

Testimony of Harold Lewis
Managing Director, CitiMortgage
Before the Committee on Financial Services
Subcommittee on Housing and Community Opportunity
November 18, 2010

Chairwoman Waters, Ranking Member Capito and members of the Committee, my name is Harold Lewis, and I am a Managing Director of CitiMortgage and Head of Citi's Homeowner Assistance Program. Thank you for the opportunity to speak with you today about Citi's efforts to help families stay in their homes and to address the questions you have asked.

As the housing crisis has worsened, we have devoted considerable resources to helping our customers who are facing financial challenges. We have a specially trained and dedicated staff of approximately 5,000 employees, who work with at-risk homeowners to help them find workable solutions to avoid foreclosure. To further these efforts, we partner with community organizations across the country, including Neighborhood Assistance Corporation of America, National Community Reinvestment Coalition, Consumer Credit Counseling Service, Consumer Counseling Resource Center, Consolidated Board of Realtists, National Council of La Raza, NeighborWorks America, East Los Angeles Community Corporation and Los Angeles Family Housing. Since 2007, we have helped more than a million distressed borrowers in their efforts to avoid potential foreclosure.

Our efforts to help borrowers include our participation in the federal Home Affordable Modification Program ("HAMP") and our creation of additional, proprietary Citi modification programs.

We believe that we have been a leader in HAMP modifications. We actively identify eligible borrowers and conduct extensive outreach to contact them and guide them through the process of applying for trial modifications and obtaining permanent modifications. Throughout this process, we offer borrowers the assistance of housing counselors, provide detailed instructions for completing required documents, and follow up with applicants by phone, email, text messages and in-home visits. As of September 30, 2010, 44% of our eligible borrowers have obtained a permanent modification under HAMP.

Borrowers who do not qualify for a HAMP modification may be eligible for one of the proprietary modification and other assistance programs we have developed. These programs include the Citi Homeowners Unemployment Assistance Program, which provides temporarily lowered monthly payments to borrowers who have lost their jobs, and the Citi Supplemental Modification Program, which provides a two-year interest rate reduction for eligible borrowers who successfully complete a three-month trial period.

In addition, for those borrowers who face severe hardship, we have in place short sale and deed in lieu of foreclosure programs, which provide alternatives to foreclosure and allow families to make planned transitions to the next phase in their lives. Through

September of this year alone, our short sales have increased more than six-fold from the number of short sales we completed in 2007. Under our deed in lieu of foreclosure program, a borrower may sign the property deed over to Citi and vacate the property, and may receive a monetary relocation incentive. In a pilot program available in six states, eligible borrowers may stay in their homes for a period of up to six months and will receive a relocation incentive as well as counseling by trained professionals.

Every loan is reviewed for eligibility for the modification and assistance programs described above, and any other applicable programs, before any foreclosure is initiated. Citi is ranked among the top of the U.S. Treasury's rankings for HAMP. In addition, the re-default rate for our customers who obtain modifications is well below the re-default rate of other major lenders. We at Citi are committed to achieving affordability in a responsible manner while helping families stay in their homes, and we support Treasury's programs to help consumers.

All of us at Citi recognize the hardship that can be suffered by a family losing its home. This is why foreclosure is always a last resort for us. In the event that a foreclosure cannot be avoided, however, we have processes in place that are designed to make sure that foreclosures comply with all relevant state and federal laws, and that we do everything we can to make the transition for our customers as smooth as possible.

As I have indicated, as the housing crisis worsened, Citi's main focus has been to work with borrowers to keep them in their homes. Citi has dedicated both staff and resources to this worthy goal and as a result, during the period January 1, 2007 through September 30, 2010, Citi has helped more than one million homeowners in their efforts to avoid potential foreclosure. That has always been our first priority.

As we have said, Citi also has been continuously reviewing its foreclosure processes with respect to its U.S. mortgage portfolios. We first focused on our existing foreclosure processes, which we strengthened over time, and determined that the integrity of our current process is sound and that there are no systemic issues. We have subsequently focused on ensuring that pending foreclosures, regardless of when they were initiated, as well as cases that were being handled by the Stern law firm, also meet our current standards.

