JS 44C/SDNY
REV. 5/2010

JUDGE GRIESA

CIVIL COVER SHEET

11 CIV 2693

The JS-44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for use of the Clerk of Court for the purpose of initiating the civil docket sheet.

APR 20 2011

PLAINTIFFS	DEFENDANTS
Michael Brautigam	Robert E. Rubin, et al. & Nominal Defendant: CitiGroup, Inc.
ATTORNEYS (FIRM NAME, ADDRESS, AND TELEPHONE NUMBER Whatley Drake & Kallas, LLC, 1540 Broadway, 37th Floor New York, NY 10036, 212-447-7070	ATTORNEYS (IF KNOWN)

CAUSE OF ACTION (CITE THE U.S. CIVIL STATUTE UNDER WHICH YOU ARE FILING AND WRITE A BRIEF STATEMENT OF CAUSE)
(DO NOT CITE JURISDICTIONAL STATUTES UNLESS DIVERSITY)

Verified Shareholder Derivative for Breach of Fiduciary Duty

Has this or a similar case been previously filed in SDNY at any time? No? [X] Yes? [ ] Judge Previously Assigned

If yes, was this case Vol. [ ] Invol. [ ] Dismissed. No [ ] Yes [ ] If yes, give date ____________ & Case No. ____________

(PLACE AN [x] IN ONE BOX ONLY) NATURE OF SUIT

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CONTRACT

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[ ] 120 MARINE
[ ] 130 MILLER ACT
[ ] 140 NEGOTIABLE INSTRUMENT
[ ] 150 RECOVERY OF OVERPAYMENT & ENFORCEMENT OF JUDGMENT
[ ] 151 MEDICARE ACT
[ ] 152 RECOVERY OF DEFAULTED STUDENT LOANS (EXCL VETERANS)
[ ] 153 RECOVERY OF OVERPAYMENT OF VETERAN'S BENEFITS
[X] 160 STOCKHOLDERS SUITS
[ ] 190 OTHER CONTRACT
[ ] 195 CONTRACT PRODUCT LIABILITY
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[ ] 230 RENT LEASE & EJECTMENT
[ ] 240 TORTS TO LAND
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TORTS

PERSONAL INJURY

[ ] 310 AIRPLANE
[ ] 315 AIRPLANE PRODUCT LIABILITY
[ ] 320 ASSAULT, LIBEL & SLANDER
[ ] 330 FEDERAL EMPLOYERS' LIABILITY
[ ] 340 MARINE
[ ] 345 MARINE PRODUCT LIABILITY
[ ] 350 MOTOR VEHICLE
[ ] 355 MOTOR VEHICLE PRODUCT LIABILITY
[ ] 360 OTHER PERSONAL INJURY

PERSONAL INJURY

[ ] 362 PERSONAL INJURY - MED MALPRACTICE
[ ] 365 PERSONAL INJURY PRODUCT LIABILITY
[ ] 368 ASBESTOS PERSONAL INJURY PRODUCT LIABILITY

PERSONAL PROPERTY

[ ] 370 OTHER FRAUD
[ ] 371 TRUTH IN LENDING
[ ] 380 OTHER PERSONAL PROPERTY DAMAGE
[ ] 385 PROPERTY DAMAGE PRODUCT LIABILITY

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[ ] 441 VOTING
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[ ] 443 HOUSING/ ACCOMMODATIONS
[ ] 444 WELFARE
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FORFEITURE/PENALTY

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[ ] 710 FAIR LABOR STANDARDS ACT
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IMMIGRATION

[ ] 462 NATURALIZATION APPLICATION
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1004608

Check if demanded in complaint:

[ ] CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23

DO YOU CLAIM THIS CASE IS RELATED TO A CIVIL CASE NOW PENDING IN S.D.N.Y.? IF SO, STATE:

DEMAND $__________ OTHER __________ JUDGE ____________________ DOCKET NUMBER__________

Check YES only if demanded in complaint
JURY DEMAND: [X] YES [ ] NO

NOTE: Please submit at the time of filing an explanation of why cases are deemed related.

JUDGE GRIESA

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 11 CIV 2693

MICHAEL G. BRAUTIGAM, an individual, Plaintiff, vs. ROBERT E. RUBIN, C. MICHAEL ARMSTRONG, JOHN M. DEUTCH, ANNE M. MULCAHY, VIKRAM PANDIT, ALAIN J.P. BELDA, TIMOTHY C. COLLINS, JERRY A GRUNDHOFR, ROBERT L. JOSS, ANDREW N. LIVERIS, MICHAEL E. O'NEILL, RICHARD D. PARSONS, LAWRENCE R. RICCIARDI, JUDITH RODIN, ROBERT L. RYAN, ANTHONY M. SANTOMERO, DIANA L. TAYLOR, WILLIAM S. THOMPSON, JR., AND ERNESTO ZEDILLO, Defendants, and CITIGROUP, INC., Nominal Defendant.	**VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTY** JURY TRIAL DEMANDED

Plaintiff Michael G. Brautigam ("Plaintiff"), by and through his attorneys, derivatively on behalf of nominal defendant Citigroup, Inc. ("Citigroup" or the "Company"), submits this Verified Shareholder Derivative Complaint against the defendants named herein. Plaintiffs' allegations are based personal knowledge as to himself and his own acts, and upon information and belief developed from the investigation and analysis of his counsel, which include, among other things, public filings by Citigroup with the U.S. Securities and Exchange Commission ("SEC"), press releases, news reports, analyst reports, matters of public record available from various state and federal government websites, complaints pending against the Company in state and federal courts, and other information available in the public domain. To the best of Plaintiff's knowledge, information, and belief, the allegations herein not based on personal knowledge are likely to have evidentiary support after a reasonable opportunity for further investigation, discovery, and analysis.

I. SUMMARY OF THE ACTION

1. This is a shareholder derivative action brought on behalf and for the benefit of Citigroup against certain of its current and former directors. Citigroup is a global financial services company, and provides consumers, corporations, governments and institutions with a range of financial products and services. The recipient of some $45 billion of federal government bail-out monies, Citigroup has suffered, and will continue to suffer, serious financial and reputational impacts from the inadequate servicing of its troubled residential mortgage loans.

2. On April 13, 2011, the Office of the Comptroller of the Currency ("OCC") publicized findings from its fourth quarter 2010 investigation into Citigroup's mortgage servicing and foreclosure processing practices. As a result of that investigation, the OCC concluded that Citigroup (through its wholly-owned subsidiary, Citibank, N.A.): engaged in improper servicing and foreclosure practices; lacked sufficient resources to ensure proper administration of its foreclosure processes; lacked adequate oversight,

internal controls, policies, and procedures, compliance risk management, internal audit, third party management; failed to supervise outside counsel and other third parties handling foreclosure-related services; and engaged in unsafe or unsound banking practices. The above findings were made public in the OCC's formal enforcement agreement with Citibank as set forth in the Consent Order captioned *In the Matter of Citibank, N.A. Las Vegas, Nevada AA-EC-11-13* (the "Consent Order").

3. Individual Defendants Timothy C. Collins, Jerry A. Grundhofer, Robert L. Joss, Michael E. O'Neill, Lawrence R. Ricciardi, Robert L. Ryan, Anthony M. Santomero and Ernesto Zedillo, who are members of Citibank's board of directors as well as Citigroup's board of directors, executed the Consent Order. This order took effect on April 13, 2010 upon its execution by an OCC official.

4. Long beforehand, however, the signatories to this order, as well as the other defendants named herein, were perfectly aware of the problems embodied within—or reflected by—the Consent Order. The Company's signatories to the Consent Order are willing to agree to partial remedial action only after causing the Company to expend significant resources responding to, and negotiating with, the OCC and other regulators, and to incur significant expenditures to defend its interests in litigation across the country plagued with reported residential mortgage loan modification and foreclosure irregularities—many of which were undisputed by the Company.

5. While the Consent Order provides for the implementation of some important reforms to Citibank's internal controls relative to its default loan management,[1] it falls well short in another aspect of paramount importance to Citigroup's shareholders—namely, there is zero monetary consideration to be provided by the Individual Defendants named herein, or by anyone else, to the Company for their wrongdoing.

[1] "Default loan management" refers to residential home loan collections, loss mitigation, bankruptcy, foreclosure, real estate owned and post foreclosure claims processing.

6. Long before the Consent Order, Citigroup's directors received repeated warnings, which were recently publicized, about serious deficiencies concerning mortgage loan risk-related controls and governance issues within the Company. These included, for example: (a) warnings voiced from June 2006 through 2007 by Citigroup's former Business Chief Underwriter for Correspondent Lending in the Consumer Lending Group, who sounded the alarm about the Company's purchases and sale of defective residential home loans; (b) and warnings from two different regulators—in February 2008 from the OCC, and in April 2008 by the Federal Reserve Bank of New York, which raised serious concerns about the performance of the Company's management and its directors relative to its risk management internal controls. Despite such warnings, as well as a January 2011 demand from a coalition of large institutional shareholders, Citigroup's directors failed to take any steps implement effective default loan management until they agreed recently to the partial remedies set forth in the Consent Order. As a result, to date the Company has been unable to comply with its agreements to effectively manage loan modification programs. Further, with substantial questions being raised about whether Citigroup's business units, such as CitiMortgage, Inc., complied with state laws governing the recordation of its ownership interests in both securitized and unsecuritized residential mortgage loans, thousands of its foreclosure proceedings throughout the United States have been reviewed, deferred, stopped or dismissed.

7. Citigroup finds itself in this predicament because the Individual Defendants named herein breached their fiduciary duties of loyalty to the Company and its shareholders from at least February 14, 2008 to the present (the "Relevant Period"). Specifically, they failed to implement and maintain adequate internal controls to manage the foreseeably immense financial fall-out from inadequate residential mortgage loan underwriting standards, even though they were advised by regulators and shareholders of the Company's lack of necessary risk management processes, procedures and controls.

Moreover, these defendants have utterly failed and refused to pursue pecuniary relief for the Company against any of the wrongdoers.

8. As a result of the Individual Defendants' consciously willful inaction, Citigroup not only failed to pursue remedies against those who were responsible for the misconduct alleged herein, it also failed to devote adequate resources to the management of troubled loans. As a result, the Company has suffered, and will continue to suffer, huge amounts of damages from, *inter alia*, (a) losses associated with foreclosure proceedings that have been delayed, dismissed, and/or refiled due to improperly-documented ownership interests; (b) expenditures related to the defense of put-back, *qui tam*, homeowner, and robo-signer litigation commenced against the Company or its subsidiaries during the Relevant Period; (c) book value losses to its mortgage servicing rights; (d) expenditures related to the fourth quarter 2010 interagency review of Citigroup's foreclosure policies and practices conducted by OCC, the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision; (e) monies that it will be obligated to repay to borrowers in connection with financial injury caused by errors, misrepresentations, or other improper foreclosure practices; and (f) reputational damages.

9. Prompted by its $9.83 billion 2007 fourth quarter loss, one of Citigroup's initial attempts to right the ship was to participate in the federal government's Troubled Asset Relief Program, or "TARP." In October 2008, Citigroup CEO and Chairman of the Board Vikram Pandit consulted with the Company's board of directors (the "Board"), and with its approval, signed the "Major Financial Institution Participation Commitment," under which Citigroup received $25 billion in TARP funding from the U.S. Treasury. At that time, the Company agreed to "[c]ontinue to work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the US housing market."

10. Consistent with the TARP mandate and the Financial Stability Act of 2009, the Treasury Department implemented the Home Affordable Modification Program ("HAMP"). HAMP is a national mortgage modification program that provides eligible borrowers the opportunity to modify their first lien mortgage loans to make them more affordable through the application of interest rate reduction, term extension, principal forbearance and/or principal forgiveness. Any lending institution that has accepted TARP funds must participate in HAMP, and must apply a uniform loan modification process to provide eligible borrowers with affordable and sustainable monthly payments for their first lien mortgage loans.

11. In April 2009, CitiMortgage signed a Servicer Participation Agreement with the Treasury Department, under which the Company was to ensure that adequate internal controls were in place to ensure effective delivery of services pursuant to HAMP and in and compliance with Treasury Department guidelines.

12. But following its agreements to participate in TARP and HAMP, Citigroup has been justifiably targeted by multiple lawsuits that have further exposed its wholly-inadequate default loan management infrastructure. For example, in a Pennsylvania state court class action filed in April 2011, a homeowner alleges that "[r]ather than honoring its duties arising from its acceptance of billions of dollars in federal bailout funds under TARP, Citi has intentionally set up its loan modification program to fail." He further alleges that instead of "allocating adequate resources and working diligently to reduce the number of loans in danger of default by establishing permanent modifications, Citi has serially strung out, delayed, and otherwise hindered the modification processes that it obligated itself to facilitate when it accepted billions of dollars in TARP funds." The Pennsylvania class action echoes many hundreds of similar homeowner complaints posted on various internet blogs.

13. Apart from a dismal track record in complying with its obligations under TARP and HAMP, Citigroup also suffered from the effects of a lack of adequate controls

over its foreclosure processes. By third and fourth quarters of 2010, reports had surfaced alleging that companies (including Citigroup) servicing $6.4 trillion in American mortgages may have bypassed legally required steps to foreclose on a home. For example, a New Jersey state court administrative order specifically implicated Citi Residential Lending, Inc. ("Citi Residential," a business of Citigroup) in the so-called "robo-signing" scandal. Robo-signers, as the court put it, "are mortgage lender/servicer employees who sign hundreds—in some cases thousands—of affidavits submitted in support of foreclosure claims without any personal knowledge of the information contained in the affidavits. 'Robo-signing' may also refer to improper notarizing practices or document backdating." The administrative order cited devastating evidence of the inadequacies of Citigroup's internal controls over its loan documentation and foreclosure processes:

> An individual employed by Nationwide Title Clearing, Inc., with signing authority for Citi Residential Lending, Inc., testified in a deposition that when he signed documents for Citi, he did not review them for substantive correctness. He could not even explain what precisely an assignment of a mortgage accomplishes. He had no prior background in the mortgage industry.
>
> Further, a second person with signing authority for Citi Residential Lending, Inc. testified that she never reviewed any books, records, or documents before signing affidavits and that she instead trusted the company's internal policies and procedures to ensure the accuracy of the information she signed. She signed several documents each day (in many instances without knowledge of what she was signing) and indicated that they were often notarized outside of her presence.

