

From: Bowen, Dick [GCG-REO] [dick.bowen@citi.com]
Sent: Saturday, November 03, 2007 5:47 PM
To: Rubin, Robert E [CCC]; Bushnell, David C [CCC]; Crittenden, Gary [CCC]; Howard, Bonnie [CCC]
Cc: Bowen, Dick [GCG-REO]
Subject: URGENT -- READ IMMEDIATELY -- FINANCIAL ISSUES
TO: Robert Rubin, Chairman of Executive Committee
David Bushnell, Senior Risk Officer
Gary Crittenden, Chief Financial Officer
Bonnie Howard, Chief Auditor

Gentlemen:

I am currently (since early 2006) the Business Chief Underwriter for the Real Estate Lending Correspondent channel, which is within the Consumer Lending Group. From 2002 to 2006 I was SVP and Chief Underwriter for the Correspondent and Acquisitions channel within Citifinancial Mortgage. I am also licensed as a Certified Public Accountant in the State of Texas.

The reason for this urgent email concerns breakdowns of internal controls and resulting significant but possibly unrecognized financial losses existing within our organization.

Since mid-2006, I have continually identified these breakdowns in processes and internal controls. The REL Chief Underwriter (my 2006 manager) and I have widely communicated these breakdowns, with possible ramifications, in weekly reports, emails, and discussions (which included the CLG Chief Risk Officer). There have also been two special investigations by CLG Business Risk and Control (the first initiated by me), with the findings confirming these breakdowns.

However, to my knowledge, these breakdowns have not been communicated to or recognized by either Audit or Finance.

I have been agonizing for some time over these issues, and in all good conscience feel I must now communicate these concerns outside of the Consumer Lending Group. I sincerely regret the delay.

CONCERN #1 – CORRESPONDENT FUNDINGS THROUGH DELEGATED AUTHORITY

- We currently purchase from mortgage companies and sell to third party investors approximately \$50 billion annually (\$42 billion YTD 2007) of mortgage loans which have not been underwritten by us but which we rep and warrant to the investors (primarily Fannie/Freddie) that these files are complete and have been underwritten to our policy criteria.
- Our internal Quality Assurance function, which underwrites a small sample of these files post-purchase, has reflected since 2006 (when this function started reporting to me) that 40-60% of these files are either outside of policy criteria or have documentation missing from the files. QA for recent months indicate 80% of the files fall into this category.
- If any of the mortgages in this category default, the investor may require that Citi repurchase the defaulted files based upon our reps and warrants. Under seller reps and warrants Citi may then force the selling mortgage company to repurchase the files, if the seller mortgage company remains financially viable at that time. (As one example, QA results indicate that Citi may be responsible for in excess of 50% of the losses associated with files purchased from the failed Aegis Mortgage – \$2.5 billion purchased since Jan '06).
- A CLG BRC investigation, requested by me, confirmed the breakdowns associated with the QA process and the fact that the QA findings were significantly out of compliance with QA Risk Policy. The Chief Underwriter responsible for this function was terminated and a new QA Risk Policy was approved in 2006. We continue to be significantly out of compliance with the new QA Risk Policy.
- I do not believe that our company has recognized the material financial losses inevitably associated with the above Citi liability.

CONCERN #2 – CORRESPONDENT FUNDINGS THROUGH WALL STREET BULK PURCHASES

- During 2006-7 there were pools of mortgage loans aggregating \$10 billion which were purchased from large mortgage companies with significant numbers of files identified as "exceptions" (higher risk and substantially outside of our credit policy criteria). These exceptions were approved by the Wall Street Channel Chief Risk Officer, many times over underwriting objections and with the files having been turned down by underwriting. These

pools involved files aggregated and originated by Merrill Lynch, Residential Funding Corp, New Century, First NLC and others.

- The purchase decisions on many of these pools were approved even though the execution rates and other criteria established by the CLG Bulk Acquisition Policy were not met.
- Because of the initial high losses associated with many of these pools, CLG BRC investigated and reviewed correspondence which documented underwriting objections to purchasing identified pools.
- BRC conducted an investigation of one Merrill Lynch pool, identifying generic breakdowns of process required by policy and recommended needed changes.
- Changes were made in the bulk purchase process, but I do not know if the expected material financial losses from these pools has been recognized.

I know that this will prompt an investigation of the above circumstances which will hopefully be conducted by officers of the company outside of the Consumer Lending Group, and I pledge my full cooperation.

As a professional, as well as a shareholder of this company, I am deeply distressed with having to report the above.

I will be in the office Monday, and can be available by cell phone, if needed, this weekend.

Dick Bowen
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