Taking each of these actions in turn:

Beginning in the fall of 2009, Citi took a series of steps to strengthen its practices and add additional resources to ensure foreclosures were being processed correctly. As part of these improvements, Citi centralized its foreclosure operations into one unit, added staff and enhanced training for greater efficiency and control. Citi limited the volume of documents that staff processes and requires annual certification of its employees' understanding of the proper procedures. Also, managers were made accountable for regularly reviewing files to make certain that employees comply with the procedures. These improvements were fully implemented at our St. Louis processing center in February of 2010.

Under Citi's existing procedures, affidavits are prepared by outside counsel to ensure compliance with each state's foreclosure laws, and each package is reviewed by a Citi employee who now verifies the information and signs the foreclosure affidavit in the presence of a notary. In a limited number of cases earlier this year, affidavits may have been executed by outside counsel under now-revoked powers of attorney. When errors are found, the documents are returned to the attorney, who revises the package and resubmits the documents for review. Foreclosures are monitored to make certain that staffing is adequate to review the affidavits properly. As noted previously, the changes and safeguards implemented this year give Citi confidence that there are no systemic issues in its existing foreclosure processes. To date, Citi's review of foreclosure affidavits has not identified cases where Citi foreclosed on a property in error.

As an additional quality control measure, Citi is currently reviewing approximately 10,000 affidavits that were executed in pending judicial foreclosures initiated prior to February 2010 to assure that these affidavits are substantively correct and properly executed. Citi expects that affidavits executed prior to the fall of 2009 will need to be re-filed.

Separately, Citi is also reviewing approximately 4,000 pending foreclosure affidavits in judicial states that were executed at our Dallas processing center and may not have been signed in the presence of a notary, to assure that these affidavits are substantively correct and properly executed. Citi expects that it will re-file these affidavits.

Lastly, as previously announced, Citi stopped referring new matters to the Florida law firm David Stern in September of 2010 and has since withdrawn all pending matters from that firm. As an added precaution and quality-control measure, Citi is transferring approximately 8,500 pending foreclosure files from the Stern law firm to new counsel. New affidavits for these cases will be prepared and re-filed by new counsel under Citi's current procedures.

Citi, through the implementation of the procedures and reviews described above, is making every effort to ensure that no foreclosure goes forward based on an inaccurate or defective affidavit. Citi has not suspended its foreclosure process and believes there is no reason to do so.

As Citi CEO Vikram Pandit has said, we owe a debt of gratitude to the American taxpayer for providing Citi with TARP funds. We believe it is our responsibility to help American families in financial distress, and in particular, to help families stay in their homes. We remain committed to helping borrowers facing hardship.

Thank you for the opportunity to address the Committee. I would be happy to answer any questions you might have.

#

**Appendix to Testimony of Harold Lewis
Before the Committee on Financial Services
Subcommittee on Housing and Community Opportunity
November 18, 2010**

- **Please describe the process your firm uses when foreclosing on borrowers (give a step-by-step description, including the types of systems used, when contractors might be employed, the number of employees involved, and any other relevant information).**

Every delinquent loan is subject to multiple levels of review by specialized Citi personnel, including reviews for eligibility for HAMP and Citi's proprietary loan modification programs, before the foreclosure process is initiated. We initiate contact with borrowers at the earliest stages of delinquency, offer borrowers the assistance of housing counselors, provide detailed instructions for completing required documents, and follow up with applicants by phone, email, text messages and in-home visits.

All of us at Citi recognize the hardship that can be suffered by a family losing its home. This is why foreclosure is always a last resort for us. In the event that a foreclosure cannot be avoided, however, we have processes in place that are designed to make sure that foreclosures comply with all relevant state and federal laws, and that we do everything we can to make the transition for our customers as smooth as possible.

As the housing crisis worsened, Citi's main focus has been to work with borrowers to keep them in their homes. Citi has dedicated both staff and resources to this worthy goal and as a result, during the period January 1, 2007 through September 30, 2010, Citi has helped more than one million homeowners in their efforts to avoid potential foreclosure. That has always been our first priority.

As we have said, Citi also has been continuously reviewing its foreclosure processes with respect to its U.S. mortgage portfolios. We first focused on our existing foreclosure processes, which we strengthened over time, and determined that the integrity of our current process is sound and that there are no systemic issues. We have subsequently focused on ensuring that pending foreclosures, regardless of when they were initiated, as well as cases that were being handled by the Stern law firm, also meet our current standards.