14. The deficiencies in Citigroup's controls over its loan documentation and foreclosure processes have led to tens of thousands of adverse outcomes for the Company throughout the United States. On November 23, 2010, a Managing Director of CitiMortgage, in a written statement to the House Committee on Financial Services, Subcommittee on Housing and Community Opportunity, admitted that: (a) the Company was reviewing approximately 10,000 affidavits executed in pending foreclosures initiated before February 2010; (b) affidavits executed before fall 2009 would need to be refilled; (c) that the Company was reviewing another approximately 4,000 pending foreclosure

affidavits that may not have been properly executed; and (d) it was transferring approximately 8,500 foreclosure files from its former Florida law firm that engaged in robo-signing.

15. Things only got worse for Citigroup's foreclosure proceedings. In many states, the Company suffered a slew of courtroom losses. In early January 2011, it admitted in a submission to a New Jersey court that over one third of the Company's foreclosure affidavits filed in New Jersey courts were faulty and that it intended to dismiss those foreclosure actions. Many of Citigroup's foreclosure actions in state courts throughout the United States were dismissed for failure to comply with applicable law concerning the documentation of the Company's ownership interests in real property.

16. The financially-devastating outcomes suffered by Citigroup as a result of its ineffective default loan management recently prompted Company shareholders and regulators to demand that Citigroup implement corrective measures:

a. A coalition of seven major public pension systems led by New York City Comptroller John C. Liu sent a letter on January 6, 2011 to Citigroup's Audit Committee, with copies to the Company's board of directors. The letter called for an independent examination of Citigroup's loan modification, foreclosure, and securitization policies and procedures. Liu also submitted the same demand as a shareholder proposal for inclusion in the Company's March 10, 2011 Definitive Proxy Statement, which outlined matters for shareholder consideration at the Company's annual meeting scheduled for April 21, 2011.

b. On March 3, 2011, federal and state authorities, including state attorneys general, the Justice Department, Federal Trade Commission, Bureau of Consumer Financial Protection, Federal Trade Commission and the Department of Housing and Urban Development, submitted a settlement demand to several mortgage loan servicers, including Citigroup, to remedy problems with home loan modification and foreclosure policies and procedures. The remedies sought include monetary consideration, compliance with applicable state and federal laws, and strengthening of foreclosure governance and controls.

17. Citigroup's Board, however, rejected the foregoing demands in March 2010 and recommended that shareholders vote against the Lui's institutional shareholder proposal, but later agreed to certain corrective action detailed in the Consent Order. But just as the Board decided to reject the monetary relief sought by the government entities' settlement demand, the Board similarly declined to authorize the Consent Order to provide for pecuniary relief from anybody responsible for the wrongdoing. Indeed, this order specifically seeks to shelter the Individual Defendants from such exposure, stating that the "Bank neither admits nor denies" the factual basis for remedies set forth therein.

18. Plaintiff thus seeks to recover, on behalf of Citigroup, damages and other legal and equitable relief necessary or appropriate to remedy the Individual Defendants' acts and omissions in violation of state and federal law. As alleged further herein, their misconduct has caused, and continues to cause, Citigroup to suffer heretofore unrecovered and substantial pecuniary losses and damages to its reputation and goodwill, for which the Individual Defendants remain personally liable to the Company.

II. JURISDICTION AND VENUE

19. This Court has jurisdiction over all counts alleged herein pursuant to 29 U.S.C. §1332(a)(2) in that Plaintiff and all defendants are citizens of different states and the matter in controversy exceeds $75,000, exclusive of interest and costs. This action is not brought collusively to confer jurisdiction on a court of the United States that it would not otherwise have. This Court has supplemental jurisdiction over the state law causes of action alleged herein pursuant to 28 U.S.C. §1367(a).

20. Venue is proper in this Court and the Southern District of New York pursuant to 28 U.S.C. §1391(a) because one or more of the defendants either resides or maintains executive offices in this District, a substantial portion of the transactions and wrongs complained of occurred in the Southern District of New York, and certain of the

defendants have received substantial compensation in this District by doing business here and engaging in numerous activities that had an effect here.

III. PARTIES

21. Plaintiff Michael G. Brautigam was a shareholder of Citigroup common stock at all times during the Relevant Period, and is a current shareholder of the Company. He is a citizen of the state of Ohio.

22. Nominal defendant Citigroup is organized under the laws of the State of Delaware and has its principal executive offices at 399 Park Avenue, New York, NY. Citigroup is a global diversified financial services holding company that operates via two primary business segments: Citicorp (consisting of Citigroup's Regional Consumer Banking businesses and Institutional Clients Group) and Citi Holdings (consisting of Citigroup's Brokerage and Asset Management and Local Consumer Lending businesses, as well as a "Special Asset Pool"). Citibank, N.A., which encompasses the Company's consumer banking operations, has more than 1,000 branches in about a dozen states. Citi Holdings includes businesses and portfolios of assets that the Company determined are not central to its core businesses and that it intends to purge through business divestitures, portfolio sales, and asset sales. The Local Consumer Lending business includes the operations of its mortgage lending unit (CitiMortgage) and its consumer lending unit (CitiFinancial).[2] As of the end of fiscal year 2010, approximately $129 billion of the Local Consumer Lending assets consisted of U.S. mortgages in the CitiMortgage and CitiFinancial operations. The Company's Citi Holdings Oversight Committee oversees the management of the Citi Holdings business segment including, but not limited to, reviewing and discussing with management the Company's risk exposures with respect to

[2] In 2007, Citigroup acquired the wholesale mortgage origination division of troubled subprime lender ACC Capital Holdings, as well as the servicing rights to collect on more than $45 billion of ACC's home loans. The acquired asserts were rolled into a subsidiary called "Citi Residential Lending, Inc."

Citi Holdings assets and the steps that management takes to monitor and control such exposures.

23. Defendant Robert E. Rubin was a Citigroup director between 1999 and April 2009. Rubin also chaired the Executive Committee from 1999 until 2008. When Charles Prince resigned as CEO and Chairman of the Board of the Company on November 4, 2007, Rubin assumed duties as Chairman, serving in that capacity from November 2007 to December 2007. While Rubin served as a director of the Company, he earned over $100 million in compensation. Rubin is a citizen of New York.

24. Defendant C. Michael Armstrong was a Citigroup director from 1989 until he departed in early 2010. Armstrong was a member of the Executive Committee during the Relevant Period. The Board determined that he qualified as an audit committee financial expert as defined by the SEC and, during 2008, he chaired the Audit and Risk Management Committee. Armstrong also served on the Nomination and Governance Committee during 2007-10. His experience includes stints as Chairman, Comcast Corporation; Chairman and CEO, AT&T Corporation; Chairman and CEO, Hughes Electronics Corporation; and a Director of IDS Group, Inc., HIS, Inc., and The Parsons Corporation. Armstrong is a citizen of either Connecticut or Florida.

25. Defendant John M. Deutch was a Citigroup director from 1996 until April 2010. He also served on the board of Citibank, N.A. from 2009 until his departure in 2010. The Board determined that he qualified as an audit committee financial expert as defined by the SEC and, during 2008-09, was a member of the Audit and Risk Management Committee. He succeeded Armstrong as Chairman of that committee and served in that capacity through 2009. Deutch also served on the Nomination and Governance Committee from 2007-2010 and on the Citi Holdings Oversight Committee during 2009-10. His relevant experience includes: Institute Professor, Massachusetts Institute of Technology; Director of Cheniere Energy and Raytheon Company. Deutch is a citizen of Massachusetts.

26. Defendant Anne M. Mulcahy was a director of Citigroup, Inc. between 2004 and early 2010. The Board determined that based on her experience, she qualified as an audit committee financial expert as defined by the SEC and, during 2007-09, she sat on the Audit and Risk Management Committee. She also served on the Nomination and Governance Committee during 2009-10. Her relevant experience includes: Chairman and CEO, Xerox Corporation; Director of Target Corporation and The Washington Post Company. Mulcahy is a citizen of Connecticut.

27. Defendant Vikram Pandit has been a director of Citigroup since 2007, and since December 2007, has served as its Chief Executive Officer of Citigroup. Pandit was a member of the Executive Committee during the Relevant Period. His prior experience includes tenures as Chairman and Chief Executive Officer of Citigroup's Institutional Clients Group, and Chairman and Chief Executive Officer of Citi Alternative Investments. He was a founding member of Old Lane Partners, L.P., a hedge fund that he founded in 2006 and sold to the Company in July 2007, receiving approximately $165 million as consideration for his partnership interests, and President and Chief Operating Officer of the Institutional Securities and Investment Banking at Morgan Stanley. Pandit is a citizen of New York.

28. Defendant Alain J.P. Belda has been a Citigroup director since 1997. Belda was a member of the Executive Committee during the Relevant Period and served on the Nomination and Governance Committee throughout that time. His experience includes tenures as the Chair and Chief Executive Officer of (and in other executive positions at) Alcoa Inc., a director of DuPont Automotive Co., a director of International Business Machines Corp., and as managing director of Warburg Pincus. Belda is a citizen of New York.

29. Defendant Timothy C. Collins has been a director of Citigroup and Citibank, N.A. since 2009. The Board determined that he qualified as an audit committee financial expert as defined by the SEC. During 2009-10, Collins served on the Audit Committee

and its predecessor, the Audit and Risk Management Committee. He currently serves on the Citi Holdings Oversight Committee. Collins' experience includes time as Chief Executive Officer and Senior Managing Director of Ripplewood Holdings LLC, an investment firm that invests in a broad array of industries, including financial services, automotive, manufacturing, consumer and business services, as well as executive positions with Lazard Freres & Co., and Booz Allen & Hamilton. He also chairs the audit committee of Wind Telecom S.p.A, formerly known as Weather Investments S.p.A. Collins is a citizen of New York.

30. Defendant Jerry A. Grundhofer has been a director of Citigroup and Citibank, N.A. since 2009. He currently chairs the Risk Management and Finance Committee. Grundhofer's other experience includes stints as Chairman and Chief Executive Officer of the Board of U.S. Bancorp until December 2007 and December 2006, respectively; President and Chief Executive Officer of Firstar Corporation and its predecessor Star Banc; Vice Chairman of BankAmerica Corporation; Chairman Emeritus of U.S. Bancorp; and as a director of Ecolab Inc. U.S. Bancorp is the parent company of U.S. Bank National Association, which acted as trustee for tens of billions of dollars of residential mortgage-backed securities sponsored by the Company. Grundhofer is a citizen of Nevada.

31. Defendant Robert L. Joss has been a director of Citigroup since 2009 and of Citibank, N.A. since 2010. On April 5, 2010, the Company entered into an agreement with him to provide unspecified consulting services to the Company and its subsidiaries and affiliates. Under this agreement, Joss receives $350,000 per year, payable on a quarterly basis. Joss has served on the Citi Holdings Oversight Committee and the Risk Management and Finance Committee since 2009. Joss' experience includes time as Chief Executive Officer and Managing Director of Westpac Banking Corporation Ltd., one of the largest banking organizations in Australia and New Zealand; executive positions at

Wells Fargo & Company, including Vice Chairman; and service on the board of Shanghai Commercial Bank Ltd. and Bechtel Group, Inc. Joss is a citizen of California.

32. Defendant Andrew N. Liveris has been a Citigroup director since 2005. He was the lead director when Charles Prince served as the Company's CEO and Chairman. The Board determined that he qualified as an audit committee financial expert as defined by the SEC and, from 2008-09, was a member of the Audit and Risk Management Committee. Liveris is a member of the Company's Public Affairs Committee. His experience includes time as Chairman and CEO, The Dow Chemical Company. Liveris is a citizen of Michigan.

33. Defendant Michael E. O'Neill has been a director of Citigroup and Citibank, N.A. since 2009. O'Neill has chaired the Citi Holdings Oversight Committee and serves on the Risk Management and Finance Committee. O'Neill's experience includes time spent as Chairman and Chief Executive Officer of the Company of Hawaii; Vice Chairman and Chief Financial Officer at BankAmerica Corporation; and Chief Financial Officer of Continental Bank. O'Neill is a citizen of Hawaii.

34. Defendant Richard D. Parsons is the Chairman of Citigroup Inc. and has been a director since 1996. Parsons was a member of the Executive Committee during the Relevant Period and served on the Nomination and Governance Committee during that time. Parsons' experience includes stints as Chairman and Chief Executive Officer of Dime Savings Bank of New York from 1991 to 1995 and its President and Chief Operating Officer from 1988 to 1990; Chairman of TimeWarner from 2003 to 2008, its Chief Executive Officer from 2002 to 2007, its Co-Chief Operating Officer from 2001 to 2002, its President from 1995 to 2000, and a Director since 1991; and Managing Partner at the law firm of Patterson, Belknap, Webb & Tyler. Parsons is a citizen of New York.

35. Defendant Lawrence R. Ricciardi has been a director of Citigroup since 2008 and a director of Citibank, N.A. since 2009. The Board determined that he qualified as an audit committee financial expert as defined by the SEC. He is the current

Chairman of the Audit Committee, and has held this position since its inception in 2010. During the remainder of the Relevant Period, he served on the Audit and Risk Management Committee. Ricciardi's experience includes: Chief Financial Officer and Senior Vice President and General Counsel, IBM; Executive Vice President and General Counsel, RJR Nabisco; Director and chair of the audit committees, Royal Dutch Shell and Reader's Digest. Ricciardi is a citizen of New York or Connecticut.

36. Defendant Judith Rodin has been a Citigroup director since 2004. Dr. Rodin was a member of the Executive Committee during the Relevant Period. The Board determined that she qualified as an audit committee financial expert as defined by the SEC. Dr. Rodin served on the Audit and Risk Management Committee during 2007-09, and has chaired the Public Affairs Committee throughout the Relevant Period. Dr. Rodin's experience includes: President of the Rockefeller Foundation; President of the University of Pennsylvania from 1994 until her 2004 retirement; Provost of Yale University from 1992 to 1994; a member of the audit and compensation committees of Comcast; a member of the compensation committee of AMR Corporation; and a director of Aetna Inc. Rodin is a citizen of New York or Florida.

