

CMAC Deal Date: January 11, 2006	Is Additional OCC Follow up Required: N
Transaction Name: CDS on Mortgage and Asset Backed Securities	Transaction Status: Approved as Full CMAC Review
Transaction Type: CDS on Mortgage and Asset Backed Securities	
Business Purpose: CDS on Mortgage and Asset Backed Securities	
Transactor Name: Randall Costa, Craig Fuoco, Michael Golding	Transactor Tel. #
Business Unit: GSM Mortgage Trading	
Committee Approval Level: - CMAC <u>X</u> - Commitment Committee _____ - Business Practice Committee (BPC)	CMAC Coordinator Name: <u>Suzan Hayward</u> Tel. #: (212) 723-4675 OR Trishna Patel Tel. #: (212) 723-5497 (Assistant) Fax #: (212) 723-8954

Deal Description:

The GFI Global Securitized Markets Mortgage Trading Desk sought CMAC authorization to hedge with, and make markets in, Credit Default Swaps with Mortgage and Asset Backed Securities as their reference securities, whether on a single-name reference basis, or with reference to ABS indices (ABS comprises both mortgage and Non-Mortgage Asset Backed Securities).

The Mortgage Trading Desk has represented Citigroup as a member of the dealer group that has developed ABS index, and plans to continue to act as consortium member and participant in the ABX index market and the affiliated markets in similar indices that are planned to develop under the framework of the ABX initiative. No capital investment is required for such participation, only payment of license fees and adherence to market rules.

Examiner Comments: This transaction is well explained and the issues are laid out with sufficient input from tax and legal. The transaction memo outlined the terms of the transaction; provided a comparison of a corporate and ABS Index CDS and concluded that the CDS characteristics for these two asset classes are very similar. This is not a tax driven transaction. This is an existing product for the bank but will be transacted by a new business and the product is also being expanded. As a result, the business wrote in their analysis that the OCC needs to be notified prior to the first transaction being executed.

CMAC conditions to approval were spelled out including approval being valid only for the specific product presented to CMAC; limit set at 500 index trades and 100 single name trades per month. CMAC deemed that while the transaction has a market risk level 1 model limit, it should also be a high priority for approval of a level 2 model validation. If within 6 months of commencement of trading, level 2 model validation is not yet complete, then the business must review recovery and hazard rates and confirm that these are in line with the level 1 validation assumptions. CMAC also established a DV01 spread bank trigger of \$2MM/bp. The business as well as CMAC looked into a host of control functions and considered the infrastructure required for the anticipated volumes. The product was viewed as not having any franchise risk issues with this transaction.

Article III- Transaction Documentation	Yes	No	Comments
(a) Establish documentation framework for all types of complex transactions. - Is the transaction using the approved deal format?	X		
(b) Require appropriate documentation to provide a complete and accurate record of the final transaction and contain all required approvals. Documentation must suffice to provide a clear audit trail regarding transaction evaluation and approval. - Does the file have a closing memo? - Does the closing memo clearly reflect subsequent changes to the deal structure since the initial approval?	X		N.A. Email confirmation that all follow up items have been done.
(c) Prohibit consummation of transactions whose documentation fails to meet Plan standards. - Is this transaction closed? - Is the closing memo clear and address the CMAC follow up items? - Are there sufficient follow up or confirmation from other departments on the followup items requested by CMAC such as Accounting, Legal, or tax?	X X X		Email confirmation that all follow up items have been done.
Article IV- Internal Control			
Risk Management			
(a) Business Mgr or designees to certify their compliance with Policies on any transactions they recommend - Does certification exist?	X		
(b) <u>Monitor</u> Exceptions to policies – Is this transaction an exception to policy? - <i>If yes</i> , is the exception adequately discussed & Justified?		X	
(c) <u>Monitor</u> appropriate documentation for deals declined but were overridden and approved by more senior executives. - Is there a situation where approval override exists? - <i>If yes</i> , does approval appropriately discuss the reason for the override?		X X	
(d) Implement formal process to independently assess reputation and legal risk for the transaction. - Does CMAC or other relevant committee such as BPC, ComCom, legal, tax or accounting assesses independently franchise and legal risk inherent in the transaction.	X		
Approval Process			
(a) Has the transaction been appropriately raised to the proper committee? <i>If no</i> , to what level should the transaction be raised (i.e. Business Practice Committee "B.P.C")	X		
(b) Formalize standards by which the approvals required are granted or denied. - Has the business filled the template form and checked off appropriate information (i.e. legal vehicle approval, tax approval, etc.	X		

(c) Provide appropriate reports and documentation to support approval processes, including processes to ensure that transactions are not consummated without required information. - Was package sufficient to enable the committee to approve or decline the deal? (See the Credit Analysis section below.)	X		
(d) Ensure reports effectively monitor the efficacy of the approval processes including compliance with any "subject to" conditions to approvals. - Check if follow up memos exists, OR - Check if closing memo exists and tracks changes to the deal from approval to closing.	X		
Coordination across Business lines			
Was there appropriate coordination & communication between various business lines involved pertaining to this transaction?	X		
Article V- Credit Analysis			
Ensure that the Credit Analysis:			
(a) Is there appropriately thorough and documented analysis of the customer's intended purpose in entering into the complex structured transactions including analysis of the fit between the intended purpose and the transaction's terms and structure?	X		Appropriate analysis for the intended product rather than a customer.
(b) Is there appropriately thorough and documented analysis of the <i>economic substance</i> of the transaction, especially when new or unusual structures are employed?	X		Transaction made sense.
(c) Is there appropriately thorough and documented analysis of the off-balance sheet transactions of a customer that materially affect the transaction or the creditworthiness of the customer?		na	
(d) Do you feel the bank has adequately addressed the risk elements legal, tax, accounting, and in particular franchise risk for the bank?	X		

OCC Follow-up Items Requested Ongoing	OCC Follow-up Items Target Exam	Comments:
None.		