Taking each of these actions in turn:

Beginning in the fall of 2009, Citi took a series of steps to strengthen its practices and add additional resources to ensure foreclosures were being processed correctly. As part of these improvements, Citi centralized its foreclosure operations into one unit, added staff and enhanced training for greater efficiency and control. Citi limited the volume of documents that staff processes and requires annual certification of its employees' understanding of the proper procedures. Also, managers were made accountable for regularly reviewing files to make certain that employees comply with

the procedures. These improvements were fully implemented at our St. Louis processing center in February of 2010.

Under Citi's existing procedures, affidavits are prepared by outside counsel to ensure compliance with each state's foreclosure laws, and each package is reviewed by a Citi employee who now verifies the information and signs the foreclosure affidavit in the presence of a notary. In a limited number of cases earlier this year, affidavits may have been executed by outside counsel under now-revoked powers of attorney. When errors are found, the documents are returned to the attorney, who revises the package and resubmits the documents for review. Foreclosures are monitored to make certain that staffing is adequate to review the affidavits properly. As noted previously, the changes and safeguards implemented this year give Citi confidence that there are no systemic issues in its existing foreclosure processes. To date, Citi's review of foreclosure affidavits has not identified cases where Citi foreclosed on a property in error.

As an additional quality control measure, Citi is currently reviewing approximately 10,000 affidavits that were executed in pending judicial foreclosures initiated prior to February 2010 to assure that these affidavits are substantively correct and properly executed. Citi expects that affidavits executed prior to the fall of 2009 will need to be re-filed.

Separately, Citi is also reviewing approximately 4,000 pending foreclosure affidavits in judicial states that were executed at our Dallas processing center and may not have been signed in the presence of a notary, to assure that these affidavits are substantively correct and properly executed. Citi expects that it will re-file these affidavits.

Lastly, as previously announced, Citi stopped referring new matters to the Florida law firm David Stern in September of 2010 and has since withdrawn all pending matters from that firm. As an added precaution and quality-control measure, Citi is transferring approximately 8,500 pending foreclosure files from the Stern law firm to new counsel. New affidavits for these cases will be prepared and re-filed by new counsel under Citi's current procedures.

Citi, through the implementation of the procedures and reviews described above, is making every effort to ensure that no foreclosure goes forward based on an inaccurate or defective affidavit. Citi has not suspended its foreclosure process and believes there is no reason to do so.

- **In the last two years, in what proportion of foreclosures in judicial foreclosure states did your firm use a lost note affidavit?**

We cannot provide the exact number of instances in which we have used a lost note affidavit; however, we make every effort to ensure that all necessary documentation is present for each foreclosure. In the infrequent event that we use a lost note

affidavit, we do so in accordance with Fannie Mae, Freddie Mac, and Ginnie Mae and other investor guidelines as applicable.

- **How does your firm establish if the trustee is in possession of the note?**

In the event a loan is sold to an investor such as Fannie Mae, Ginnie Mae or in a securitization, the note is transferred to the investor or its custodian. In the infrequent event the note cannot be located, a lost note affidavit, produced in accordance with investor requirements, is delivered to the investor or its custodian. If the seller cannot deliver the note or lost note affidavit, the loan is repurchased from the investor.

- **What internal controls do you have in place to monitor whether the outside law firms you employ follow all relevant laws, regulations and company policies related to foreclosure (including notarization, process service, confirmation of the amount due by the borrower, whether appropriate fees were levied, etc)?**

Before permitting any law firm to perform foreclosure work for us, we conduct extensive due diligence on the firm, which includes completing a detailed questionnaire and conducting searches for any complaints or lawsuits with the state bar, regulatory agencies and state and federal courts. Law firms are informed of our standards and expectations with respect to affidavits and other filings submitted on our behalf in foreclosure proceedings, the control processes such firms must have in place concerning foreclosure-related documentation, and the escalation of any issues to us. Among other things, each law firm is required, as a condition of its representation of Citi, to follow all local, state and federal laws regarding their legal work on our behalf, and to be familiar with and comply with each specific state's laws and processes regarding foreclosure. We also do periodic on-site legal audits to review selected files, observe default-related processes at the law firm, and review new legal requirements and challenges in the relevant state. If deficiencies are found, appropriate corrective action is required. In addition, if a foreclosure is contested or encounters unexpected issues, the law firm escalates the matter to us, and we may elect to direct the law firm to cease or take certain actions.