37. Defendant Robert L. Ryan has been a director of Citigroup Inc. since 2007 and of Citibank, N.A. since 2009. The Board determined that he qualified as an audit committee financial expert as defined by the SEC. He has served on the Audit and Risk Management Committee and currently serves on the Company's Audit, Risk Management and Finance committees. Ryan's experience includes: Senior Vice President and Chief Financial Officer, Medtronic; Vice President, Finance and Chief Financial Officer, Union Texas Petroleum Corporation; Controller, Union Texas Petroleum Corporation; Vice President, Citibank; Director and audit committee member, General Mills and Hewlett-Packard. Ryan is a citizen of Minnesota or California.

38. Defendant Anthony M. Santomero has been a director of Citigroup and Citibank, N.A. since 2009. The Board has determined that he qualifies as an audit

committee financial expert as defined by the SEC. Dr. Santomero has served on the Audit Committee and on the Risk Management and Finance Committee from 2009 through the present. During 2009-10, Dr. Santomero also served on the Public Affairs Committee. His experience includes: Senior Advisor at McKinsey & Company; President of the Federal Reserve Bank of Philadelphia from 2000 to 2006; Chair of the System's Committee on Credit and Risk Management; a member of the Financial Services Policy Committee and Payments System Policy Advisory Committee; and service on the investment and risk management committee of RennaissanceRe Holdings. Santomero is a citizen of Pennsylvania.

39. Defendant Diana L. Taylor has been a Citigroup director since 2009. During 2009-10, she served on the Citi Holdings Oversight Committee. Her experience includes: Superintendent of Banks for the New York State Banking Department; in-depth private equity, fund management and investment banking experience as a Managing Director of Wolfensohn Fund Management, L.P.; a fund manager, Founding Partner and President of M.R. Beal & Company, a full service investment banking firm; and various executive positions with Donaldson, Lufkin & Jenrette, Lehman Brothers Kuhn Loeb, Inc., and Smith Barney, Harris Upham & Co. Taylor is a citizen of New York.

40. Defendant William S. Thompson, Jr. has been a Citigroup director since 2009. He has served on the Nomination and Governance Committee and the Risk Management and Finance Committee since 2009. Thompson's experience includes: Chief Executive Officer of PIMCO, a global investment management firm, during 1993-2009; Chairman of Salomon Brothers Asia Ltd. in Tokyo from 1991-93; head of Corporate Finance, Western Region and Head of Institutional Sales, Western Region, at Salomon Brothers; service on the compensation and personnel committee of Pacific Life Corporation, on whose board he serves; and as an officer of PCM Fund, Inc. Thompson is a citizen of California.

41. Defendant Ernesto Zedillo has been a director of Citigroup Inc. and Citibank, N.A. since 2010. Zedillo has served on the Public Affairs Committee and the Risk Management and Finance Committee since 2010. Zedillo is a former President of Mexico and his other experience includes service on the advisory boards of ACE Limited, Rolls-Royce, BP and JPMorgan-Chase; senior advisor of the Credit Suisse Research Institute; and service on the international advisory boards of former Daimler-Chrysler, the Coca-Cola Company, Magna International and Nihon Global Partners. He also sits on the board of Alcoa Inc., where he is on the audit committee, governance and nominating committee and public issues committee, and on the board of Procter & Gamble Company, where he is chair of the governance and public responsibility committee, a member of the innovation and technology committee and a past member of that board's finance committee. He is a past director of the Union Pacific Corporation, where he served on the audit and finance committees, and a past director of EDS, where he served on the governance committee. Zedillo is a citizen of Connecticut or Mexico.

42. The defendants named in paragraphs 23-41 above may be collectively referred to as the "Individual Defendants." The defendants named in paragraphs 27-41 above may be collectively referred to as the "Director Defendants."

IV. FACTUAL BACKGROUND

A. Citigroup's Dramatically Increased Presence in the U.S. Mortgage and Real Estate Businesses.

43. Around the middle of 2005, Citigroup, acting upon recommendations from Rubin and others, decided to increase its presence in the U.S. mortgage and real estate market. During a March 2011 interview with the Financial Crisis Inquiry Commission ("FCIC"), Rubin recalled that in 2005, he had emphasized the need for the Company to have adequate resources to enter this market and manage the attendant risk. He noted that "there were at least three things you had to do. We had to have adequate technology and we had to have adequate people, and then you had to have an effective independent

risk management – I guess four things. Independent risk management, and then a general obvious comment, you had to make sensible risk-reward decisions when you were running a business."

44. One aspect of Citigroup's increased presence in these businesses involved the securitization of residential mortgage loans that not only it had originated, but also that it purchased from third-party originators, such as New Century Financial. The Company would securitize the loans by pooling them together, depositing them into trusts, and selling residential-backed mortgage securities ("RMBS" or "MBS") issued by the trusts that were backed by the pooled residential mortgage loans. The investors, in turn, could choose to simply collect the dividends from these securities, or further repackage them for resale to other investors as other types of securities in which the mortgage obligations are ordered into "tranches" by some specific quality, such as repayment time, with each tranche sold as a separate security generally known as a type of collateralized debt obligation ("CDO").

45. Citigroup also serviced a significant portion of its securitized residential mortgage loans, where it would service these loans (i.e. intake and process monthly mortgage payments and maintain an account for individual mortgagors), and then distribute the mortgage payments it had received to the investors pursuant to the terms of any applicable RMBS pooling and servicing agreement (commonly referred to as a "PSA").

46. Under a PSA, the Company receives compensation for servicing in several ways: a servicing fee; float income; ancillary fees; and a retained interest in the securitization. But if a securitized loan serviced by Citigroup becomes delinquent, a PSA typically requires that the Company, as the loan servicer, advance payments of principal, interest, insurance and taxes to the trust in an amount equal to the delinquent monthly payment (net of the servicing fee). In such an event, Citigroup would be entitled to reimbursement for such advances from the trust, as well as other expenses related to

delinquent loans, including foreclosure-related expenses, advanced legal fees, and maintenance and preservation costs on foreclosed properties.[3]

47. When selling a mortgage loan to investors, the usual practice of Citigroup (through its consumer lending business) was to make various representations and warranties to them about, *inter alia*, (a) the validity and enforceability of the Company's ownership of the loan; (b) validity of the lien securing the loan; (c) the absence of delinquent taxes or liens against the property securing the loan; (d) the effectiveness of title insurance on the property securing the loan; (e) the process used in selecting the loans for inclusion in a transaction; (f) the loans' compliance with any applicable loan criteria established by the buyer; and (g) the loans' compliance with applicable local, state and federal laws.

48. In the event of a breach of these representations and warranties, purchasers of the securities had the right to "put back" loans to Citigroup—i.e., require that the Company do one of two things: either repurchase the affected mortgage loans and bring them back onto its own balance sheet (generally at unpaid principal balance plus accrued interest) with the identified defects, or fully indemnify the investors for their losses.[4]

49. With these structures in place, Citigroup enjoyed astounding financial rewards from the servicing and securitization of its mortgage loans. According to its Form 10-K for fiscal year 2007, during 2005, 2006, and 2007, it received $58.7 billion, $67.5 billion, and $107.2 billion, respectively, in proceeds from new securitizations of U.S. consumer mortgages. Citigroup's loan servicing business also grew in leaps in

[3] In addition, a PSA usually imposes limitations on a servicer's ability to permit loan modifications that change the mortgage rate, reduce or increase the principal balance, or change the final maturity date.

[4] In the case of a put-back, the Company bears any subsequent credit loss on the mortgage loan and the loan is typically considered a credit-impaired loan and accounted for under SOP 03-3, "Accounting for Certain Loans and Debt Securities Acquired in a Transfer" (now incorporated into ASC 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality*).

bounds; according to its Form 10-K for fiscal year 2010, by December 31, 2010, Citigroup was servicing about $466 billion of residential mortgage loans that it previously sold to others.

50. The explosive growth in Citigroup's RMBS business also was facilitated by its departure from traditional lender practices for recording and tracking changes in real estate ownership interests, and moving to use of an electronic tracking system maintained by Mortgage Electronic Registration Systems, Inc. ("MERS"). MERS, a privately-held company, maintains an electronic registry that tracks servicing rights and ownership of mortgage loans in the United States. On its website, MERS claims that it "eliminates the need to prepare and record assignments when trading residential and commercial mortgage loans." Thus, instead of having to record a change of ownership interest in county grantor-grantee indices each time an interest in real estate changed hands, members in MERS, like Citigroup, avoided recording assignments (as frequently occurs one or more times in RMBS transactions) by naming MERS as the mortgagee of record on all loans that they registered in the MERS system or by a lender/servicer making an assignment to MERS.[5] The pervasive involvement of MERS with the banking industry is such that as of September 2009, MERS had been named as the mortgagee or beneficiary on about 62 million mortgages and deeds of trust by MERS members in the United States.

51. Citigroup's apparent success in the RMBS business, however, had a dark underbelly. While the loans contained within certain of the securitization pools consisted of both prime and non-prime (i.e., Alt-A or subprime) residential loans, many of the non-prime loans that it had purchased, securitized and re-sold originated from among the worst sub-prime lenders in the industry, including such as Ameriquest, Countrywide, and New Century Financial. The implosion of such lenders, among other things, led to

[5] As noted below, MERS has impeded effective loan default management by Citigroup, such as when it must properly document a loan's chain of title in foreclosure proceedings.

Citigroup suffering massive losses from mortgage loan defaults. In a January 15, 2008 press release, the Company stated that it suffered a $9.83 billion net loss for the fourth quarter of fiscal year 2007 fourth quarter related to certain aspects of this business. These losses continued to quickly mount.

52. Citigroup also suffered huge losses from "put-back" exposure under its PSAs. Indeed, such misfortunes were foreseen by the Congressional Oversight Panel ("COP"), which was created in 2008 to review the state of financial markets and the regulatory system. In a November 2010 report styled *Examining the Consequences of Mortgage Irregularities for Financial Stability and Foreclosure Mitigation*, the COP explained that the largest potential source of financial instability to banks was the risk of widespread mortgage put-backs due to breaches of representations and warranties by banks to mortgage investors. Using then-current estimates from investment analysts, the COP's report calculated industry exposure from mortgage put-backs at $52 billion, which it said would be borne predominantly by Citigroup and three other large financial institutions. As it turned out, the Company was, in fact, forced to set aside a large reserve to handle mortgage put-back losses. According to its Form 10-K for fiscal year 2010, as of the end of 2009, Citigroup's repurchase reserve was approximately $482 million while the principal amount of unresolved repurchase claims was $654 million. By the end of 2010, the reserve increased to about $969 million while the principal amount of unresolved repurchase claims was over $1 billion.[6]

B. The Federal Bailout of the Company and its Servicing-Related Promises.

53. In early October 2008, TARP was signed into law. Under TARP, the U.S. Department of the Treasury may purchase a variety of "troubled assets," including

[6] Citigroup's Form 10-K for fiscal year 2010 also noted that if the Company had to account for a repurchased mortgage loan under SOP 03-3, it recorded the difference between the loan's fair value and unpaid principal balance as a utilization of the repurchase reserve. Make-whole payments to investors also were treated as utilizations and were charged directly against the reserve.

mortgage-related assets and the various types of securities based on such assets, if they were originated on or before March 14, 2008. The Treasury Department also was authorized to expend billions of dollars to purchase bank equity shares through the Capital Repurchase Program.

54. Consistent with the TARP mandate, the Treasury Department also implemented HAMP, which is a national mortgage modification program that provides eligible borrowers the opportunity to modify their first lien mortgage loans to make them more affordable. Any lending institution that has accepted TARP funds must participate in HAMP, and must apply a uniform loan modification process to provide eligible borrowers with affordable and sustainable monthly payments for their first lien mortgage loans. Affordability is achieved through the application of interest rate reduction, term extension, principal forbearance and/or principal forgiveness.

55. On October 13, 2008, Citigroup's CEO Pandit, and representatives from eight other large financial institutions, attended a meeting in Washington D.C. with the senior officials of the Federal Reserve, U.S. Treasury, and FDIC to discuss a federal solution to the stress being experienced by the U.S. financial system. As authorized by TARP, the institutions agreed to participate in a program involving bank liability guarantees and capital purchases by the federal government. The "CEO Talking Points" for this meeting indicate that Pandit and the other financial institution executives in attendance were informed: "we want each of you to contact your Boards of Directors and confirm your participation this evening."

56. As a result of this meeting, and having consulted the Company's Board of Directors, Pandit executed a "Major Financial Institution Participation Commitment" dated October 13, 2008, which provided as follows:

> In support of the US financial system and the broader US economy, Citigroup agrees to:

- Issue Preferred Shares in the amount of $25 billion to the U.S. Treasury under the terms and conditions of the TARP Capital Purchase Program announced today.
- Participate in the FDIC program guaranteeing new issues of eligible senior liabilities by banks and bank holding companies and transaction accounts as announced today under the systemic risk exemption invoked by the FDIC, U.S. Treasury, and the Federal Reserve.
- Expand the flow of credit to U.S. Consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy.
- Continue to work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market.

57. October 28, 2008, as part of its participation in TARP, Citigroup raised $25 billion through the sale of non-voting perpetual, cumulative preferred stock, and a warrant that gave the Treasury Department the right to purchase shares of the Company's stock. The preferred stock had an aggregated liquidation preference of $25 billion and an annual dividend rate (cumulative and payable quarterly in cash) of 5% for the first five years and 9% thereafter.

58. On December 31, 2008, the Company raised an additional $20 billion through the sale of non-voting perpetual, cumulative preferred stock and a warrant to purchase common stock to the Treasury Department as part of the TARP Capital Purchase Program. The preferred stock had an aggregated liquidation preference of $20 billion and an annual dividend rate (cumulative and payable quarterly in cash) of 8%.

59. On January 15, 2009, prompted by losses arising on a $301 billion portfolio of residential and non-residential assets,[7] Citigroup entered into a definitive loss sharing agreement with the Treasury Department, the FDIC and the Federal Reserve Bank of New York. As explained in Citigroup's Form 10-K for fiscal year 2008, the Company

[7] Of the $301 billion pool, approximately $154 billion related to first and second residential mortgages and about $31 billion related to securities (including mortgage-related securities).

issued to the Treasury Department and FDIC non-voting, perpetual cumulative preferred stock having an aggregate liquidation preference of $7.3 billion, as well as a warrant giving the Treasury Department the right to purchase the Company's common stock. Citigroup agreed to absorb the first $39.5 billion of losses on the portfolio, after which 90% of any loss would be shouldered by the federal government, and the remainder by the Company.

