Department of Justice

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JUSTICE DEPARTMENT, FEDERAL AND STATE PARTNERS SECURE RECORD $7 BILLION GLOBAL SETTLEMENT WITH CITIGROUP FOR MISLEADING INVESTORS ABOUT SECURITIES CONTAINING TOXIC MORTGAGES

Citigroup to Pay the Largest Penalty of Its Kind - $4 Billion

WASHINGTON – The Justice Department, along with federal and state partners, today announced a $7 billion settlement with Citigroup Inc. to resolve federal and state civil claims related to Citigroup's conduct in the packaging, securitization, marketing, sale and issuance of residential mortgage-backed securities (RMBS) prior to Jan. 1, 2009. The resolution includes a $4 billion civil penalty – the largest penalty to date under the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA). As part of the settlement, Citigroup acknowledged it made serious misrepresentations to the public – including the investing public – about the mortgage loans it securitized in RMBS. The resolution also requires Citigroup to provide relief to underwater homeowners, distressed borrowers and affected communities through a variety of means including financing affordable rental housing developments for low-income families in high-cost areas. The settlement does not absolve Citigroup or its employees from facing any possible criminal charges.

This settlement is part of the ongoing efforts of President Obama's Financial Fraud Enforcement Task Force's RMBS Working Group, which has recovered $20 billion to date for American consumers and investors.

"This historic penalty is appropriate given the strength of the evidence of the wrongdoing committed by Citi," said Attorney General Eric Holder. "The bank's activities contributed mightily to the financial crisis that devastated our economy in 2008. Taken together, we believe the size and scope of this resolution goes beyond what could be considered the mere cost of doing business. Citi is not the first financial institution to be held accountable by this Justice Department, and it will certainly not be the last."

The settlement includes an agreed upon statement of facts that describes how Citigroup made representations to RMBS investors about the quality of the mortgage loans it securitized and sold to investors. Contrary to those representations, Citigroup securitized and sold RMBS with underlying mortgage loans that it knew had material defects. As the statement of facts explains, on a number of occasions, Citigroup employees learned that significant percentages of the mortgage loans reviewed in due diligence had material defects. In one instance, a Citigroup trader stated in an internal email that he "went through the Diligence Reports and think[s] [they] should start praying . . . [he] would not be surprised if half of these loans went down. . . It's amazing that some of these loans were closed at all." Citigroup nevertheless securitized the loan pools containing defective loans and sold the resulting RMBS to investors for billions of dollars. This conduct, along with similar conduct by other banks that bundled defective and toxic loans into securities and misled investors who purchased those securities, contributed to the financial crisis.

"Today, we hold Citi accountable for its contributing role in creating the financial crisis, not only by demanding the largest civil penalty in history, but also by requiring innovative consumer relief that will help rectify the harm caused by Citi's conduct," said Associate Attorney General Tony West. "In addition to the principal reductions and loan modifications we've built into previous resolutions, this consumer relief menu includes new measures such as $200 million in typically hard-to-obtain financing that will facilitate the construction of affordable rental housing, bringing relief to families pushed into the rental market in the wake of the financial crisis."

Of the $7 billion resolution, $4.5 billion will be paid to settle federal and state civil claims by various entities related to RMBS: Citigroup will pay $4 billion as a civil penalty to settle the Justice Department claims under FIRREA, $208.25 million to settle federal and state securities claims by the Federal Deposit Insurance Corporation (FDIC), $102.7 million to settle claims by the state of California, $92 million to settle claims by the state of New York, $44 million to settle claims by the state of Illinois, $45.7 million to settle claims by the Commonwealth of Massachusetts, and $7.35 to settle claims by the state of Delaware.

Citigroup will pay out the remaining $2.5 billion in the form of relief to aid consumers harmed by the unlawful conduct of Citigroup. That relief will take various forms, including loan modification for underwater homeowners, refinancing for distressed borrowers, down payment and closing cost assistance to homebuyers, donations to organizations assisting communities in redevelopment and affordable rental housing for low-income families in high-cost areas. An independent monitor will be appointed to determine whether Citigroup is satisfying its obligations. If Citigroup fails to live up to its agreement by the end of 2018, it must pay liquidated damages in the amount of the shortfall to NeighborWorks America, a non-profit organization and leader in providing affordable housing and facilitating community development.