- **What is the typical educational level of someone employed by your firm to sign-off on foreclosures (i.e., a "robo-signer")? What is the typical salary of such an employee? What is the typical turnover for such employees? What is the typical daily/weekly/monthly caseload of such an employee?**

Our foreclosure affidavit group is made up of mid-level employees who are compensated in a range from approximately \$25,000 to \$44,000. These employees typically have four or more years' default processing experience, and a college degree is not required. We currently have 21 employees in the foreclosure affidavit group, and there has been very little turnover in this group over the last 12 months. On any given day, an employee will review and execute an average of 35 affidavits. In addition, this group has three supervisory employees who are accountable for regularly reviewing files to make certain that employees comply with required procedures.

- **Has your firm ever been fined by any federal regulator, Fannie Mae or Freddie Mac for failure to properly service loans or engage in appropriate loss mitigation?**

Citi has never been fined by any federal regulator, or Fannie Mae or Freddie Mac, for failure to engage in appropriate loss mitigation or to properly service loans. The U.S. Department of Housing and Urban Development (“HUD”) and the various government-sponsored entities (“GSEs”), such as Fannie Mae and Freddie Mac, routinely audit for compliance with all timelines and other guidelines on a loan-by-loan level. Any lack of compliance with such timelines and other guidelines results in an offset to reimbursement, repayment of a reimbursement or a fee paid to HUD, as applicable. These offsets, repayments and fees are on a loan-level basis and are not fines for failure to properly service.

- **Of the borrowers whose trial Home Affordable Modification Program (HAMP) modifications failed to become permanent modifications, what proportion of those borrowers failed to achieve permanent modifications because they did not pay their mortgages during the trial period? What proportion failed to achieve permanent modifications because they failed to submit the appropriate paperwork?**

We actively identify eligible borrowers and conduct extensive outreach to contact them and guide them through the process of applying for trial modifications and obtaining permanent modifications. Throughout this process, we offer borrowers the assistance of housing counselors, provide detailed instructions for completing required documents, and follow up with applicants by phone, email, text messages and in-home visits.

Despite these efforts, borrowers who receive a trial modification do not always meet HAMP’s requirements for a permanent modification.

Prior to March 2010, borrowers were permitted to begin a trial period before submitting income documentation. During this period, of those borrowers who did not obtain permanent modification, 50% were borrowers who were ineligible for permanent modification based on the documentation they submitted, 29% did not submit required documentation, and 7% did not make trial modification payments.

In March 2010, we implemented the U.S. Treasury’s change in the way HAMP is offered, requiring borrowers to provide income documentation reflecting eligibility before beginning a trial modification. In the period since March, more than 70% of borrowers who received trial modifications have achieved permanent modifications.

- **How many proprietary short sales has your firm completed since April of 2010? How many short sales has your firm completed under the Home Affordable Foreclosure Alternatives (HAFA) Program since that program launched in April 2010? Why have you completed such fewer foreclosures under the HAFA program than under your proprietary program?**

From April 1, 2010 to September 30, 2010, we completed over 14,000 short sales through our proprietary programs. We have also implemented the federal Home Affordable Foreclosure Alternatives program (“HAFA”) after the GSEs approved it in August 2010. Although we have completed very few short sales under this program in the brief time period since the GSEs approved it, we continue to proactively solicit HAFA-eligible customers per the directive provided by the Making Home Affordable Program.

- **Does/did your firm purchase document reproduction services from the Lender Processing Services subsidiary DocX (services include creating missing or intervening assignments, curing defective assignments, retrieving a UCC package, recreating collateral files, creating allonges, etc.)? If so, which services did your firm purchase? For how many foreclosure cases were these services purchased?**

Citi has not purchased and does not purchase any document reproduction services from the Lender Processing Services subsidiary DocX.

- **What is your firm’s position on providing borrowers with a mandatory right to loss mitigation as provided in H.R. 3451?**

We agree with the intent of the legislation that all other options should be exhausted before foreclosure occurs. The guiding principle of our loss mitigation process is that foreclosure is always a last resort. However, we believe a range of tools should be available in light of the importance of keeping people in their homes. We would be happy to work with the sponsor of the proposed legislation.

- **What is your firm’s position on judicial modification of bankruptcy filers’ mortgages (for their primary residences)?**

In January 2009, Citi CEO Vikram Pandit expressed support for a House Judiciary Committee bill that would have authorized federal bankruptcy courts to reduce the principal amount of bankruptcy filers’ mortgages on their primary residences to the fair value of the property under certain circumstances. Citi’s position has not changed.

#