60. Citigroup's Form 10-K for fiscal year 2009 also states that in July 2009, it exchanged the preferred stock it had issued to the federal government for shares of the Company's common stock. Up to that point, Citigroup had paid about $2.2 billion in preferred dividends and $800 million in interest to the government.

61. In April 2009, Citigroup, via its CitiMortgage business unit, also agreed to participate in HAMP. That month, Citigroup signed a Servicer Participation Agreement (amended and restated in in March 2010) agreeing to perform loan modification and other foreclosure prevention services set forth in applicable HAMP guidelines and other procedures issued by the Treasury Department, Fannie Mae or Freddie Mac. In doing so, CitiMortgage became eligible to receive $1,000 or more for each completed permanent modification under HAMP. It also agreed to implement the following internal controls

> Servicer shall develop, enforce and review on a quarterly basis for effectiveness an internal control program designed to: (i) ensure effective delivery of Services in connection with the Program and compliance with the Program Documentation; (ii) effectively monitor and detect loan modification fraud; and (iii) effectively monitor compliance with applicable consumer protection and fair lending laws. The internal control program must include documentation of the control objectives for Program activities, the associated control techniques, and mechanisms for testing and validating the controls.
>
> Servicer shall provide Freddie Mac with access to all internal control reviews and reports that relate to Services under the Program performed by Servicer and its independent auditing firm to enable Freddie Mac to fulfill its duties as a compliance agent of the United States; a copy of the reviews and reports will be provided to Fannie Mae for record keeping and other administrative purposes.

62. On March 25, 2010, Citigroup certified to the federal government, in part:

* * *

> Servicer is in compliance with, and certifies that all Services have been performed in compliance with, all applicable Federal, state and local laws, regulations, regulatory guidance, statutes, ordinances, codes and requirements [....] The performance of Services under the Agreement has not conflicted with, or been prohibited in any way by, any other agreement or statutory restriction by which Servicer is bound, except to the extent of any contractual limitations under applicable pooling and servicing agreements and other servicing contracts to which Servicer is subject. Servicer is not aware of any other legal or financial impediments to performing its obligations under the Programs or the Agreement and has promptly notified Fannie Mae of any financial and/or operational impediments which may impair its ability to perform its obligations under the Programs or the Agreement [....]
>
> * * *
>
> Servicer has: (i) performed the Services required under the Program Documentation and the Agreement in accordance with the practices, high professional standards of care, and degree of attention used in a well-managed operation, and no less than that which the Servicer exercises for itself under similar circumstances; and (ii) used qualified individuals with suitable training, education, experience and skills to perform the Services. Servicer acknowledges that Program participation required changes to, or the augmentation of, its systems, staffing and procedures; Servicer took all actions necessary to ensure that it had the capacity to implement the Programs in which it participated in accordance with the Agreement.

V. DEFENDANTS' WRONGFUL CONDUCT

A. Defendants Knew that Citigroup Required Significant Additional Resources To Properly Discharge its Default Loan Management Responsibilities.

1. The Financial Crisis Inquiry Commission Investigation.

63. The FCIC was created to "examine the causes, domestic and global, of the current financial and economic crisis in the United States." The Commission was established as part of the Fraud Enforcement and Recovery Act passed by Congress and signed by the President in May 2009. The Commission's statutory instructions set out 22 specific topics for inquiry and called for the examination of the collapse of major financial institutions that failed or would have failed if not for exceptional assistance from the government.

64. The FCIC spent more than a year examining the causes of the financial crisis, held 19 days of public hearings, interviewed more than 700 witnesses, and reviewed millions of pages of documents.

65. During 2010 and 2011, the FCIC made public for the first time evidence that the Individual Defendants knew of serious problems with the Company's risk management-related resources, controls, and procedures.

2. Prescient warnings were given to Citigroup and its Board by one of its high-level executives.

66. On April 7, 2010, Richard M. Bowen III submitted written and oral testimony to the FCIC. A licensed CPA, he was Senior Vice President and Chief Underwriter for Correspondent and Acquisitions for CitiMortgage from 2002-05. In early 2006, he was promoted to Business Chief Underwriter for Correspondent Lending in the Consumer Lending Group ("CLG").[8] In that capacity, he oversaw quality control in Citigroup's consumer lending activities.

67. In his FCIC testimony, Bowen discussed Citigroup's purchases of mortgage loans and his many internal warnings. Some of his relevant testimony includes:

a. Bowen noted that Citigroup purchased about $50 billion of prime mortgages annually that had not been underwritten by the Company. CLG was responsible for underwriting a small sample of these mortgages after their purchase.

b. He noted that "these mortgages were sold to Fannie Mae, Freddie Mac and other investors. Although we did not underwrite these mortgages, Citi did rep and warrant to the investors that the mortgages were underwritten to Citi credit guidelines."

c. Bowen testified that by mid-2006, he "discovered that over 60% of these mortgages purchased and sold were defective." He became concerned about the risk to Citigroup because it "had given reps and warrants to the investors that the mortgages were not defective, [and] the investors could force Citi to repurchase many billions of dollars of these defective assets."

d. Bowen first sounded the alarm in June 2006 and continued his warnings through 2007. He emphasized, in great detail, the risk that Citigroup could be forced to repurchase large volumes of troubled

[8] According to Bowen, CLG was formed in September 2005 to house the non-branch asset-backed consumer lending activities, including prime and subprime mortgages.

mortgages, including those with FHA/VA guaranties. He tried "to get management to address these critical risk issues," which were, as he put it, the risks to the shareholders posed by the increasing defective rate of mortgages purchased and sold through the correspondent delegated channel."[9]

e. Bowen testified that his warnings went to "all levels" of Citigroup's CLG, "including the CLG Chief Risk Officer, who was the REL Chief Underwriter's manager."[10] He also said that his "warnings were reinforced in weekly reports, emails, and discussions with many levels of management and TPO [Third Party Origination] committee." He further noted that a sub-group of the TPO committee focused on these issues, which included concerns that Citigroup was "possibly not in compliance with self-reporting requirements to the investors." Such activities, Bowen stated, were documented in the TPO committee minutes.

f. Bowen also testified that his warnings resonated with his manager, who was the chief underwriter for real estate lending in the CLG. He said the manager was sufficiently "alarmed" by Bowen's comments that the manager "distributed his concerns and warnings through emails, weekly reports and individual meetings and conversations with management."

g. Despite Bowen's warnings, Citigroup "continued to purchase and sell to investors even larger volumes of mortgages through 2007." More darkly, he noted, the "REL continued to purchase and sell increasing volumes of defective mortgage product. The overall defective rate increased to over 80% in 2007, including the FHA/VA guaranteed mortgages."

68. Bowen's FCIC testimony also elaborated about Citigroup's purchases of subprime loans and the internal warnings he had made:

a. He noted that Citigroup purchased pools of subprime mortgages from correspondent mortgage companies.[11] Bowen's under-writers, who worked closely with the Wall Street Chief Risk Officer, were responsible for underwriting the mortgages in those pools that were being evaluated for purchase.

[9] According to Citigroup's 2008 Form 10-K, within REL, four primary business channels handled residential mortgage lending. The "correspondent" channel refers to third parties that originated and funded residential mortgage loans, from which the Company purchased such loans. Through the Correspondent Wall Street channel, mortgage loans were made by another mortgage company, grouped into pools and sold on a bulk basis to the Company.

[10] According to Citigroup's 2008 Form 10-K, the Chief Risk Officer worked closely with the Company's CEO, management committees, the Board, and its Audit and Risk Management Committees.

[11] Bowen explained that within REL, there were 4 primary business channels involved with residential mortgage lending. Through the Correspondent Wall Street channel, mortgage loans were made by another mortgage company, grouped into pools and sold on a bulk basis to the Company.

b. Bowen stated that from 2006-07, he "witnessed many changes to the way the credit risk was being evaluated for these pools during the purchase processes. These changes included the Wall Street Chief Risk Officer's reversing of large numbers of underwriting decisions on mortgage loans from 'turn down' to 'approved.' And variances from accepted Citi credit policy were made. Subprime mortgage pools, many over $300 million, were purchased even though the minimum credit-policy-required-criteria was not met."

c. Further, Bowen stated that starting in 2006, and continuing into 2007, he had "issued many warnings to management concerning these practices, and specifically objected to the purchase of many identified pools." For example, beginning in the third quarter of that year, he "sent many warnings and objections to credit decisions which were being made on specific pools of subprime mortgage loans. These were through email, conversations with the Wall Street Chief Risk Officer and other personnel, and weekly reports." He added that he "believed that these practices exposed Citi to substantial risk of loss."

d. Bowen also noted that his manager, the REL Chief Underwriter, joined his objections, which also went to the manager of the REL Chief Underwriter, the CLG Chief Risk Officer.

69. Bowen also told the FCIC that "I made the decision that I had to warn Citigroup Executive Management and the Board of Directors ... that there were many other circumstances and risks of loss to Citigroup shareholders which had not yet been identified. These risks were centered in Real Estate Lending in the Consumer Lending Group." In a November 3, 2007 e-mail entitled "URGENT – READ IMMEDIATELY – FINANCIAL ISSUES" to Rubin, David Bushnell (Senior Risk Officer), Gary Crittenden (Chief Financial Officer), and Bonnie Howard (Chief Auditor), Bowen wrote as follows:

> 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 Citi financial 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 warranties 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.

3. Regulator warnings.

70. During early 2008, the Office of the Comptroller of the Currency ("OCC") and the NY Fed also raised serious questions about Citigroup's governance and controls up to the end of 2007.

71. On February 14, 2008, the OCC sent a letter ("Supervisory Letter 2008-05") to defendants Pandit and Armstrong summarizing the results of its reviews of the Citigroup's subsidiary, Citibank, N.A., and its other national bank subsidiaries and incorporating the review results into OCC's annual report of examination to the Citibank, N.A. board. The OCC's letter informed Pandit and Armstrong, in part, as follows:

- The Board and senior management have not ensured an effective and independent risk management process is in place. Risk management had insufficient authority or failed to exercise its authority to constrain business activities.
- The Board and ARMC[12] were not provided meaningful or systematic information on material risk and compliance with limits, controls, or

[12] "ARMC" refers to the Audit and Risk Management Committee, which was later separated into two standing committees of Citigroup's Board—the Audit Committee and the Risk Management and Finance Committee.

concentrations. The Citibank, N.A. Board had no effective oversight role specific to the risk profile of the Company.

- It appears management was more focused on short-term performance and profitability along with achieving top industry rankings across many major products rather than on risk or potential loss. Risk was insufficiently evaluated.
- Over-reliance was placed on credit rating agency ratings without considering the appropriateness of these ratings to specific products or the true risk of the underlying collateral.

72. On April 15, 2008, the NY Fed sent a letter styled "Summary of Supervisory Activity and Findings" to Citigroup's Board, which enclosed the NY Fed's annual report of inspection. It informed the Board that it downgraded the composite assessment of the Company to "fair" from "satisfactory," which reflected "serious deficiencies in Board & Senior Management oversight, policies/procedures/limits, monitoring & MIS, and internal controls." The letter indicated the details of the letter's findings would be discussed with the Board during a meeting scheduled for April 21, 2008.

73. In its April 15, 2008 letter, the NY Fed summarized its risk management conclusions, *inter alia*, as follows:

a. "The risk management rating represents an evaluation of the ability of Citigroup's Board of Directors and senior management, as appropriate for their respective positions, to identify, measure, monitor, and control risk across the Company holding company and its subsidiaries."

b. Weaknesses in the Company's risk management "were characterized by a failure of risk management systems, personnel, senior management, and the Board of Directors to identify potential risks and properly weigh them against the firm's risk appetitive. Senior management, the independent Risk Management function, and the Board of Directors did not appropriately anticipate the magnitude of potential financial losses, nor weigh risk-adjusted returns along with actual and potential balance sheet usage that these businesses could require."

c. "Management did not correctly identify and assess its concentration to subprime risk exposures in its CDO trading book, which produced significant losses that severely eroded the firm's capital and its reputation."

d. "Market trends in the first quarter pointing to weaknesses in subprime lending, along with peer comparisons, should have focused the attention of senior management and the Board of Directors on subprime risk in all its forms across the firm's activities and the potential impact on capital levels."

e. "Unanticipated balance sheet usage within businesses (funding leveraged loans, CDO conduits and onboarding SIV assets) resulted in significant tactical liquidity management challenges for Corporate Treasury."

f. "Internal controls are being downgraded from 'satisfactory' to 'fair.' While this component of risk management normally focuses primarily on the effectiveness, quality, and independence of Internal Audit, weaknesses exhibited within the firm's independent Risk Management function can be, and in this case are, equally indicative of a failure of internal controls within the institution. Risk Management's ability to carry out its critical mandate, namely to ensure that business line management operates in a controlled environment where risk/reward decisions are made in a fully informed fashion and where business line decisions can be successfully challenged, was clearly insufficient in 2007."

g. "The firm mistakenly relied on a belief that it could syndicate its exposures, without considering the consequences that a credit market dislocation could have until it was too late. Less than adequate attention was afforded to how the firm would manage a growth in assets, if distribution slowed, in relation to the utilization of balance sheet limits. It also did not properly highlight the funding and liquidity implications of on-boarding assets and, in the case of certain counterparty credit exposures such as liquidity puts that had been written to CDO conduits, under-measured their potential impact."

h. "Our assessment of Citigroup's overall liquidity position has been downgraded from "strong" to "fair." The downgrade is a result of declines in structural liquidity at the firm resulting from funding significant balance sheet growth over the last year, persistent funding gaps at the Company exceeding limits across several tenors during the second half of 2007 and into the first quarter of 2008, and the potentially damaging effect on the firm's access to funding sources given future market reaction to continued losses."

i. "Substantial balance sheet growth occurred during the third and fourth quarter 2007 subprime market crisis as significant amounts of unplanned assets came on balance sheet. These assets included $25 billion in commercial paper issued by third party CDO conduits (backed by liquidity puts written by Citigroup), $30 billion in illiquid syndicated leveraged loans, and $59 billion in Structured Investment Vehicles (SIVs). The firm used a portion of its contingent funding capacity to fund the unanticipated on-boarding of assets arising from these decisions."

