (HUD) also provides grants that may be used along with LIHTC financing and private loans.

#### **IV. SUMMARY AND NEXT STEPS**

Citi earned \$13,971,004 of consumer relief credit under Menu Item 4A of Annex 2, for the first reporting period (from April 30, 2014 through November 21, 2014). Citi has submitted a claim for consumer relief credit for the second reporting period on May 14, 2015. The Monitor's next report to the public will assess this consumer relief activity, and will be issued in the summer of this year.