The U.S. Attorney's Offices for the Eastern District of New York and the District of Colorado conducted investigations into Citigroup's practices related to the sale and issuance of RMBS between 2006 and 2007.

"The strength of our financial markets depends on the truth of the representations that banks provide to investors and the public every day," said U.S. Attorney John Walsh for the District of Colorado, Co-Chair of the RMBS Working Group. "Today's $7 billion settlement is a major step toward restoring public confidence in those markets. Due to the tireless work by the Department of Justice, Citigroup is being forced to take responsibility for its home mortgage securitization misconduct in the years leading up to the financial crisis. As important a step as this settlement is, however, the work of the RMBS working group is far from done, we will continue to pursue our investigations and cases vigorously because many other banks have not yet taken responsibility for their misconduct in packaging and selling RMBS securities."

"After nearly 50 subpoenas to Citigroup, Trustees, Servicers, Due Diligence providers and their employees, and after collecting nearly 25 million documents relating to every residential mortgage backed security issued or underwritten by Citigroup in 2006 and 2007, our teams found that the misconduct in Citigroup's deals devastated the nation and the world's economies, touching everyone," said U.S. Attorney of the Eastern District of New York Loretta Lynch. "The investors in Citigroup RMBS included federally-insured financial institutions, as well as a host of states, cities, public and union pension and benefit funds, universities, religious charities, and hospitals, among others. These are our neighbors in Colorado, New York and around the country, hard-working people who saved and put away for retirement, only to see their savings decimated."

This settlement resolves civil claims against Citigroup arising out of certain securities packaged, securitized, structured, marketed, and sold by Citigroup. The agreement does not release individuals from civil charges, nor does it release Citigroup or any individuals from potential criminal prosecution. In addition, as part of the settlement, Citigroup has pledged to fully cooperate in investigations related to the conduct covered by the agreement.

Michael Stephens, Acting Inspector General for the Federal Housing Finance Agency said, "Citigroup securitized billions of dollars of defective mortgages, after which investors suffered enormous losses by purchasing RMBS from Citi not knowing about those defects. Today's settlement is another significant step by FHFA-OIG and its law enforcement partners to hold accountable those who committed acts of fraud and deceit in the lead up to the financial crisis, and is a necessary step toward reviving a sound RMBS market that is crucial to the housing industry and the American economy. We are proud to have worked with the Department of Justice, the U.S. Attorneys' Offices in the Eastern District of New York and the District of Colorado. They have been great partners and we look forward to our continued work together."

The underlying investigation was led by Assistant U.S. Attorneys Richard K. Hayes, Kevin Traskos, Lila Bateman, John Vagelatos, J. Chris Larson and Edward K. Newman, with the support of agents from the Office of the Inspector General for the Federal Housing Finance Agency, in conjunction with the President's Financial Fraud Enforcement Task Force's RMBS Working Group.

The RMBS Working Group is a federal and state law enforcement effort focused on investigating fraud and abuse in the RMBS market that helped lead to the 2008 financial crisis. The RMBS Working Group brings together more than 200 attorneys, investigators, analysts and staff from dozens of state and federal agencies including the Department of Justice, 10 U.S. Attorneys' Offices, the FBI, the Securities and Exchange Commission (SEC), the Department of Housing and Urban Development (HUD), HUD's Office of Inspector General, the FHFA-OIG, the Office of the Special Inspector General for the Troubled Asset Relief Program, the Federal Reserve Board's Office of Inspector General, the Recovery Accountability and

Transparency Board, the Financial Crimes Enforcement Network, and more than 10 state Attorneys General offices around the country.

The RMBS Working Group is led by its Director Geoffrey Graber and its five co-chairs: Assistant Attorney General for the Civil Division Stuart Delery, Assistant Attorney General for the Criminal Division Leslie Caldwell, Director of the SEC's Division of Enforcement Andrew Ceresney, U.S. Attorney for the District of Colorado John Walsh and New York Attorney General Eric Schneiderman.

Learn more about the RMBS Working Group and the Financial Fraud Enforcement Task Force at: www.stopfraud.gov.

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