74. In April 2010, then-Comptroller of the Currency John G. Dugan testified before the FCIC about the OCC's regulatory focus on Citigroup's consumer banking behemoth, Citibank, N.A. He stated that over the preceding years OCC had brought its concerns over risk reporting and independent risk management to the attention of the bank's audit committee. He also stated that "[i]n 2005 we were highly critical of management and risk management oversight of the areas that were considered higher risk" and "our supervision was trying to ensure that the growth in a complex business was prudent and commensurate with infrastructure." With respect to securitized mortgages and the substantial deterioration in their quality, "participants in this business, and with this collateral, should have anticipated the potential for this market event, and risk management should have been aware of the asset quality deterioration that effectively went unheeded."

75. On November 23, 2010, then-Assistant Secretary of the Treasury (Michael Barr) updated the FCOC: "the bulk of the examination work to date focused on the foreclosure process has found widespread, and in our judgment, inexcusable breakdowns in basic controls in the foreclosure process. These problems must be fixed."

4. Consumer complaints about the Company's loan servicing.

76. Citigroup's mortgage loan modification processes and foreclosures have long been the subject of homeowners' complaints. Many of these complaints have echoed the same themes articulated by government regulators—e.g., CitiMortgage's lack of responsiveness to consumer inquiries about residential mortgage loan modifications; its advice to troubled borrowers that they needed to default before CitiMortgage could assist them with modifications; its submission of adverse credit reports to credit agencies with respect to troubled borrowers who were making payments pursuant to modifications; its pyramiding of fees; its demonstrated unwillingness and/or inability to work in good faith with consumers who are ready, willing, able and qualified to receive such a loan modification; and its problematic foreclosure procedures.

77. Excerpts from some of the complaints from homeowners that have been posted on internet sites (e.g., CustomerServiceScorecard.com, complaintsboard.com) illustrate the inadequacy of CitiMortgage's infrastructure to deal with troubled loans:

> a. For 6 months I have been 'working' with CitiMortgage to find options to pay my mortgage. 4 months ago my income level plummeted, and as a result, got behind on my payments. I called Citi 2 months before it happened to see what options I would have. Basically, I was told, nothing. Their service has been deplorable, and for anyone out there in a similar situation I say, DO NOT waste your time. I have spent HOURS contacting Citi, hours which I could have been working and making money! They might call, but they won't leave messages, or they will hang up on you. My "file" was sent to an attorney for collections 2 weeks ago, unbeknownst to me until I got a letter in the mail. This was never mentioned by Citi even though I had talked to them the previous day. The letter stated they had been unable to reach me so had referred my case to an attorney. This was a boldface lie!!!! I was in FREQUENT contact with Citi, all initiated by me, except for one call last weekend. I even asked Citi specifically for the payoff amount which they claimed they couldn't give me - had to come from the attorney - yet when I talked to the attorney, I was told the fees are generated by CITI, and YES, they could have given me the payoff. Yesterday I was told I could not even make a payment because the mortgage was in foreclosure. Today I called, and they asked if I was ready to pay the $6000 or so that I owed. So which is it - can I pay you or not. When I let them know I had a contract for sale on my house, they put me on hold for 10 minutes, then cycled me back through the automated system. Obviously, Citi is not the last bit interested in working with me. [posted by tjohnston 2/24/10 9:09 a.m.]
>
> b. We were working with Citi to modify our mortgage. We have been getting the run around ever since. First they told us to pay a modified amount. We did. Then when we went to finance our car in June (it was a lease) we found out that they were reporting us as late. We called again and again getting a different story everytime. Some representatives told us we were in a trial period and some told us we were not modified at all. At the end of July a rep told us we have to start over and at the end of a trial period they would clear our credit (which is still showing late, even though they have told us a new lower amount which we have been paying early). We were told we would receive paperwork in 2 weeks. 3 weeks went by we called. We were then told it takes 30 days. We waited 2 more weeks and called again. We were told then it took 45 days. We waited a total of 60 days and called again. We were told the papers would be mailed out 9/28. I called again today (three times) and were told by one rep. 3 more weeks, another rep that papers have not been ordered and yet another saying papers were sent out 9/28. Unfortunately I went online only to find out that we are not the only ones this is happening to. (http://www.consumeraffairs.com/finance/citi_mortgage_p2.html)(http://www.complaintsboard.com/bycompany/citimortgage- a25277.html) This is apparently a pattern with Citi and homeowners are losing their homes even though they are paying their mortgages. We are concerned that Citi appears to be refusing to provide us any paperwork. (Other than recorded phone calls we have no proof of the modification.) When I asked to speak

to a manager, they refused that request as well. They are still reporting us as paying late and last week we received one of those foreclosure threat letters. I think at this point we need to report this to some regulating agency or news agency but not sure who. [Anonymous 10/6/09 1:48 p.m.]

c. I have been working on a loan modification with Citimortgage since August and they have screwed it up every time. They now have sold my house out from under us claiming we did not receive the mod paperwork. When they gave us the tracking number for the paperwork it was in MD, we live in IL. So because we didn't get the paperwork in on time they sold our house!!!!! No one can tell us what is happening .... [posted by ckoof 12/9/09 10:16 a.m.]

d. You never can speak to the same person twice. They never call you back like they promise. They regularly lose information or don't record it in their system (if they really have one). Every time you call it is like starting over. They won't give you an extension so you can have continued communication on your account with the same person. My experience is because of the communication issues above, they make uninformed decisions with missing or inaccurate information on something as important as your home and the life savings you have tied up in it. It should be a crime for what they are doing to people. It seems that the loan modification program is something they use as PR in their ads but in reality, they don't give a flip about helping a homeowner who has made faithful payments on time until lost job in lay off. In summary, filed for modification in mid Jan. Was told based on info was pre-qualified. Made agreed payments for 6 mos. During period, despite my numerous requests, they would not forward anything in writing on terms, rules, regs of modification leaving me flying blind on deal. Yesterday received demand letter listing late fees, balance on full payments and notice of foreclosure. Only by phone when I called to find out what the demand letter was about did I find out that mod was declined. Tried numerous times to communicate with them during period to report updates in finances such as offer to buy portion of property for $50K that would reduce amt. of loan and reduction of debt. None of this is on their records just like paperwork that was nowhere to be found during six month process or the updates on status of modification they told me to look for on their website.... [Posted by Soon to be homeless 6/24/10 3:01 p.m.]

e. [I] have been trying to get my loan modified since Feb. and as of today there is still no progress. To make matters worse they had the audacity to increase my payment by $20.00, stating that it was due to the escrow. I continued to make my payment in the amount that I was paying w/o the increase. Low and behold, CitiMortgage sends me a statement that they did not receive my payment, increased my payment, and charged me a late fee. I am so livid with this company I don't know what to do. If anyone is being offered a mortgage loan I would advise you to look elsewhere or you will pay for it in the end. [Posted by Anonymous 12/1/09 7:49 a.m.]

f. Upon losing my disability, and worrying that I would fall behind until my appeal case was complete I contacted Citimortgage to be a "proactive" customer. After explaining my situation to the rep. I was urged to do a loan modification. The rep. told me that the only way I could be approved for a loan mod. was to stop payment for 3 months. It is important to note that when I made this call I had not been late on ANY payments, but wanted to maintain this mortgage, as I have fought hard for the last 8 years to improve my credit score. I explained my concern to the representative but he assured me that the non-payments for the next 3 months were necessary for the modification, and that it was strictly an IN-HOUSE procedure and would NOT be reported to the credit bureaus. We received the modification, but soon found out that it was indeed reported to the credit bureaus. Our credit score dropped dramatically, and I have appealed this, called countless times, been told different excuses, and made to feel like I was lying! Citimortgage is responsible for bringing my credit score from GOOD to POOR, and I am now subjected to high interest rates when applying for credit [....] [Posted by SHANA 5/17/10 7:13 p.m.]

g. Citi Mortgage bought out our loan in 06 as well. Started off fine then to quote Citi they "misapplied a couple of our extra payments" Our records from the Company corrected them. Then a few months later we received an incorrect statement and were told to just cross out what was wrong and right down what was right, then they would correct it. Then after repeating this problem over and over again for 3 months it still wasn't accurate. During the 3 months we were making our payments to them with statements that had incorrect numbers crossed out on them. We come home one day and find a legal notice from an attorneys office that we were reported 6 months behind in our payments and that our home was in foreclosure. We called the attorney immediately and explained the situation to them. Told them that we never get a straight answer and that we need get the same person twice even though we ask and have their operator number. The attorney looked at the file I had of statements and bank verified statements and said that is the worst case of "misapplied funds" he had since and it was obvious to him that we didn't belong in foreclosure. The contacted Citi and it took Citi a week to get back to us. We are no longer in foreclosure, however it is been 2 long months and they still don't have our principle balance corrected, our year end tax statement corrected and they still are missing one of our double payments that the Company can verify Citi recieved. Plus Citi is charging me 1,400 in third party fees due to the foreclosure process. Our credit report is showing that we are 6 months behind still. When I call Citi they just transfer me from department to department. I get the same thing that we are working on it and some one in another department will get it noted and corrected for me. This happens over and over again. This has been a nightmare, if we didn't have clear records of this I think that it would have destroyed my marriage, because I do the books and it is hard to believe that a company could be so far wrong over and over again with their records. I am sorry to see so many other people experiencing the same nightmare as us. This company should close their doors for the horrible way they handle business. [Posted by Lewis 3/24/08 on complaintsboard.com]

5. Investigations into servicing and foreclosures.

78. The COP issued its first report in March 2009 entitled "Foreclosure Crisis: Working Toward a Solution," which explained problems within the residential mortgage loan servicing industry, in part, as follows:

> a. [W]hen homeowners try to contact their servicers to request a modification, they are often unable to reach them. Homeowners often have to wait on the phone for hours to get through to a servicer representative at a call center. For working families in particular, the time involved in trying to contact the servicer can be prohibitive. Homeowners who are trying to deal with their mortgage during their lunch breaks or between two jobs often give up because they cannot get through to their servicers.
>
> b. [S]everal servicers have openly acknowledged that they simply were not prepared for the volume of loss mitigation requests that this crisis has generated.
>
> c. Servicers either lack the staffing to effectively respond to loss mitigation requests or have artificially ramped up capacity at a level that precludes training and oversight of staff.[13]
>
> d. It is difficult for homeowners to initiate productive discussions with lenders because many servicers lack the capacity to deal with a large volume of modifications.

79. The COP issued another report in November 2010 entitled "Examining the Consequences of Mortgage Irregularities for Financial Stability and Foreclosure Mitigation," which observes that banks and loan servicers are vulnerable to litigation by homeowners and State attorney generals who claim that homeowners have suffered improper foreclosures. The report also states that "[e]ven the prospect of such losses could damage a bank's stock price or its ability to raise capital."

80. On November 23, 2010, the Financial Stability Oversight Council held an open session meeting chaired by Secretary of the Treasury Timothy Geitner. At that meeting, Assistant Treasury Secretary Michael Barr stated, in part, as follows:

> The foreclosure working group has five key objectives: determining the scope of problems; holding the Companies accountable for fixing these problems; making sure individuals who have been harmed are given redress, and that firms pay penalties where appropriate for their actions; getting the mortgage servicing industry to do a better job for households in financial difficulty by providing alternatives to foreclosure; and acting in a coordinated and comprehensive way to hold the firms accountable, bring clarity and certainty, and help households.

[13] This excerpt quotes testimony from Anne Balcer Norton, Esq., Director, Foreclosure Prevention, St. Ambrose Housing Aid Center, Inc.). She also commented that "the current crisis demands clear objectives and precise strategies employed by servicers to engage in loss mitigation. Such strategies are complicated by the prevailing servicing guidelines and threats of litigation by investors."

There are five key areas under review at this time: First, foreclosure process; second, loss mitigation; third, origination putbacks; fourth, securitization trusts; and, lastly, disclosures.

Reviews are ongoing, and we expect to report back to the council at its January meeting with initial findings. In the interim, let me make a couple of key points. First, we are working to bring clarity and certainty as quickly as we can, but reviews will take time; and second, the bulk of the examination work to date focused on the foreclosure process has found widespread and, in our judgment, inexcusable breakdowns in basic controls in the foreclosure process. These problems must be fixed.

Let me provide a brief overview of the extent of the reviews. Earlier this fall, we formed a foreclosure task force at your request in which 11 federal agencies, including the relevant FSOC [Financial Stability Oversight Council] entities, plus the FTC, the Department of Justice and the Department of Housing and Urban Development have been and are coordinating investigations of the largest mortgage servicers, key service providers such as LPS and MERS, certain law firms and other matters. The working group is also coordinating closely with the states, both the attorney generals and state bank regulators.

Regulators are conducting on-site foreclosure exams of the largest mortgage servicers. The exams are designed to test and verify the adequacy and integrity of bank assessments and corrective actions, governance over foreclosures to ensure foreclosures are completed in accordance with applicable legal requirements, and that affidavits and claims are accurate, and to determine whether troubled borrowers were properly considered for loss mitigation activities, such as loan modifications prior to foreclosure.

The scope of work to assess foreclosure governance is extensive, and includes an assessment of each servicer's foreclosure policies and procedures, organizational structure and staffing, vendor management, quality control, loan documentation, including custodial management and foreclosure processes.

Examiners are also conducting interviews with personnel and reviewing samples of individual borrower foreclosure files from all 50 states that include both in-process and completed foreclosures.

Examiners are expected to complete on-site fieldwork by the end of the year. Once this fieldwork is completed, regulators will aggregate results across institutions to ensure consistency, prepare supervisory letters, and determine supervisory actions that may be needed.

The regulators will draft a horizontal foreclosure report that identifies the range of industry foreclosure practices and common foreclosure governance, and control weaknesses that need remediation. The regulators are targeting to complete this work by late January.

In addition to reviewing the foreclosure process, there are also ongoing reviews for compliance with loss mitigation procedures, including intensive reviews with respect to modifications by both FHA and the Treasury Department.

Separate and apart from these foreclosure and modification violations, servicers may face risks from failure to follow investor guidelines for originating loans during the height of the boom. Origination putbacks at relatively large scale have been occurring for some time, and will likely continue for several years. There have also been concerns raised regarding whether documentation problems exist with respect to loans in securitization trusts. Regulators have begun to review compliance by servicers, custodians and trustees with procedures required by pooling and servicing agreements, trust in custodial agreements and related contracts.

In late October, with respect to disclosure, the SEC issued a letter to major institutions to remind them of their disclosure obligations, in light of concerns about potential risks and costs associated with mortgage and foreclosure-related activities or exposures.

In sum, Chairman, major financial institutions are being reviewed for problems across a wide range of issues in foreclosure processing, loss mitigation, origination putbacks, securitization trusts and disclosure requirements. These reviews are ongoing, and the foreclosure task force will report back to this council at its January meeting.

81. On December 1, 2010, Daniel K. Tarullo, a member of the Board of Governors of the Federal Reserve, testified before the Senate Committee on Banking, Housing, and Urban Affairs. He said that preliminary findings from the federal reserve's banking examiners "suggest significant weaknesses in risk-management, quality control, audit, and compliance practices as underlying factors contributing to the problems associated with mortgage servicing and foreclosure documentation. We have also found shortcomings in staff training, coordination among loan modification and foreclosure staff, and management and oversight of third-party service providers, including legal services." As a result, he concluded that these "widespread" issues "suggest structural problems in the mortgage servicing industry" and that it "has not been up to the challenge of handling the large volumes of distressed mortgages."[14]

82. On December 1, 2010, John Walsh, Acting Comptroller of the Currency, testified before the Senate Committee on Banking, Housing, and Urban Affairs, stating that the reported foreclosure improprieties represent "a serious operational breakdown in foreclosure governance and controls that national banks should maintain." He also noted

[14] He also noted a number of possible reasons for the explosion of foreclosures, including "the lack of servicer capacity to execute modifications, purported financial incentives for servicers to foreclose rather than modify, what until recently appeared to be easier execution of foreclosures relative to modifications, limits on the authority of securitization trustees, and conflicts between primary and secondary lien holders."

that on September 29, 2010, the OCC ordered the eight largest national bank servicers, including Citibank, to conduct a comprehensive self-assessment of their foreclosure management processes, including file review and affidavit processing and signature.

83. On December 2, 2010, Julie L. Williams, Chief Counsel and First Senior Deputy Comptroller of the Comptroller of the Currency, testified before the House Committee on the Judiciary. Identifying Citibank as among the eight largest national bank mortgage loan servicers, she also noted that six unidentified "large bank servicers have publicly acknowledged deficiencies in their foreclosure processes. The lapses that have been reported represent a serious operational breakdown in foreclosure governance and controls that national banks should maintain." She cited a number of breakdowns in the foreclosure processes of the large mortgage loan services, including about whether the appropriate affidavits were signed if required under state law; whether notaries violated standard procedures (e.g., notarizing documents after they had been signed); and the overall accuracy of information and existence of proper documentation to support a foreclosure proceeding.

7. Admissions, disclosures and adverse consequences of foreclosure irregularities.

84. On November 23, 2010, Harold Lewis, Managing Director of CitiMortgage, submitted a written statement to the House Committee on Financial Services, Subcommittee on Housing and Community Opportunity. Excerpts from his statement noted below admit that Citigroup has been wracked with foreclosure irregularities:

> 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 refiled.
>
> 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.[15]

85. Despite CitiMortgage's assurances to Congress, however, a number of state court systems that had proactively examined lender foreclosure practices concluded that action needed to be taken to protect the integrity of the judicial process. CitiMortgage suffered the consequences.

86. In New York, for example, in an October 20, 2010 *sua sponte* administrative order entered by the Chief Administrative Judge of the state courts of New York, the plaintiffs in all pending residential mortgage foreclosure actions were required to submit an affirmation from their attorneys affirming that he or she has inspected all documents and that such documentation was correct and accurate. Within a short time from this order, the New York courts took CitiMortgage to task for non-compliance with the order. For example:

a. In *Citimortgage, Inc. v. Yannone et al.*,[16] in a November 19, 2010 order, the court denied CitiMortgage's request for an order of reference "without prejudice to renew upon the presentation of proper papers."[17]

b. In *CitiMortgage, Inc. etc. v. Revere et al.*,[18] the court, in a December 1, 2010 order, denied a motion for judgment of foreclosure "without prejudice to renew upon the presentation of proper papers."

[15] Lewis also noted that since September 2010, Citi had stopped referring new matters to the David J. Stern Law Firm, and had transferred about 8,500 files with pending foreclosure matters from that firm to new counsel. This firm, as noted in an online article in the St. Petersburg Times, was "once Florida's most prolific foreclosure 'mill' and that bank clients "jettisoned the firm last year because of its allegedly sloppy, fraudulent practices, ..." *See* http://www.tampabay.com/news/courts/civil/collapse-of-david-j-stern-law-firm-throws-foreclosure-courts-into-disarray/1156011.

[16] Supreme Court, I.A.S. Term. Part XXIV – Suffolk County Index No. 37197-09.

[17] An order of reference is a preliminary step to obtaining a default judgment and order of sale in a foreclosure action.

[18] Supreme Court, I.A.S. Term. Part XXIV – Suffolk County Index No. 1325-09.

c. In *CitiMortgage, Inc. v. Nunez*,[19] the court entered an order on December 13, 2010 denying CitiMortgage's motion for summary judgment, dismissing the action without prejudice and cancelling its notice of pendency.[20] The court did so upon being informed by CitiMortgage's counsel that "he did not have the affirmation [required by the October 20, 2010 administrative order] because CITI did not have in place, prior to November 8, 2010, procedures to comply with the Administrative Order...." CitiMortgage had merely requested to have its motion withdrawn, but the court responded as follows:

> to allow this action to continue without seeking the ultimate purpose of a foreclosure action, to obtain a judgment of foreclosure and sale, makes a mockery of and wastes judicial resources.
>
> ***
>
> We cannot allow the courts in New York to stand by idly and be party to what we now know is a deeply flawed process, ...

87. On December 20, 2010, the New Jersey court system, *sua sponte*, took a number of steps which, according to a press release issued that day (available at http://www.judiciary.state.nj.us/superior/press_release.htm), were intended to "to protect the integrity of filings of foreclosures in New Jersey." On that day, the New Jersey courts issued two orders. As the press release stated, in the first order to show cause, a judge directed "six lenders and service providers who have been implicated in irregularities in connection with their foreclosure practices to show cause why the processing of uncontested residential mortgage foreclosure actions they have filed should not be suspended."[21] Citibank was among the six lenders given such notice. In a second order, a judge "issued an administrative order that details the scope of the problem and

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[19] 2010 NY Slip. Op. 52142(U).

[20] A "notice of pendency," as the New York state court judge noted, gives constructive notice to any would-be purchaser of, or encumbrancer against, real property that is subject to an action that could affect the title to such property.

[21] *See In the Matter of Residential Mortgage Foreclosure Pleading and Document Irregularities*, Superior Court of New Jersey, Chancery Division-General Equity Part, Mercer County, Docket No. F-059553-10.

orders certain procedures to safeguard the mortgage foreclosure documentation preparation and filing process." The press release notes that this second order requires "24 lenders and service providers who have filed more than 200 residential foreclosure actions in 2010 to demonstrate affirmatively that there are no irregularities in their handling of foreclosure proceedings, via submissions" to a special master.

88. The New Jersey court's administrative order specifically called out Citi Residential as one of six institutions that "have recently been implicated in robo-signing activities" that the order noted were "pervasive" problems in foreclosure and bankruptcy filings in the state courts. As the order put it, "'[r]obo-signers' are mortgage lender/servicer employees who sign hundreds—in some cases thousands—of affidavits submitted in support of foreclosure claims without any personal knowledge of the information contained in the affidavits. 'Robo-signing' may also refer to improper notarizing practices or document backdating." The administrative order cited two such examples of robo-signing by employees working for, or on behalf of, Citi Residential. The administrative order stated:

> An individual employed by Nationwide Title Clearing, Inc., with signing authority for Citi Residential Lending, Inc., testified in a deposition that when he signed documents for Citi, he did not review them for substantive correctness. He could not even explain what precisely an assignment of a mortgage accomplishes. He had no prior background in the mortgage industry.
>
> Further, a second person with signing authority for Citi Residential Lending, Inc., testified that she never reviewed any books, records, or documents before signing affidavits and that she instead trusted the company's internal policies and procedures to ensure the accuracy of the information she signed. She signed several documents each day (in many instances without knowledge of what she was signing) and indicated that they were often notarized outside of her presence.

89. On January 5, 2011, Citigroup filed a response to the December 20, 2010 order to show cause. Its response admitted that over one third of its foreclosure affidavits filed in New Jersey were faulty and that it intended to dismiss those foreclosure actions.

90. CitiMortgage has suffered similar impacts in many other states from its highly flawed process to document its loans and transfers of ownership interests, as well as the foreclosure process itself, as exemplified below:

a. In Ohio, CitiMortgage had filed a foreclosure action in June 2008, but later voluntarily dismissed it because it could not produce adequate proof that it owned the note and mortgage on the date it filed the complaint.[22]

b. In an adversary proceeding in a Massachusetts bankruptcy court, CitiMortgage moved for judgment on the pleadings to secure its right to foreclose on the debtor's personal residence. Prior to her bankruptcy, the debtor had engaged a third party to assist her refinancing the mortgage on her home. In May 2006, upon completing the refinancing transaction, the promissory note was made payable to the third party no. 1 and MERS was named as the mortgagee. The note subsequently was indorsed to third party no. 2, which in turn sold the loan to CitiMortgage. The appellate court found that CitiMortgage had failed to show its right to proceed on the note because in transferring the note to CitiMortgage, third party no. 2 did not properly indorse the note. The court also found that "CitiMortgage may not rely on the recorded assignment of the plaintiffs' mortgage from MERS to CitiMortgage as evidence the note was transferred to it."[23]

c. In a case before an Oregon federal district court, the plaintiff alleged that CitiMortgage and other defendants violated state law, contending, in part, that the defendants had no standing to pursue a foreclosure action because ownership interests in the mortgage were not properly recorded. As a result, the court temporarily restrained a pending foreclosure sale.[24]

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[22] *See CitiMortgage, Inc. v. Slack*, 2011 Ohio 613 (Ohio Ct. App. 2011).

[23] *See Thomas v. CitiMortgage, Inc.) (In re Thomas)*, 2011 Bankr. LEXIS 472, at *25-*26 (Bankr. D. Mass. Feb. 9, 2011).

[24] *See Ekerson v. Mortgage Electronic Registration Sys.*, case no. 11-CV-178-HU, 2011 U.S. Dist. LEXIS 13650 (D. Or. Feb. 11, 2011).

d. In Puerto Rico, CitiMortgage filed a foreclosure action in May 2008 and obtained a default judgment in in May 2009. But defendants successfully moved to set aside the default on the basis that CitiMortgage not only had failed to properly serve the complaint, but that it also had failed to verify it or include an affidavit "setting forth factual allegations that justifies that they are entitled to some relief."[25]

e. In California, Citigroup, along with MERS and several other large banking institutions, are defendants in a *qui tam* action that seeks substantial damages because they allegedly "made false representations in order to avoid payment in full of all recording fees reflecting the establishment and/or transfer of secured interests in real property in the State." The plaintiffs allege that the use of MERS by Citigroup and other banking institutions allowed the defendants to "avail[] themselves of the protection and benefit of the recording and non-judicial foreclosure statutes, while avoiding full payment and while impairing [the] integrity of the land records."[26]

7. The New York City Comptroller's communication to the Board

91. On January 6, 2011, John C. Liu, New York City Comptroller, sent a letter to the Company's Board.[27] He urged that the Audit Committee "immediately retain independent advisors to review the Company's internal controls related to loan modifications, foreclosures, and securitizations." Liu that such a "review should evaluate (a) the Company's compliance with (i) applicable laws and regulations and (ii) its own policies and procedures; (b) whether management has allocated a sufficient number of trained staff; and (c) policies and procedures to address potential financial incentives to foreclose when other options may be more consistent with the Company's long-term

[25] *See CitiMortgage, Inc. v. Paniagua-Latimar et al.*, U.S.D.C., District of Puerto Rico, Civil No. 08-1591 (SEC).

[26] *See* First Amended Complaint filed May 10, 2010 in *State of California ex rel. Bates v. Alameda County et al.*, Superior Court of the State of California, County of Lassen, case no. 49097.

[27] Liu spearheads efforts by a coalition of seven major public pension systems, which collectively hold 226.6 million shares in Citigroup valued at $1.1 billion.

interests." He added that "we do not consider your existing audit firm to be independent since the firm previously signed off on the Company's internal controls."

92. Plaintiff is unaware of any further public disclosure from Liu indicating that Citigroup directly and favorably responded to his proposals. Liu subsequently submitted a proposal that called for a shareholder vote related to his January 2011 request, which suggests that the Board's response, if any, was not satisfactory to the pension funds represented in Liu's request.

8. The servicer settlement demand and rejection by the Company.

93. On or about March 3, 2010, Citigroup received a comprehensive settlement term sheet from various federal and state authorities, including state attorneys general, the Justice Department, Federal Trade Commission, Bureau of Consumer Financial Protection, Federal Trade Commission and the Department of Housing and Urban Development, related to its servicing of owner-occupied properties serving as the primary residence of borrowers (the "Servicer Settlement Demand").

94. The Servicer Settlement Demand outlines a comprehensive set of remedial steps, including those related to the following:

a. standards for affidavits and sworn statements in foreclosure and bankruptcy proceedings;

b. requirements for accuracy and verification of borrower's account information;

c. documentation of note, holder status, and chain of assignment;

d. quality assurance systems/audits;

e. specific loss mitigation requirements, including: the affirmative duty to thoroughly evaluate borrowers for all available loss mitigation options before foreclosure referral; prohibition of dual tracking trial modifications and foreclosures; providing a single point of conduct to borrowers; accuracy of loss mitigation communications with borrowers; independent review of loss mitigation denials;

f. general loss mitigation requirements, including:

(1) maintenance of adequate staffing and systems for tracking borrower documents and information that are relevant to foreclosure, loss mitigation, bankruptcy, and other servicer operations;

(2) maintenance of adequate staffing and caseload limits for employees responsible for handling foreclosure, loss mitigation,

bankruptcy, and related communications with borrowers and housing counselors;

(3) establishment of reasonable minimum experience, educational and training requirements for loan modification staff;

(4) electronic documentation of each action taken on a foreclosure, loan modification, bankruptcy, or other servicing file, including all communications with the borrower and other parties;

(5) adoption of incentives and compensation plans that encourage appropriate loss mitigation over foreclosure;

(6) prohibition against making inaccurate payment delinquency reports to credit reporting agencies when borrowers are making timely reduced payments pursuant to a trial or other loan modification agreement;

(7) prohibition against instructing, advising, or recommending that borrowers go into default in order to qualify for loss mitigation relief; and

(8) prohibition against discouraging borrowers from working or communicating with legitimate non-profit housing counseling services.

g. consideration and application of, where appropriate, principal reduction loan modifications;

h. provision of loan modifications, including principal reductions, related to second liens;

i. general requirements for servicing fees, including:

(1) that such fees be bona fide and reasonable, and disclosed to borrowers;

(2) prohibition of default, foreclosure-related, or bankruptcy-related fees while a completed loan modification application is under consideration or being performed as a trial modification; and

(3) prohibition of mark-ups on any third-party fees.

j. specific servicer fee provisions, including:

(1) maintenance of a current schedule of standard or common fees (e.g., nonsufficient fund fees) that is available to borrowers upon request;

(2) collection of fees from borrowers only for reasonable and necessary services actually rendered and fee is expressly authorized and clearly disclosed to borrower, or fee is expressly permitted by law and not prohibited by the loan instrument , or fee is not prohibited by law or loan instruments and is reasonable for a specific service requested by the borrower;

(3) attorneys' fees charged are for work actually done;

(4) with respect to late fees, prohibitions of pyramiding, restrictions on attempts to collect late fees, and prohibitions of late fees when the borrower makes timely trial modification payments;

k. restrictions on third party fees;

l. restrictions on force-placed insurance

m. prohibition against engaging in unfair or deceptive business practices or misrepresenting or omitting any material information in connection with the servicing of the loan (including, but not limited to, misrepresenting the amount, nature or terms of any fee or payment due or claimed to be due on a loan, the terms and conditions of the servicing agreement, loss mitigation options, or the borrower's obligations under the loan); and

n. adoption of enhanced corporate governance procedures to monitor compliance with the settlement that could include establishment of a compliance committee of the board of directors.

95. On March 28, 2011, Citigroup responded to the Servicer Settlement Demand with a counterproposal entitled "Draft Uniform Servicing Standards." The Company's offer, however, rejected many key parts of the settlement demand, and remained silent about—and thus implicitly rejected—many other remedies set forth in the Servicer Settlement Demand, including principal reduction loan modifications, second liens and conflicts of interest, in-sourced vendor fees or force-placed insurance to affiliates, and pyramiding of fees.

9. The results of the fourth quarter 2010 interagency review.

96. During the fourth quarter of 2010, the Federal Reserve System, the OCC, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision conducted an in-depth interagency review of the Company's foreclosure policies and practices.

97. On April 13, 2011, the results of this review and the OCC's findings were made public in the fully-executed Consent Order. With respect to the Company's wholly-owned subsidiary, Citibank, the OCC found as follows:

> (1) The Bank is among the largest servicers of residential mortgages in the United States, and services a portfolio of 4,000,000 residential mortgage loans. During the recent housing crisis, a substantially large number f residential mortgage loans serviced by the Bank became delinquent and resulted in foreclosure actions. The Bank's foreclosure inventory grew substantially from January 2009 through December 2010.
>
> (2) In connection with certain foreclosures of loans in its residential mortgage servicing portfolio, the Bank:
>
> (a) filed or caused to be filed in state and federal courts affidavits executed by its employees or employees of third-party service

providers making various assertions, such as ownership of the mortgage note and mortgage, the amount of the principal and interest due, and the fees and expenses chargeable to the borrower, in which the affiant represented that the assertions in the affidavit were made based on personal knowledge or based on a review by the affiant of the relevant books and records, when, in many cases, they were not based on such personal knowledge or review of the relevant books and records;

(b) filed or caused to be filed in state and federal courts, or in local land records offices, numerous affidavits or other mortgage-related documents that were not properly notarized, including those not signed or affirmed in the presence of a notary;

(c) litigated foreclosure proceedings and initiated non-judicial foreclosure proceedings without always ensuring that either the promissory note or the mortgage document were properly endorsed or assigned and, if necessary, in the possession of the appropriate party at the appropriate time;

(d) failed to devote sufficient financial, staffing and managerial resources to ensure proper administration of its foreclosure processes;

(e) failed to devote to its foreclosure processes adequate oversight, internal controls, policies, and procedures, compliance risk management, internal audit, third party management, and training; and

(f) failed to sufficiently oversee outside counsel and other third-party providers handling foreclosure-related services.

98. Even though the Individual Defendants had long known of the Company's inadequate procedures, policies, resources, and controls pertaining to the Company's default loan management functions, they neither admitted nor denied the above findings.

99. Even though the Individual Defendants had long known of Citigroup's inadequate procedures, policies, resources, and controls pertaining to its default loan management functions, they also did not take corrective action until forced to do so pursuant to the Consent Order. Further, they have failed to compensate the Company for damages caused by their wrongdoing and have refused to seek remedies against anyone else who was responsible for the misconduct alleged herein.

VI. DAMAGES TO CITIGROUP

100. As a result of the Individual Defendants' wrongful conduct, the Company has expended, and will continue to expend, significant sums of money.

101. Citigroup faces substantial penalties, fines and related costs from its misguided efforts to save money by under-investing in an adequate infrastructure to service its troubled loans. In a February 14, 2011 document entitled "Perspectives on Settlement Alternatives in Mortgage Servicing" prepared by the Consumer Financial Protection Bureau,[28] the Bureau stated "[r]ough estimates suggest that the largest servicers may have saved more than $20 billion through under-investment in proper servicing during the crisis. As a result, a notional penalty of roughly $5 billion would seem too low." The Company was among 8 mortgage loan servicers profiled in this document. And as reported by *Reuters* on April 14, 2011, acting Comptroller of the Currency John Walsh stated that "[a]n independent review of U.S. banks' foreclosures over the past few years will help regulators determine the fines banks will have to pay for mortgage servicing abuses."[29]

102. Citigroup's Form 10-K for fiscal year 2010 also outlines the extent of some of the damages faced by the Company as follows:

> Allegations of irregularities in foreclosure processes across the industry, including so-called "robo-signing" by mortgage loan servicers, and questions relating to the legitimacy of the securitization of mortgage loans and the Mortgage Electronic Registration System's role in tracking mortgages, holding title and participating in the mortgage foreclosure process, have gained the attention of the U.S. Congress, Department of Justice, regulatory agencies, state attorneys general and the media, among other parties. Numerous governmental entities, including a number of federal agencies and all 50 state attorneys general, have commenced proceedings or otherwise sought information from various financial institutions, including Citigroup, relating to these issues. Governmental or regulatory investigations of alleged irregularities in the industry's foreclosure processes, or any governmental or regulatory scrutiny of Citigroup's foreclosure processes, has resulted in, and may continue to result in, the diversion of management's attention and increased expense,

[28] The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established this entity. The Bureau's website (http://www.consumerfinance.gov/the-bureau/ notes that its "central mission ... is to make markets for consumer financial products and services work for Americans—whether they are applying for a mortgage, choosing among credit cards, or using any number of other consumer financial products."

[29] According to the *Reuters* article, the consultants to be hired by the banks affected by the Consent Order will only "look back" at foreclosure actions through January 2009—well short of the starting point for the Relevant Period herein.

> and could result in fines, penalties, other equitable remedies, such as principal reduction programs, and significant legal, negative reputational and other costs.

103. Citigroup thus faces a broad range of current and future expenditures proximately caused by the misconduct of the Individual Defendants as alleged herein, including the following costs incurred and to be incurred from the following:

a. responding to investigations conducted by the Financial Crisis Inquiry Commission;

b. responding to investigations conducted by the Financial Stability Oversight Counsel;

c. responding to the interagency investigation concerning mortgage foreclosure documentation problems conducted by the Office of the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corp., and the Office of Thrift Supervision and the Consent Order related thereto;

d. costs associated with the Consent Order's requirement that the Company retain an independent consultant to conduct a review of residential foreclosure actions regarding individual borrowers with respect to the Company's mortgage servicing portfolio and to prepare detailed findings in a Foreclosure Report;

e. costs associated with implementing a plan acceptable to the OCC to remediate all financial injury to borrowers caused by the errors, misrepresentations, or other deficiencies relative to the Company's deficient default loan management processes identified in the Foreclosure Report;

f. defending litigation commenced against the Company by investors in RMBS who generally seek rescission including litigation commenced by the Federal Home Loan Bank of Chicago, the Federal Home Loan Bank of Indianapolis, Cambridge Place Investment Management, The Charles Schwab Corporation, and Allstate Insurance Company and affiliated entities;

g. defending against class action litigation commenced against the Company by homeowners;

h. defending an action commenced against the Company by one of its alleged robo-signer law firms in Florida – namely, The Law Offices Of David J. Stern, P.A.; and

i. responding to investigations by state attorneys general into the Company's foreclosure practices.

104. The Company also has suffered losses, and faces huge future potential liability, from its failures to follow applicable state laws and regulations governing the documentation of its ownership interests in the residential real property that provides security for its residential mortgage loans. Such losses and liabilities include, *inter alia*:

a. costs associated with the dismissals and subsequent re-filings of pending judicial and non-judicial foreclosure actions prompted by such failures and damages from the various *qui tam* actions filed against the Company; and

b. damages and penalties from its failure to file recording fees with various governmental entities as a result of its participation in MERS and not ensuring that MERS properly recorded the Company's ownership interest in real estate. For example, in the *qui tam* action styled *State of California ex rel. Bates*, the damages sought by plaintiffs include the following:

> - treble damages for all recording fees which were not paid in full as required by the laws of the State [of California] on any and all such avoided recording fees during the ten (10) years immediately preceding the filing of the original Complaint herein;
> - civil penalties of between $5,000 and $10,000 for each unpaid and/or underpaid recording fee in the ten (10) years immediately preceding the filing of the original Complaint herein;
> - civil penalties of between $5,000 and $10,000 for each false document recorded, including, without limitation, each deed of trust, deed of appointment of substitute trustee, deed of foreclosure sale, and other documents recorded in the ten (10) years immediately preceding the filing of the original

Complaint herein, which security instrument purported to secure an obligation by real estate in the State and in which MERS was named as beneficiary and/or nominee of the lender;

- civil penalties of between $5,000 and $10,000 for each act during the ten (10) years immediately preceding the filing of this Complaint for having knowingly made, used and caused to be made or used, false records and/or statements to conceal, avoid or decrease obligations to pay or transmit money duly owed to the State and/or its Counties for recording fees reflecting the assignments of rights or interests in real property in the State.

VII. DEFENDANTS' FIDUCIARY DUTIES

105. By reason of their positions as directors and fiduciaries of Citigroup, and by virtue of their ability to control the business and corporate affairs of the Company, the Individual Defendants owed and owe Citigroup and its shareholders fiduciary obligations of trust, loyalty, good faith, and due care, and were and are required to use their utmost ability to control and manage the Company in a fair, just, honest, and equitable manner. The Individual Defendants were and are required to act in furtherance of the best interests of Citigroup and its shareholders so as to benefit all shareholders equally and not in furtherance of their personal interest or benefit.

106. Each of the Individual Defendants owes to Citigroup and its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the affairs of the Company and in the use and preservation of its property and assets, and the highest obligations of fair dealing.

107. At all times relevant hereto, each of the Individual Defendants was the agent of each of the other Individual Defendants and of the Company, and was at all times acting within the course and scope of such agency.

108. To discharge their duties, the Individual Defendants were required to exercise reasonable and prudent supervision over the management, policies, practices, and controls of Citigroup. By virtue of such duties, they were required to, among other things:

a. exercise good faith to ensure that Citigroup's affairs were conducted in an efficient, business-like manner so as to make it possible to provide the highest quality provision of financial services to its customers;

b. exercise good faith to ensure that the Company was operated in a diligent, honest, and prudent manner and complied with all applicable federal and state laws, rules, regulations, and requirements, and all contractual obligations, including acting only within the scope of its legal authority;

c. when put on notice of problems with the Company's business practices and operations, exercise good faith in taking appropriate action to correct the misconduct and prevent its recurrence;

d. remain informed how the Company conducted its operations, and, upon receipt of notice or information of imprudent or unsound conditions or practices, make reasonable inquiry in connection therewith.

109. The Individual Defendants who were and are members of the Board committees responsible for risk oversight assumed additional fiduciary duties in connection with such service. At the beginning of the Relevant Period through some point in 2010, the Company had a standing committee of the Board known as its Audit and Risk Management Committee. Under its charter, this committee was to "assist the Board in fulfilling its oversight responsibility" as to specified audit and risk management functions; including, *inter alia*, (a) the performance of the internal audit function—Audit and Risk Review (ARR)"; (b) "policy standards and guidelines for risk assessment and risk management"; and (c) "the compliance by Citigroup with legal and regulatory requirements, including Citigroup's disclosure controls and procedures." In 2010, according to the Company's 2010 Definitive Proxy Statement, the Board decided to separate this committee into two separate committees known as the Audit Committee and the Risk Management and Finance Committee, with the latter intended to "enhance[] the board's oversight of risk management."

a. According to its charter, the Risk Management and Finance Committee assists the Board in its "oversight of Citigroup's risk management framework, including the significant policies, procedures and practices used in managing credit, market, operational and certain other risks ...." This committee reports to the Board about "Citigroup's risk profile, as well as its enterprise risk management framework, including the significant policies, procedures, and practices employed to manage risks in Citigroup's businesses, as well as the overall adequacy of the Risk Management function." Among other things, this committee, in consultation with the Audit Committee, is to review and discuss with Company management "the key guidelines and policies governing Citigroup's significant processes for risk assessment and risk management" and the Company's "major financial risk exposures and the steps Management has taken to monitor and control such exposures."

b. The Audit Committee, according to its charter, also assists the Board in fulfilling its oversight responsibilities in a number of risk management areas, including "the performance of the internal audit function – Audit and Risk Review ('ARR')"; "policy standards and guidelines for risk assessment and risk management"; and "the compliance by Citigroup with legal and regulatory requirements, ..."

110. Each Individual Defendant, by virtue of his or her positions as a director, owed to the Company and to its shareholders the fiduciary duty of loyalty, good faith, and diligence in the management and administration of its affairs, as well as in the use and preservation of its property and assets. The conduct of the Individual Defendants complained of herein involves a knowing and culpable violation of their obligations as directors of Citigroup, the absence of good faith on their part, and a knowing or willful disregard for their duties to the Company and its shareholders that the Individual Defendants were aware posed a risk of serious injury to the Company.

111. The Individual Defendants breached their fiduciary duty of loyalty to act in the best interests of the Company by failing to take necessary steps to strengthen its

default loan management-related processes, procedures, and controls, despite having received repeated warnings that such processes, procedures, and controls became essential in the wake of the fallout in the mortgage business, and even though they represented to the federal government that such function and related controls were in place. The Company, lacking a sufficiently-staffed default loan management infrastructure, therefore outsourced the function to third parties which, in many cases, improperly performed that function. Now, the Company faces numerous lawsuits related to alleged improper foreclosures, alleged improper property recording practices, put-back demands, and most recently, the Consent Order settling a cease and desist proceeding against it based on findings showing unsafe or unsound banking practices. Thus, Citigroup has expended, continues to expend, and will expend in the future, significant and material sums of money as a direct result the breaches of fiduciary duties by the Individual Defendants.

VIII. DERIVATIVE ACTION ALLEGATIONS

112. Plaintiff brings this action derivatively on behalf of and for the benefit of Citigroup to redress injuries suffered, and yet to be suffered, by it as a direct and proximate result of the breaches of fiduciary duty alleged herein. The Company is named as a nominal defendant solely in a derivative capacity.

113. Plaintiff purchased 380 shares of Citigroup common stock on June 29, 2007 and has held such shares continuously since he purchased them. Thus, Plaintiff was a Citigroup shareholder at the time of the wrongdoing complained of herein. Plaintiff will adequately and fairly represent the interests of the Company and its shareholders in this litigation, and intends to retain his shares of Citigroup throughout the duration of this litigation.

114. The wrongful acts complained of herein subject, and will persist in subjecting, Citigroup to continuing harm because the adverse consequences of the injurious actions are still in effect and ongoing.

115. The wrongful actions complained of herein were unlawfully concealed from the Company's shareholders.

IX. DEMAND EXCUSED ALLEGATIONS

116. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

117. Citigroup's current Board is comprised of Director Defendants Pandit, Belda, Collins, Grundhofer, Joss, Liveris, O'Neill, Parsons, Ricciardi, Rodin, Ryan, Santomero, Taylor, Thompson, and Zedillo.

118. Plaintiff did not make a pre-suit demand on the Board to bring the derivative claims herein because such a demand would have been a futile and useless act, and therefore, such a demand is legally excused.

119. All current Board members received the January 6, 2011 communication from New York City Comptroller John C. Liu.

120. All current Board members received the March 3, 2011 Servicer Settlement Demand.

121. All current Board members recommended that shareholders reject the stockholder proposal included in the March 10, 2011 Citigroup Inc. Proxy Statement.

122. All current Board members rejected material provisions of the Servicer Settlement Demand on March 28, 2011.

123. All current Board members failed to take corrective action related to the Company's inadequate policies, procedures, resources, and controls pertaining to the Company' default loan management functions until they were forced to agree to do so in settlement of cease and desist proceedings. But in so agreeing, all current Board members have neither admitted nor denied the OCC's findings, have not agreed to compensate the Company for damages caused by their failures to promptly correct the Company's deficiencies long known to them, and have not agreed to pursue remedies against any other persons responsible for the wrongdoing alleged herein.

124. Accordingly, all current Board members have demonstrated their unwillingness and inability to address the claims alleged herein seeking pecuniary relief to compensate the Company for the wrongdoing alleged herein.

125. Further, the Board's demonstrable unwillingness to promptly remedy known problems with the Company's loan default management functions until forced to do so by the OCC, and its decisions to reject the regulator and shareholder settlement demands and proposals that came before the Consent Order, demonstrates its unwillingness to seek complete relief for Citigroup, including pecuniary relief against the Individual Defendants and others, as well as other improvements to the Company's internal controls over default loan management, all of which creates a reasonable doubt that such decisions were the product of valid business judgment.

126. Further, Plaintiff did not make a demand on the current Board before instituting this action because the factual allegations herein create a reasonable doubt that a majority of the Director Defendants could have properly exercised independent and disinterested business judgment in responding to such a demand.

127. Defendants Pandit, Belda, Parsons and Rodin sat on the Executive Committee of the Board during a time when one of its members and Chairman, defendant Rubin, received one or more written warnings from Richard M. Bowen, who was an upper-level underwriter in the Consumer Lending Group. As alleged above, Bowen provided testimony before the FCIC that he had warned Rubin and certain Citigroup employees in a November 2007 e-mail of "breakdowns of internal controls and resulting significant but possibly unrecognized financial losses existing within our organization." His e-mail noted that he, along with the REL Chief Underwriter, had "continually identified these breakdowns in processes and internal controls" from as early as mid-2006, which had been disseminated in "weekly reports, e-mails, and discussions (which included the CLG Chief Risk Officer)" and which resulted in "two special investigations by CLG Business Risk and Control ... with the findings confirming these breakdowns."

The defective internal controls discussed by Bowen, and noted in his e-mail to Rubin, are directly relevant to Citigroup's deficient loan default management internal controls.[30]

128. Given the nature of Bowen's repeated warnings to defendant Rubin and the CLG Chief Risk Officer, it is reasonable to infer that such matters came to the attention of defendants Pandit, Belda, Parsons and Rodin in the normal course and scope of their duties as members of the Executive Committee. Indeed, according to Citigroup's 2008 Form 10-K, the Chief Risk Officer worked closely with the Company's CEO, established management committees, the Audit and Risk Management Committee, and the Board itself. Nevertheless, these defendants willfully failed to ensure that the Company implemented adequate internal controls relative to default loan management, as evidenced by subsequent untoward events as well as communications from and commentary by government regulators.

129. Defendant Pandit sat on the Board when he received the OCC's Supervisory Letter 2008-5 in February 2008. This letter stated, among other things, that "[t]he Board and senior management have not ensured an effective and independent risk management process is in place. Risk management had insufficient authority or failed to exercise its authority to constrain business activities." The letter also advised Pandit that "meaning-ful and systemic information on material risk and compliance with limits, controls or concentrations" had not been provided to the Board or its Audit and Risk Management Committee.

130. Two months later in April 2008, the NY Fed sent a letter to the Board noting that "serious deficiencies in Board and Senior Management oversight, policies/proce-dures/limits, monitoring & MIS, and internal controls" had been detected. The details of the NY Fed's letter were to be discussed during a Board meeting scheduled for April 21,

[30] The specific internal control breakdowns noted by Bowen, and communicated in his e-mail to Rubin, are alleged paragraph 69 above.

2008, and as alleged above, are directly relevant to the Company's defective default loan management internal controls.

131. The Director Defendants who sat on the Board when it received warnings from the above-noted government regulators are defendants Pandit, Belda, Liveris, Parsons, Ricciardi, Rodin and Ryan. These directors, having received the regulatory warnings, face a substantial likelihood of liability for breach of fiduciary duty due to their willful failures to implement a system of adequate controls, including the allocation of adequate Company resources, relative to default loan management. Moreover, the remaining Director Defendants (Collins, Grundhofer, Joss, O'Neill, Santomero, Taylor, Thompson and Zedillo) face a similar likelihood of liability. Under Citigroup's corporate governance guidelines, which have been in effect through the Relevant Period, "[t]he Company shall provide an orientation program for new Directors which shall include presentations by senior management on the Company's strategic plans, ***its significant financial, accounting and risk management issues***, its compliance programs, its Code of Conduct, its management structure and Executive Officers and its internal and independent auditors." (emphasis added). Thus, the directors who arrived on the Board after it had received the above-referenced regulatory warnings were well informed of these very same issues—which must be deemed to constitute "significant financial, accounting and risk management issues"—but nevertheless willfully failed to implement a system of adequate controls over default loan management.

132. As noted above, the members of the Audit and Risk Management and Finance committees, and their predecessor, the Risk Audit and Risk Management Committee, due to the nature of their duties on such committees and their access to information normally considered by these committees in the ordinary course of their business, had heightened fiduciary duties to ensure that Citigroup maintained adequate

internal controls over, and resources devoted to, its default loan management.[31] For example, the following excerpt from the Company's charter for the Audit Committee illustrates the point. Members of this committee must, per the charter:

> - Review periodically with management, including the Citigroup Chief Risk Officer, the Chief Compliance Officer and the General Counsel, and the Independent Auditors, ***any significant correspondence with, or other action by, regulators or governmental agencies***, any material legal affairs of Citigroup and Citigroup's compliance with applicable law and listing standards.
> - Receive regular reports on the schedule and results of significant regulatory examinations in the United States and abroad, including the nature and status of corrective actions.
> - ***Receive regular reports on significant issues that potentially create regulatory attention***, including briefings on business decisions or ***significant issues that arise in areas on which the regulators are focused or that otherwise generate regulatory scrutiny or actions***.
> - Oversee and receive reports on ongoing regulatory projects, including ***regular updates on significant long-term projects being implemented in response to particular regulatory issues or concerns***.

(emphasis added). In light of such duties, it must be inferred that members of the Audit Committee would have received and considered all of the regulatory communications alleged above, as well as the warnings from Bowen.

133. Despite such heightened duties and access to information relative to the misconduct alleged herein, the defendants who sat on these committees willfully failed to implement adequate internal controls over default loan management and ensure the Company had adequate resources to manage its troubled loans. As a result, they face a substantial likelihood of liability for breach of fiduciary duty.

134. Plaintiffs did not make any demand on the shareholders of Citigroup to institute this action since such a demand would have been a futile and useless act for at least the following reasons:

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[31] As North Carolina Treasurer Janet Cowell has stated, "[t]he responsibility for making sure that internal controls and compliance process are in place or mortgage and foreclosure practices rests squarely with these Audit Committees." Moreover, such committees, as she put it, must "act swiftly and objectively in conducting an independent and comprehensive review of these practices."

a. Citigroup is a publicly-held company with millions of shares outstanding;

b. making demand on such a number of shareholders would be impossible for plaintiffs who have no way of finding out the names, addresses, or phone numbers of shareholders; and

c. making demand on all shareholders would force plaintiffs to incur excessive expenses, assuming all shareholders could be individually identified.

COUNT I

Derivatively on Behalf of Citigroup Against the Individual Defendants For Breach of Fiduciary Duty

135. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

136. At all relevant times, the Individual Defendants owed the utmost fiduciary duty of loyalty to the Company and its shareholders.

137. The Individual Defendants' duty of loyalty required that they act in good faith to protect the best interests of the Company and its shareholders.

138. At all relevant times, the Individual Defendants knew that the Company's exposure to nonprime residential loans, the decline in the housing market, and Company agreements with the Federal government required that they ensure the Company had sufficient resources, processes and controls in place to perform proper residential loan default management.

139. At all relevant times, the Individual Defendants knew about the warnings from regulators and shareholders alleged above.

140. At all relevant times, the Individual Defendants failed to timely take necessary remedial steps to address the regulators' warnings, failed to compensate the Company for their own misconduct, and failed to pursue remedies against other persons who may be responsible for the wrongdoing alleged herein.

141. Accordingly, the Individual Defendants breached their duties of loyalty to the Company and its shareholders in numerous ways as described above.

142. The Individual Defendants are not entitled to any protections that may otherwise have been afforded by the business judgment rule.

143. The breaches caused substantial damage to the Company and its shareholders.

PRAYER FOR RELIEF

WHEREFORE, on behalf of Citigroup, Plaintiff prays for judgment as follows:

A. A determination that this action is a proper derivative action maintainable under law and that demand is excused;

B. Against each Individual Defendant and in favor of Citigroup for the amount of damages sustained by the Company as a result of the breaches of fiduciary duties by the Individual Defendants;

C. Directing Citigroup to take all necessary actions to reform and improve its corporate governance and internal procedures to comply with applicable laws and to protect the Company and its shareholders from a repeat of the damaging events described herein, including, but not limited to, putting forward for shareholder vote, resolutions for amendments to the Company's Bylaws or Articles of Incorporation and taking such other action as may be necessary to place before shareholders for a vote the following Corporate Governance Policies:

1. a proposal to remove from the Board those members who have breached their fiduciary duties to the Company;

2. a proposal to strengthen the Company's controls relative to the manner in which it intakes, processes and decides upon loan modification requests from homeowners;

3. a proposal to strengthen the Company's controls relative to process used to decide whether to foreclose on a residential mortgage loan in a default status;

4. a proposal to strengthen the Company's controls relative to the processes used to foreclose on a defaulted residential mortgage loan;

5. a proposal to strength the Board's oversight and supervisory roles relative to the Company's residential mortgage loan modification and foreclosure processes;

6. a provision to permit Company shareholders to nominate candidates for election to the Board; and

7. a proposal to strengthen the Board's supervision of operations and develop and implement procedures for greater shareholder input into the policies and guidelines of the Board relevant to the matters complained of herein;

D. For extraordinary equitable and/or injunctive relief as permitted by law, equity, and state statutory provisions sued hereunder;

E. Awarding to Citigroup restitution from the Individual Defendants, and each of them, and ordering disgorgement of all profits, benefits, and other compensation obtained by the Individual Defendants;

F. Awarding Plaintiff the costs and disbursements of this action, including reasonable allowance of fees and costs for Plaintiff's attorneys, experts and accountants; and

G. Granting Plaintiff such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiff demands a trial by jury on all applicable issues.

Dated: April 20, 2011

Respectfully submitted,

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VERIFICATION

I, Michael G. Brautigam, hereby declare as follows:

I am a shareholder of Citigroup, Inc. I purchased 380 shares of th s company on June 29, 2007. I have held these shares continuously since my acquisitio ı. I have read the complaint in the above-entitled matter, a substantially similar versi ın of which I understand is to be filed on or about April 11, 2011, and know the conten s of it. Based upon discussions with and reliance upon my counsel, and as to those fa :ts of which I have personal knowledge, the complaint is true and correct to the best of ı ıy knowledge, information and belief.

I declare under penalty of perjury that the foregoing is true and corr :ct.

Dated: April 11, 2011

Michael G. Brautigam